Analyzing State Bank of India's Non-Performing Assets

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Abstract: Indian banking sector has been facing numerous serious problems concerning the increasing level of Non-Performing Assets (NPAs). The target of our study is to seek out the arena that has higher NPAs (Public/Private sector banks), causes and management measures for rising NPAs. The articles from 2015-19 is employed for the study of NPAs in SBI. Majority of the articles deals with level and dominant measures of NPAs in Indian banking sector. The simplest indicator for the soundness of the banking sector of a rustic is its level of Non-performing assets (NPAs).

Keywords: Non-Performing Assets, Banking sector, causes of terrorist groups, dominant measures, Public Sector Banks, credit risk

Introduction

Banking is taken into account because the life blood of each country's economy. Any issue about the banking sector can adversely have an effect on the economy. Indian banking sector has been facing numerous serious problems concerning the increasing level of Non-activity Assets (NPAs). In step with run, Non-Performing plus indicates Associate in nursing asset of recipient that has been classified by an institution as sub-standard, loss or uncertain plus, with reference to the rules about plus classification. NPAs directly impacts on the liquidity, profit and also the overall quality of assets and eminent survival of banks. The increasing level of default is resulting in rise in Non-Performing Assets, reducing the profit and quality assets in monetary statements of banking sector. The problem of NPAs isn't simply influencing the bank however conjointly the whole economy. The terrorist group size on banking sector is relatively higher publicly sectors banks. To take care of the profit and potency of banks the terrorist group should to be controlled and reduced. The amount of terrorist group is best indicator for assessing the health of banking sector of a rustic. One among the key driver of NPAs within the banking sector is that the Directed loan system underneath that industrial banks are needed to supply four-hundredth level of their credit to the priority sector of the financial set-up.

Objectives of the Study

The present study was undertaken with the following objectives:
1. To understand the concept of NPA and classification of asset as per RBI guidelines.
2. To examine the asset classification and NPA movement of State Banks of India
3. To analyse the management of NPA State Banks of India.

Classification of Asset as Non-Performing Assets (NPA)

An asset becomes non-performing when it ceases to generate income for the Bank. Earlier an asset was considered as Non – Performing Asset (NPA) based on the

concept of 'Past Dur'. However, with effect from March 31, 2001, the concept of 'Past Due' has been changed. Now from that date a Non-Performing Asset (NPA) is an advance, where:

- ➢ Interest and/or instalment of principal remain overdue for a period of more than 90 days in respect of a Term Loan.
- ➢ The account remains 'out of order' for a period of more than 90 days, in respect of any type of working capital.
- ➢ The bill remains overdue for a period of more than 90 days in case of bills purchased and discounted.
- ➢ Interest and/or instalment of principle remain overdue for two harvest seasons but for a period not exceeding two half years in case of agricultural advances specified to be for that purpose. These advances are detailed herein below. For non-specified agricultural advances the identification of NPA is to be done on the same basis as non-agricultural advances.
- ➢ Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

Methodology

This section provides an over-view of the existing research which focuses on a study on Non-Performing Assets in Indian banking sector. Banking system is considered as a basicpartineconomicprogressandimprov ementofanation throughactivationofreservefundsandarra ngementofassetsto the beneficial segments. The problem of 'NonPerforming Asset's isn't limited to

Indian banks just actually, this is the issue of all nations of the world, regardless of nation is creating, created or poor.

Rathore (2017) In India banks are going up against colossal issue of Non-Performing Assets (NPAs). NPA management needs inclusion and comprehension on the some portion of staff on nonstop premise so that there is centered consideration around recovery.Further,thebankemployeesfor NPAmanagement ought to be experienced, very much qualified and prepared with the goal that they can comprehend the issues of recuperation and manage them successfully.

The study done by Ganesan and Santhanakrishnan (2013) find out that the sound financial position of a bank relies on the recovery of credits or its level of Non-performing Assets (NPAs). Decreased NPAs by and large gives the feeling that banks have reinforced their credit evaluation forms throughout the years and development in NPAs includes the need of arrangements, which cut down the general gainfulness of banks. The Indian banking system is confronting a difficult issue of NPA. The greatness of NPA is nearly higher out in the open parts banks. To enhance the proficiency and productivity of banks the NPA should be decreased and controlled.

Analysis of NPA

The causes of NPA, the nature of NPA, the age of NPA, the consequences of accumulation of
NPA on profitability, the administrative difficulty in managing the NPA, etc., are the various

Factors to be taken into account in the process of analysis of NPA in the AUCB.

Various parameters used in the study for rating NPA management in banks are in the form of ratios and Percentages of NPA to certain business indicators. Some of the ratios used in this study are gross and net NPA ratio, standard assets ratio, doubtful assets ratio and loss assets ratio

Table -1

Magnitude of NPA in SBI.

(Rs. In. lakhs)

Year	Gross NPA	Gross Advance	Percentage	Net NPA	Net Advances	Percentage
2014-15	56,725	13,35,424	4.2	27,591	1301462	2.1
2015-16	98,173	15,09,500	6.5	55,807	14,64,751	3.8
2016-17	1,12,343	19,52,507	5.8	96,978	15,71,078	6.2
2017-18	2,23,427	20,48,387	10.9	1,10,855	19,34,642	5.7
2018-19	1,72,750.36	1677188	10.3	65,894.74	2189194.02	3.0
Mean	1,32,684	17,04,601	8	71,425	16,92,225	4
SD	58675.6	266365.8	2.6	29676.95	323994.14	1.56
C.V	44.2	15.6	34.6	41.55	19.15	37.35

Source: Compiled from annual reports of the SBI

Table 1 exhibits the gross and net NPA ratio for the SBI chosen for study. The value of gross advance has increased from Rs13,35,424to1677188and the gross NPA hasincreased from56,725.87 To 1,72,750.The value of net NPAandnet advance has also increased and the percentage of net NPA fluctuating through the period of the study. An international standard of grossNPAs that it would be2.6 percent.

Sub-standard assets ratio: Gross NPAs consists of substandard assets, doubtful assets and loss assets.

Substandard assets are those assets slipped from the standard category of advances when the interest and/or instalments remain unpaid for two quarters as per the prudential norms. Thus the sub-standard assets, otherwise, can be identified as fresh NPAs. When these fresh NPAs are not attended to at the early stage itself, they will slip to the next category of doubtful assets in 12 months. The substandard assets ratio will help to understand the portion of fresh NPAs in the gross NPAs. Further this ratio will help the bank's administration to evolve a useful strategy to minimize

NPAs at the shortest possible time with less expense. This ratio is calculated as,

Substandard AssetsRatio=Total sub–standard assets / Gross NPAs X100

Table-2
Sub- Standard Assets Ratio of SBI

(Rs. In Lakhs)

Year	Sub-Standard Assets	Gross NPA	Percentage
2014-15	23611	56725	41.62
2015-16	38661	98173	39.38
2016-17	44229	112343	39.37
2017-18	50899	223427	22.78
2018-19	26137	172750	15.13
Mean	36707	132684	31.66
SD	10440.79	58675.62	10.68
CV	28.44	44.22	33.74

Source: Compiled from annual reports of the SBI

Table 2 presents the sub standards assets ratio of the SBI. The SBI has an average ratio of 31.66per cent of nonperforming assets under substandard category during the study period of 5-years. The first four years, the substandard assets ratio was above the average ratio.The value of substandard assets increased from Rs. 23611lakhs in 2014-15 toRs.50899lakhs in 2017-18 and it was Decreased to 26137 in 2018-19 The reduction in the percentage of substandard assets indicates less addition of fresh NPAs. But, another inference derived is in, more standard assets slipped into doubtful and loss category of assets.

Doubtful assets ratio: Doubtful assets are the assets which remain in the substandard category of assets for 18 months. Doubtful assets are sticky loans where the recovery of both interest and instalments is difficult. Doubtful assets are bifurcated into secured and unsecured parts of the assets. The unsecured portion of the doubtful assets would attract 100 per cent provisioning while the secured portion would attract 20 per cent, 30 per cent and 50 per cent provisioning according to the age of the doubtful assets, namely less than one year, one to three years and more than 3 years respectively. "When adequate care or follow up is not done in upgrading the substandard assets, they used to slip down to doubtful assets. In case of doubtful assets, the immediate action to be taken by the bank is to protect the securities offered, assets created both immovable as well as the collateral securities."[1] the doubtful assets ratio is calculatedas:

Doubtful AssetsRatio=Totaldoubtfulassets /Gross NPAs*100

Table-3

Doubtful Assets Ratio of SBI

(Rs. In Lakhs)

Year	Doubtful Assets	Gross NPA	Percentage
2014-15	16657	56725	29.36
2015-16	40330	98173	41.08
2016-17	44890	112343	39.96
2017-18	56099	223427	25.11
2018-19	34798	172750	20.14
Mean	38555	132684	31
SD	12997.84	58675.62	8.21
CV	33.71	44.22	26.37

Source: Compiled from annual reports of SBI

Table 3 is showing the doubtful assets ratio of SBI. The average doubtful assets ratio of SBI is 31 cent. The doubtful assets ratio of SBI has increased from 29.36 percent in 2014-15 to 41.08 percent in 2015-16. From 2016-18 percentage of Doubtful assets are decreased from 39.96 to 20.14 .Therefore, the bank has a great task to reduce doubtful assets seriously.

Loss assets ratio: Loss assets are those assets which are classified as bad and non-recoverable by the bank. "For a bank, loss assets should not exist in the balance sheet. It should be wiped out either by recovery or by write-off. Existence of the loss assets is a burden on provisioning and on capital adequacy ratio"[2]. Maintenance and follow up of loss assets consume more time, energy and cost of the bank's management. The loss assets ratio for any bank should be 'zero'. Any positive integer of this ratio indicates the level of bad and irrecoverable loans which are being serviced unwontedly by the bank at a cost. The loss assets ratio is calculated as:

Total loss assets Loss assets ratio=Total loss assets/Gross NPAs*100

Table -4

Loss Assets Ratios of SBI(Rs. In Lakhs)

Year	loss Assets	Gross NPA	Percentage
2014-15	3213	56,725	5.66
2015-16	2970	98,173	3.03
2016-17	3995	1,12,343	3.56
2017-18	8200	2,23,427	3.67
2018-19	9467	172750	5.48
Mean	5569.106	132683.672	4.28
SD	2716.71	58675.62	1.08
CV	48.78	44.22	25.23

Source: Compiled from annual reports of the SBI

Table 4 exhibits the loss assets ratio of the SBI. The average ratio of loss assets is 4.28 percent-The value of the loss assets was Decrease from 5.66 % to 3.03% in the year 2014-15 to 2015-16. From 2015-16 to 2017-18 it was increased little bit but in the year 2018-19 it was increased to 5.48 % . Because of all NPA are converted to loss assets in the year 2018-19.

Conclusion:

The Indian banking sector is facing a serious problem of NPA. The extent of NPA is comparatively higher in public sectors banks. A lot of practical problems have been found in Indian banks, especially in public sector banks. The problems of NPA was due to deficiencies on the part of the banks viz. in credit appraisal, monitoring and follow-ups, delay in settlement of payments\ subsidiaries by government bodies etc. Normally, the commercial banks are functioning with the support of the Central Government. The management is fully responsible in the public fund. In this concern the SBI banks has to improve the efficiency and profitability, the NPA has to be scheduled. Various steps have been taken by the management of the SBI to reduce the NPA. It is highly impossible to have zero percentage NPA. But it banks can try competing with private new generation commercial banks in India.

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