A Study of Non- Performing Assets with Special Reference to State Bank of India and its Associate Banks

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ABSTRACT

The banking sector plays an important role in the development of the economy. But from last two decades, the banking sector is suffering from a severe problem called Non Performing Assets. The growing Non-Performing Assets adversely affecting to the performance of the banks. The Reserve Bank of India has also taken some measure to curb the growing NPAs. In the present research paper, the researcher has made an attempt to study the position of non-performing assets in SBI and its 5 associate banks, using the ratio of Gross NPAs to Gross Advances.

(Key words: Non-Performing Assets, Reserve Bank of India, Gross NPAs to Gross Advances Ratio, SBI and its Associates)

Introduction:

The banking sector plays an important role in the development of economies across the globe, by performing its most important task, known as credit creation. The banks are creating credits in different forms such as loans and advances, cash credit, bank overdraft, personal loan, loan against properties etc. The bank offers loans and advances to the individual, firms, companies and other forms of business organisation, in this way the banks are playing the role of lender and

all these concern parties become the borrower. Unfortunately, the credit provided by the banks doesn't come back to the banks, due to one or another reasons, this creates bad debts for the bank, which is known as 'Non-Performing Assets' (NPA) in the banking terminology.

For the last two decades the NPA of banks is mounting immensely. Several steps have been undertaken by the Reserve Bank of India and the Government of India to curb the growing NPA of banking sector in India, but these steps have not been proved to be successful. Now a days, it become the burning issue for the banking sector to control the NPA, as it is adversely affecting to the efficiency and performance of the banks, like termite to the wood. As per the report, Gross NPA ratio of public sector banks increased to 11% in December, 2016 from 3.87% in December, 2012.[1] In the present paper, the researcher has made efforts to understand the position and problem of Non-Performing Assets in State Bank of India (SBI) and its 5 associate banks viz. State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Mysore (SBM), State Bank of Patiala (SBP) and State Bank of Travancore (SBT).

Review of Related Literature:

For the purpose of research of NPAs in banking industry the researcher has reviewed several thesis, reports, books and articles from the journals of national as well as international repute. From this study the researcher has found out several important topics which are mentioned hereunder:

Angadi, Ansuya and Kumar, Ashwin (2007)[2] have stated that NPAs are posing a great problem for not only public sector banks but also for the whole banking system. They have described that the lenders have been making every possible efforts for recovery of NPAs but because of Indian legal system they have failed to recover the NPAs. They have suggested that the banks should follow the capital adequacy norms for reduction of NPAs and improving profitability. *Goyal,*

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[1]Source:http://indianexpress.com/article/business/banking-and-finance/bad-loan-crisis-continues-56-4-per-cent-rise-in-npas-of-banks-rbi-4533685/

[2] **Angadi, Ansuya and Kumar, Ashwin (2007)***, "NPA@BANK.COM", Edited book New Trends in Risk Management, pp. 63-78

Krishna and Agrawal, Sunita (2010)[3] described that the fast changing financial environment exposes the banks to various financial risks. The banking industry is passing through a process of change. The changes like rising global competition, increasing deregulation, introduction of innovative products and delivery channels expose the banks to the risk of NPA. The solution to this risk is only the ability to measure the risk and take appropriate position. Besides this, the paper throws light on the challenges and opportunities regarding implementation of Basel-II in Indian banking. *Deccan Chronicle* (2017)[4] the recent measures taken by the RBI to resolve the NPA in the banking system under the Insolvency and Bankruptcy Code (IBC) would require banks to take a 60% haircut on their loan assets.

Objectives of the Study:

1. To understand the position of Non-Performing Assets of the SBI and its associates.
2. To analyze the Non-Performing Assets of the SBI and its associates.
3. To find out the difference in the ratio of Gross NPAs to Gross Advances among the sample units, during the period of study.

Research Methodology:

The present research study is analytical and exploratory in nature and based on secondary data, collected from the different sources such as IBA (Indian Banks Association) Bulletin, Database of Public Sector Banks, published by IBA and RBI website. In order to analyze the position of NPA the researcher has collected the data for the period of 10 years i.e. 2006-07 to 2015-16.

To justify the objectives of the present work, the researcher has performed the statistical analysis using Analysis of Variance (ANOVA) and multiple comparisons.

Database Required for the Study:

In order to justify the objectives, the researcher is in need of the following informations:

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[3] ***Goyal, Krishna and Agrawal, Sunita (2010)***, "Risk Management in Indian Banks: Some Emerging Issues", The International Journal of Economic Research, December, 2010, pp. 102-109

[4] Source: http://www.deccanchronicle.com/business/in-other-news/270617/banks-need-to-take-60-per-cent-haircut-on-non-performing-assets.html

Table – 1

A Table Showing Amount of Gross Non Performing Assets (amount in Millions)*

	Banks					
Year	SBBJ	SBH	SBI	SBM	SBP	SBT
2006-07	4,630	3,510	99,980	3,840	5,240	5,400
2007-08	4,370	3,120	1,28,370	3,590	5,210	5,710
2008-09	4,903	4,860	1,63,456	3,676	5,739	5,490
2009-10	6,119	6,457	1,78,363	5,953	10,066	6,420
2010-11	8,354	11,505	2,30,735	8,637	13,817	8,352
2011-12	16,515	20,074	3,71,560	15,026	18,878	14,888
2012-13	21,195	31,860	5,11,894	20,806	24,530	17,499
2013-14	27,328	58,242	6,16,054	28,189	37,584	30,769
2014-15	29,451	49,848	5,67,253	21,364	43,597	23,571
2015-16	36,028	65,909	9,81,728	36,356	67,666	32,000

(* Source: Compiled from RBI websites and Performance Highlights by Public Sector Banks)

Table – 2

A Table Showing Amount of Gross Advances (amount in Millions)*

	Banks					
Year	SBBJ	SBH	SBI	SBM	SBP	SBT
2006-07	2,07,660	2,84,020	34,20,770	1,67,830	2,90,560	2,50,590
2007-08	2,53,040	3,59,010	42,21,810	2,13,050	3,67,240	2,84,400
2008-09	3,00,881	4,39,377	54,92,968	2,58,699	4,39,608	3,29,716
2009-10	3,55,632	5,32,969	54,44,085	2,98,589	4,70,513	3,88,024
2010-11	4,17,439	6,54,227	66,24,441	3,44,257	5,23,306	4,64,706
2011-12	4,99,863	7,83,115	75,78,886	4,06,526	6,41,418	5,60,343
2012-13	5,84,737	9,20,231	1,07,85,571	4,59,805	7,54,598	6,83,885
2013-14	6,53,327	9,88,269	1,24,51,224	5,08,622	7,78,114	7,07,820
2014-15	7,11,837	10,87,100	1,33,54,237	5,32,956	8,06,485	6,99,069
2015-16	7,47,433	11,45,664	1,50,94,998	5,54,179	8,59,410	6,70,044

(* Source: Compiled from RBI websites and Performance Highlights by Public Sector Banks)

Table – 3

A Table Showing Gross NPAs to Gross Advances Ratio*

	Banks					
Year	**SBBJ**	**SBH**	**SBI**	**SBM**	**SBP**	**SBT**
2006-07	2.23	1.24	2.92	2.29	1.80	2.15
2007-08	1.73	.87	3.04	1.69	1.42	2.01
2008-09	1.63	1.11	2.98	1.42	1.31	1.67
2009-10	1.72	1.21	3.28	1.99	2.14	1.65
2010-11	2.00	1.76	3.48	2.51	2.64	1.80
2011-12	3.30	2.56	4.90	3.70	2.94	2.66
2012-13	3.62	3.46	4.75	4.53	3.25	2.56
2013-14	4.18	5.89	4.95	5.54	4.83	4.35
2014-15	4.14	4.59	4.25	4.01	5.41	3.37
2015-16	4.82	5.75	6.50	6.56	7.87	4.78

(* Source: Compiled from RBI websites and Performance Highlights by Public Sector Banks)

Analysis and Interpretation:

1.   Bank wise analysis of the Gross NPAs to Gross Advances Ratio:

Null Hypothesis (H_0)**:** There is no significant difference in Gross NPAs to Gross Advances Ratio among the banks.

Table – 4

A Table Showing Descriptive Statistics

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
SBBJ	10	2.9370	1.20923	.38239	2.0720	3.8020	1.63	4.82
SBH	10	2.8440	1.95939	.61961	1.4423	4.2457	.87	5.89
SBI	10	4.1050	1.17353	.37110	3.2655	4.9445	2.92	6.50
SBM	10	3.4240	1.73702	.54929	2.1814	4.6666	1.42	6.56
SBP	10	3.3610	2.08962	.66079	1.8662	4.8558	1.31	7.87
SBT	10	2.7000	1.11908	.35388	1.8995	3.5005	1.65	4.78
Total	60	3.2285	1.60081	.20666	2.8150	3.6420	.87	7.87

Table – 5

A Table Showing Analysis of Variance

	Sum of Squares	Degree of Freedom	Mean Square	F	Sig.
Between Groups	13.362	5	2.672	1.047	.400
Within Groups	137.832	54	2.552		
Total	151.194	59			

From the table no. 5, it is seen that the significant value is 0.400, as per the prescribed parameters for the testing of hypothesis null hypothesis (H_0) is accepted, in the case when significant value is greater than 0.05. So, the researcher may state that, there is no significant difference in gross NPAs to gross advances ratio in SBI and its associates. So, the gross NPAs to gross advances ratio is statistically significant between the groups.

2.   Year wise analysis of the Gross NPAs to Gross Advances Ratio:

Null Hypothesis (H_0)**:** There is no significant difference in Gross NPAs to Gross Advances Ratio over the period of study.

Table – 6

A Table Showing Descriptive Statistics

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
2006-07	6	2.1050	.55809	.22784	1.5193	2.6907	1.24	2.92
2007-08	6	1.7933	.72218	.29483	1.0354	2.5512	.87	3.04
2008-09	6	1.6867	.66659	.27214	.9871	2.3862	1.11	2.98
2009-10	6	1.9983	.70471	.28770	1.2588	2.7379	1.21	3.28
2010-11	6	2.3650	.65702	.26823	1.6755	3.0545	1.76	3.48
2011-12	6	3.3433	.87127	.35569	2.4290	4.2577	2.56	4.90
2012-13	6	3.6950	.81943	.33453	2.8351	4.5549	2.56	4.75
2013-14	6	4.9567	.66313	.27072	4.2608	5.6526	4.18	5.89
2014-15	6	4.2950	.67722	.27647	3.5843	5.0057	3.37	5.41
2015-16	6	6.0467	1.18243	.48273	4.8058	7.2876	4.78	7.87
Total	60	3.2285	1.60081	.20666	2.8150	3.6420	.87	7.87

Table – 7
A Table Showing Analysis of Variance

	Sum of Squares	Degree of Freedom	Mean Square	F	Sig.
Between Groups	121.530	9	13.503	22.761	.000
Within Groups	29.664	50	.593		
Total	151.194	59			

As the significant value for the analysis shows 0.000, the null hypothesis is not accepted. The year wise statistical analysis of Gross NPAs to Gross Advances shows that, there is significant difference in the Gross NPAs to Gross Advances ratio during the period of study. It shows that, there is significant change in the ratio year on year. To study the difference in the ratio over the period, as the null hypothesis is rejected, the researcher has made multiple comparisons. The glimpse of multiple comparisons is mentioned as below:

Table – 8

A Table Showing Year Wise Multiple comparison of Gross NPAs to Gross Advances Ratio

		2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
2006-07	Mean Difference	-	0.31	0.42	0.11	(0.26)	(1.24)	(1.59)	(2.85)	(2.19)	(3.94)
	As compared to 2006-07, the Difference is significant or not	-	No	No	No	No	No	Yes	Yes	Yes	Yes
2007-08	Mean Difference	(0.31)	-	0.11	(0.21)	(0.57)	(1.55)	(1.90)	(3.16)	(2.50)	(4.25)
	As compared to 2007-08, the Difference is significant or not	No	-	No	No	No	Yes	Yes	Yes	Yes	Yes
2008-09	Mean Difference	(0.42)	(0.11)	-	(0.31)	(0.68)	(1.66)	(2.00)	(3.27)	(2.61)	(4.36)
	As compared to 2008-09, the Difference is significant or not	No	No	-	No	No	Yes	Yes	Yes	Yes	Yes
2009-10	Mean Difference	(0.11)	0.21	0.31	-	(0.37)	(1.34)	(1.70)	(2.96)	(2.30)	(4.05)
	As compared to 2009-10, the Difference is significant or not	No	No	No	-	No	No	Yes	Yes	Yes	Yes
2010-11	Mean Difference	0.26	0.57	0.68	0.37	-	(0.98)	(1.33)	(2.59)	(1.93)	(3.68)
	As compared to 2010-11, the Difference is significant or not	No	No	No	No	-	No	No	Yes	Yes	Yes

2011-12	Mean Difference	1.24	1.55	1.66	1.34	0.98	-	(0.35)	(1.61)	(0.95	(2.70)
	As compared to 2011-12, the Difference is significant or not	No	Yes	Yes	No	No	-	No	Yes	No	Yes
2012-13	Mean Difference	1.59	1.90	2.00	1.70	1.33	0.35	-	(1.26)	(0.60)	(2.35)
	As compared to 2012-13, the Difference is significant or not	Yes	Yes	Yes	Yes	No	No	-	No	No	No
2013-14	Mean Difference	2.85	3.16	3.27	2.96	2.59	1.61	1.26	-	0.66	(1.09)
	As compared to 2013-14, the Difference is significant or not	Yes	Yes	Yes	Yes	Yes	Yes	No	-	No	No
2014-15	Mean Difference	2.19	2.50	2.61	2.30	1.93	0.95	0.60	(0.66)	-	(1.75)
	As compared to 2014-15, the Difference is significant or not	Yes	Yes	Yes	Yes	Yes	No	No	No	-	No
2015-16	Mean Difference	3.94	4.25	4.36	4.04	3.68	2.70	2.35	1.09	1.75	-
	As compared to 2015-16, the Difference is significant or not	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	-

From the table no. 6 and 8, it may be seen that since 2007-08 the average Gross NPAs to Gross Advances ratio is increasing year on year. It is also seen that the mounting NPAs adversely affecting the profitability and performance of the banks.

Findings of the Study:

The major findings of the present study are as mentioned as follows:

- Over the period of study 2006-07 to 2015-16, the amount of gross NPAs increased to 778.14% in SBBJ, 1,877.75% in SBH, 981.92% in SBI, 946.77% in SBM, 1,291.34% in SBP and 592.59% in SBT 2015-16.
- From 2007-08 to 2009-10 the Gross NPAs to Gross Advances ratio showing volatility in the growth and 2010-11 onwards it shows continuously increasing trend. It is really the matter of worry for the banks covered under the study.
- From the table no 4, it is observed that the average Gross NPAs to Gross Advances ratio in SBI is at top position, it is followed by SBM and SBP.

Suggestions to Curb Mounting Non-Performing Assets:

As we know that, the mounting Non-Performing Assets are serious problem for the stability of the banks, the banks have to take some strict measures for curbing the mounting NPAs'.

- The banks have to analyse creditworthiness of the customers before sanction of the loan, based on some scientific measures.
- The banks have to establish strict and systematic recovery management to reduce the amount of NPAs'.
- The banks are required to develop separate collection or recovery department for intensive follow up recovery management.

Limitations of the Present Study:

The present research is based on SBI and its Associates, so it is not possible to generalize the result for entire banking sector. The present research is based on secondary sources of the data, so the limitations associated with the secondary sources of the data are also affected to the research.

Conclusion:

The increasing NPA in India is really the matter of worry. The Reserve Bank of India is taking different measures to curb the mounting NPA. It is highly required for the improvement of performance of the public sector banks. The banks have to implement some strict measures to control the growing NPAs.

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