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Trend of Non-Performing Assets – Analysis of State Bank of India

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ABSTRACT

After the evolution of banking system, banking activity has become quite prompt as bank provides a good deal for smooth and speedy capital formation within the economy. The industry of Banking has provided a a lot facility for the adjustment of finances of the economic activity which is a vital tool for the development and growth. Today NPAs are accounted as a significant downside for Indian Banking Industry. NPAs are extremely unacceptable due to problems faced in terms of lower profit and capital erosion. Study sample contains five years knowledge of depository financial institution of State Bank of India . Sample period covers past 5 financial years spanning between 2013-2017. Data collected through secondary source is subjected to Trend Analysis, one way ANOVA. Two financial ratios are used namely Gross NPAs to Gross Advances and Net NPAs to Net Advances. The study reveals that there is no significant difference exists in Gross NPA to Gross Advances and Net NPA to Net Advances of SBI .The study supports the perspective that no bank is so big that it cannot fail. Even big players are vunerable to such risks.
KEYWORD:-NPA, Capital ,Gross Advances, Financial Sector.

Overview of State Bank of India
SBI Group-

The Bank of Bengal, that later became the State Bank of India. State Bank of India with its seven associate banks commands the most important banking resources in India.

Nationalization

The next significant milestone in Indian Banking happened in late 1960s when the then Indira Gandhi government nationalized on 19th July 1949, fourteen major commercial Indian banks followed by nationalization of 6 more commercial Indian banks in 1980. The declared reason for the nationalization was management of credit delivery. After this, till 1990s, the nationalized banks grew at a leisurely pace of around 4% also called as the Hindu growth of the Indian economy .After the consolidation of recent of New Bank of India with Punjab National Bank, presently there are 19 nationalized banks in India.

Liberalization-

In the early 1990's the then Narasimha Rao government embarked a policy of liberalization and gave licences to a few number of private banks, that came to be known as New generation tech-savvy banks, including banks like ICICI and HDFC. This move along with the quick growth of the economy of India, kick started the banking sector in India, that has witnessed rapid growth with lot of contribution from all the sectors of banks, namely Government banks, Private Banks and Foreign banks but there had been a couple of hitches for these new banks with several either being confiscated like Global Trust Bank while others like Centurion Bank have found the going difficult.

The next stage for the Indian Banking has been came upon with the planned relaxation within the norms for Foreign Direct Investment, wherever all Foreign Investors in Banks could also be given selection rights that might exceed the current cap of 100 percent, at this time it's gone up to 49% with some restrictions. The new policy disturbed the Banking sector in Asian nation utterly. Bankers, until now, were accustomed the 4-6-4 technique (Borrow at 4%;Lend at 6%;Go home at 4) of functioning. The new wave ushered in a very new outlook and tech-savvy strategies of operating for ancient banks. All this gave way to the retail boom in India. Individuals not simply demanded a lot of from their banks however additionally received a lot of.

CONCERN

Indian economy is one in all the quickest growing economies of the globe. The economy with its important geographics and human ecology has specific needs so as to traverse to successive orbit and attain its full potential. Banks modify to deal with finance demand for few industries like infrastructure, housing and property etc. India's infrastructural finance desires aren't solely large however additionally important. historically banks are the main supply of infrastructure finance and their exposure to infrastructure is already high at 17 %. There are many major considerations that as noted below:

- Intensifying competition

Indian banking system has undergone qualitative changes thanks to banking sector reforms. Indian banking sector, that is dominated by state- controlled, has been facing formidable challenges. Thanks to this new rising competition, Indian banks, particularly PSBs try their best to boost their performance and getting ready to vie within the rising international market. New non-public sector banks and foreign banks have a lot of customer- central policies, prime quality services, new enticing schemes and processed branches. Of these services attracted a lot of customers to their banks. This context, necssisates to look at the potency of public sector banks in operation in India. Mainly, competition will intensify and banks that is economical will thrive . The group action price of consumers might come back down and a bank that is economical, nimble and client centered would perpetually be able to do higher than others. As a result of globalisation, several new banks have the Indian banking system, increasing the competition.

The asset quality of banks is one of the most important indicator of their financial health. It also reflects the efficiency of banks' credit risk management and the recovery environment. The Indian banks have shown very good performance as far as the financial operations are concerned. But non- performing assets (NPA) has caused some concerns. Despite write- offs gross NPAs have continued to rise significantly. The new accretion to NPAs has been much faster than the reduction in existing NPAs due to lower levels of up gradation and recoveries.

- To improve the banks' ability their non –performing assets (NPAs) and restructured accounts in an effective manner and considering that almost all branches of banks have been fully computrized, the Reserve bank of India in its monetary policy statement 2012- 13 proposed the following measures:

- To instruct banks to have a robust framework for quick detection of signs of non compliance of rules and take steps like immediate restructuring in the case of all such accounts wherever required, with an intention to present the economic value such accounts: and

- To instruct banks to implement a proper system wise data generated on such NPA accounts, write offs, compromise settlement, recovery and reframed accounts.

It has been projected that the Indian Banking Industry will achieve its growth substantially inspite of these concerns as it has a great potential for growth . Sveral reasons may be cited for this which include High population, raise in the per capita income improvement in the standard of living etc.

Literature review:
Joseph and M. Prakash, 2014 have studied the NPAs levels of the private sector banks and public sector banks. They found that NPAs level was more in case of substandard asset and doubtful asset. However in case of standard asset, private banks rule over which shows a good position of private sector banks. Also it shows that they have adopted all necessary measures in order to avoid any account becoming NPAs.

The study by S.S. Prasad and P. Goyal, 2015 revealed that NPAwas not the factor which significantly affected the ROCE, ROAand RONW of Vijaya Bank. The study concluded that Vijaya Bank was effectively able to manage its NPAs resulted in not affecting its profitability.

The study by R.K. Uppal and P. Khanna, 2015 has analyzed the primary reasons for the growth of NPAs in scheduled commercial banks of Punjab and also suggested the measures for controlling the same. The objectives of study were to find out the factors that affect the loan repayment capacity of the bank customers.

The report published by CARE had emphasised that the NPA s of of at least 26 listed banks were Rs. 7.31lakh crore as per the declared results of FY 2017 Fourth Quarter.Ever since the remaining 12 listed banks which include Bank of Baroda, Andhra Bank, Corporation Bank and private financial lenders like City Union, Dhanlaxmi and Karur Vysya (Business Today, 2018). The Government of India felt that the usual recovery measures like issue of notices for enforcement of securities and recovery of dues was a time consuming process (Rajeev and Mahesh, 2010).

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002, was passed on December 17, 2002. The act ensures that the security factor is enforced without entertaining any to civil suits. Joseph (2014) had explained about that efficiency of banks can be measured by their level of NPAs. Selvarajan and Vadivalagan (2013) had stated that India is successful in minimizing the NPA with stringent rules and regulations in banking sector.

NPAs will negatively impact return on investment (ROI) and it increases cost of capital for banks (Singh, 2016). The NPAs can be decreased if banking organizations appoint professional who can analyze the repayment capability of borrowers before sanctioning the loan. The credit rating agencies should be given independent to evaluate the performance of banks to minimize NPAs.

Debarsh and Sukanya Goyal (2012) emphasized on management of non-performing assets in the perspective of the public sector banks in India under strict asset classification norms, use of latest technology which is based on on Core Banking Solution,procedures for recovery and other specific bank indicators under stringent regulatory set up of the RBI. Non-performing Asset is an important parameter in the analysis of financial performance of a bank asit results in decreasing margin and higher provisioning requirements for doubtful debts. The reduction of non-per-forming asset is necessary to improve profitability of banks and comply with the capital adequacy norms as per the Basel Accord.3

Kavitha. N (2012), tried to have an assessment of non-performing assets on profitability its magnitude and impact. In the past the credit of total advances was in the way of doubtful assets in the past and has an negative impact on profitability of all Public Sector Banks. This affected largely when NPAs work with other banks and also affect productivity and operational efficiency of the banking groups. The study observed that there has been increase in advances over the period of the study.

Objectives:-
The main objective of this study are:-
1. To study the trend in Gross NPA to Gross Advance of the SBI
2. To study the trend in Net NPA to Net Advance of SBI
3. To study the difference in average Gross NPA to Gross Advance of SBI
4. To study the difference in average Net NPA to Net Advance of SBI

Hypotheses:
H1: There is significant difference in average Gross NPA to Gross Advance ratio of SBI
H2: There is significant difference in average Net NPA to Net Advance ratio of SBI

Research Methodology:
The study uses secondary data collected from Annual Reports of respective Banks, Report on Trend and Progress of Banking in India, RBI, and Statistical Tables Relating to Banks in India, RBI.

Period of the Study
The study period covers past 5 financial years covering the period 2013 to 2017.

Statistical Tools Used
One way ANOVA and Post Hoc Test. The results are tested and validated at 5 percent level of significance. The two ratios used to measure the NPA position of the banks are Gross NPAto Gross Advance and Net NPA to Net Advance.

One Way ANOVA- Analysis of variance is a statistical tool used to study the significance of difference in mean of two samples. In the present study ANOVA is applied to study that if there is significant difference in the mean ratios of small, medium and large banks.

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TABLE 1

State Bank of India Standalone Balance Sheet	------------------- in Rs. Cr. -------------------				
	M ar 17	16-M ar	15-M ar	14-M ar	13-M ar
	12 mths	12 mths	12 mths	12 mths	12 mths
EQUITIES AND LIABILITIES SHAREHOLDER'S FUNDS					
Equity Share Capital	797.35	776.28	746.57	746.57	684.03
Total Share Capital	797.35	776.28	746.57	746.57	684.03
Revaluation Reserve	31,585.65	0	0	0	0
Reserves and Surplus	155,903.06	143,498.16	127,691.65	117,535.68	98,199.65
Total Reserves and Surplus	187,488.71	143,498.16	127,691.65	117,535.68	98,199.65
Total Shareholders Funds	188,286.06	144,274.44	128,438.22	118,282.25	98,883.69
Deposits	2,044,751.39	1,730,722.44	1,576,793.24	1,394,408.51	1,202,739.57
Borrowings	317,693.66	224,190.59	205,150.29	183,130.88	169,182.71
Other Liabilities and Provisions	155,235.19	159,875.57	137,698.05	96,412.96	95,455.07
Total Capital and Liabilities	2,705,966.30	2,259,063.03	2,048,079.80	1,792,234.60	1,566,261.04
ASSETS					
Cash and Balances with	127,997.62	129,629.33	115,883.84	84,955.66	65,830.41
Reserve Bank of India					
Balances with Banks M oney at	43,974.03	37,838.33	58,977.46	47,593.97	48,989.75
Call and Short Notice					

Investments	765,989.63	477,097.28	495,027.40	398,308.19	350,927.27
Advances	1,571,078.38	1,463,700.42	1,300,026.39	1,209,828.72	1,045,616.55
Fixed Assets	42,918.92	10,389.28	9,329.16	8,002.16	7,005.02
Other Assets	154,007.72	140,408.41	68,835.55	43,545.90	47,892.03
Total Assets	2,705,966.30	2,259,063.03	2,048,079.80	1,792,234.60	1,566,261.04
OTHER ADDITIONAL INFORM ATION					
Number of Branches	17,170.00	16,784.00	16,333.00	16,059.00	15,002.00
Number of Employees	209,567.00	207,739.00	213,238.00	222,033.00	228,296.00
Capital Adequacy Ratios (%)	13	13	12	13	13

KEY PERFORM ANCE INDICATORS					
Tier 1 (%)	10	10	10	10	9
Tier 2 (%)	3	3	2	3	3
ASSETS QUALITY					
Gross NPA	112,342.99	98,172.80	56,725.00	61,605.00	51,189.39
Gross NPA (%)	7	7	4	5	5
Net NPA	58,277.38	55,807.02	0	0	21,956.48
Net NPA (%)	4	4	2	3	2
Net NPA To Advances (%)	4	4	2	3	2
CONTINGENT LIABILITIES, COM M ITMENTS					
Bills for Collection	65,640.42	199,140.17	190,560.35	74,028.42	66,639.54
Contingent Liabilities	1,046,440.93	865,027.48	902,862.16	1,017,329.95	926,378.91

(Source- www.moneycontrol.com)

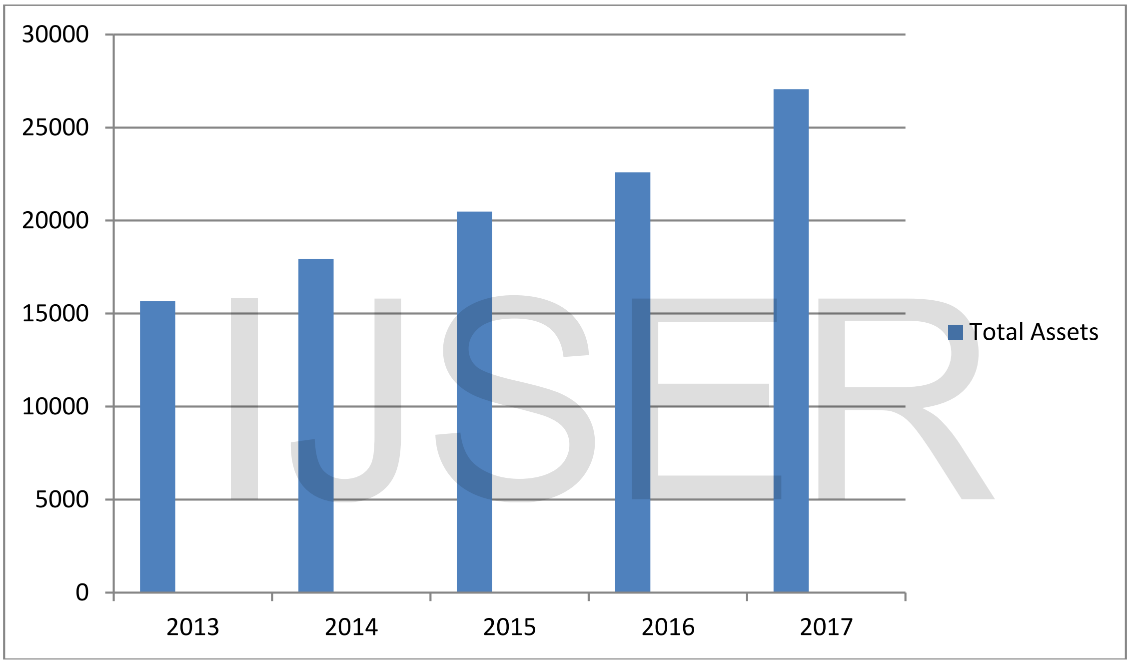
Data Analysis, Interpretation and Presentation
(The analysis is based on above Balance Sheet of the SBI)

The objective of this analysis is to know the position of SBI in terms of total Assets. From the time period from 2013 to 2017. A firm's total assets include all current and fixed assets.

TOTAL ASSET

TABLE 2

YEARS	2013	2014	2015	2016	2017
TOTAL ASSET (RS. In billions)	15662.61	17922.35	20480.80	22590.63	27059.67



INTERPRETATION

Above graph show that total assets of SBI is increased in 2014 by 2259.74 billion, in 2017 increased by 4469.04 billion. It has been observed that the assets of the SBI bank increased in the last five year.

RATIO ANALYSIS:

The relationship between two related items of financial is known as ratio.. The ratio is customarily expressed in there different ways. It may be expressed as a proportion between the two figures. Secondly, it is also expressed in terms of percentage. Thirdly , it can be also expressed in terms of rate.

The use of ratio become increasingly popular during the last few years only. Earlier only financial institutions used the current ratio to predict the potential of borrowings business organisations to repay the loan and make regular payment of interests.Today it is considered as an important tools that anybody connected with the business uses for measuring the financial capacity and earning potential of business.

Gross NPA Ratio:

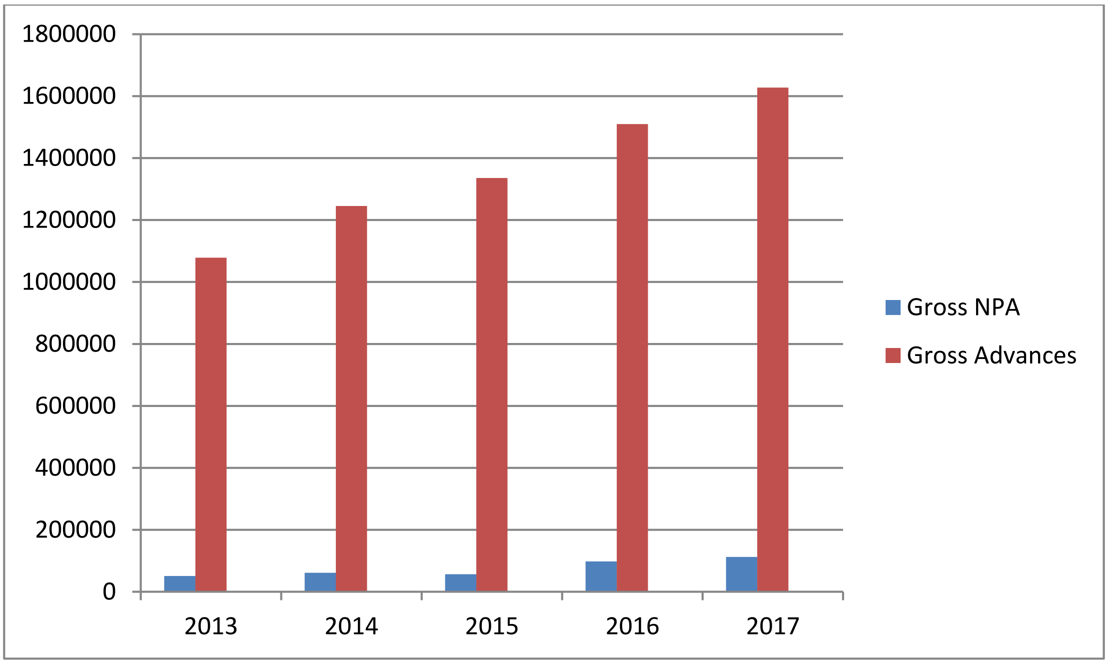
Gross NPA Ratio is represented as the ratio of Gross NPA over Gross Advances. Gross is the total of all advances that are categorised as NPA as per RBI guidelines, the ratio is to be counted in terms of percentage and the formula for GNPA is as follows:

$$\text{Gross NPAs Ratio} = \frac{\text{Gross NPAs}}{\text{Gross Advances}} \times 100$$

TABLE 3

YEAR	GROSS NPA (IN CRORE)	GROSS ADVANCES (IN CR.)	GROSS NPA RATIO
2013	51189.39	1078557	4.75
2014	61,605.35	1245122	4.95
2015	56725.34	1335424	4.25
2016	98172.80	1509500	6.50
2017	112342.99	1627273	6.90

(Source – annual report)



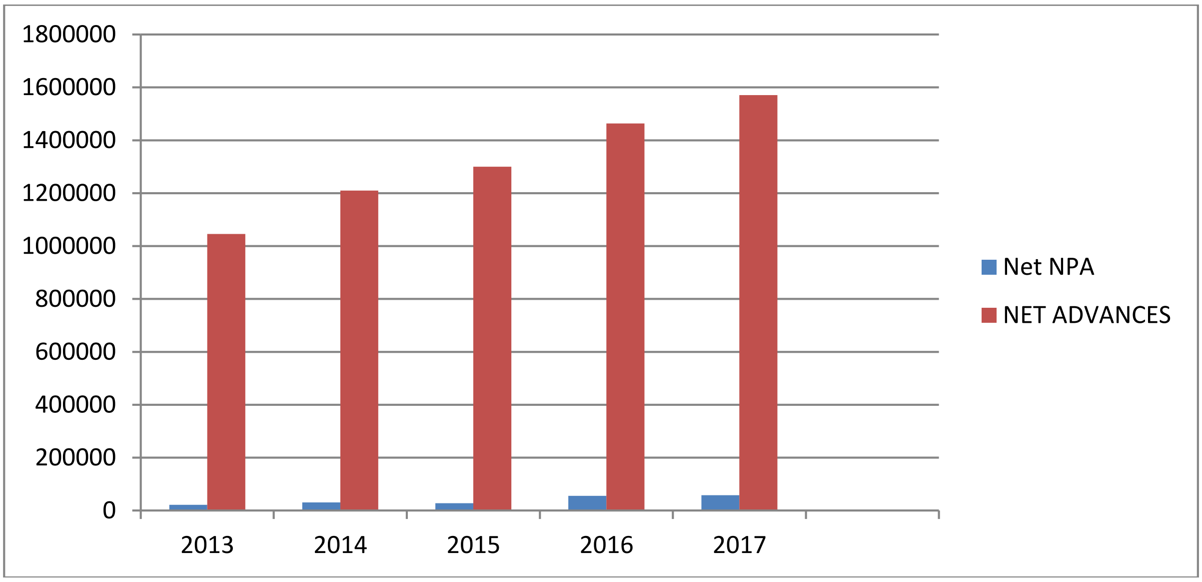
INTERPRETATION

The above table and graph makes it very clear that the average gross NPA of SBI is not very satisfactory. It has seem that the gross NPA which was 4.75% in 2013 increased every year and finally reached 6.90% in 2017. It is evident that SBI should be more careful and follow the set rules to grant loans , so that it enables a lower NPA.

$$\text{Net NPA Ratio} = \frac{\text{Net NPAs}}{\text{Net Advances}} \times 100$$

TABLE 4

YEAR	NET NPA	NET ADVANCES	NET NPA RATIO
2013	21956.48	1045546.67	2.10
2014	31096.07	1209963.81	2.57
2015	27590.58	1300026.39	2.12
2016	55807.02	1463700.42	3.81
2017	58277.38	1571078.38	3.71



INTERPRETATION

The above graph presents the NPA ratio of SBI bank. It can be noticed that the NPA ratio was decreased in 2015 by 0.45%. After that it is continuously increased. The bank had failed to make sufficient provisions against NPA.

TABLE 5

YEAR	ADVANCES (Rs. In billions)	INCREASE/ DECREASE PERCENTAGE	GROSS NPA Rs. In crore)	INCREASE/ DECREASE PERCENTAGE
2013	10456.17		51189.39	
2014	12098.29	15.70	61605.35	20.34
2015	13000.26	07.45	56725.34	-09.07
2016	14637.01	12.59	98172.80	73.06
2017	15710.78	7.34	112342.99	14.44

INTERPRETATION

In the table below we observe that increase or decrease in Gross NPA is not due to increase in advances. There is another reason of increasing in NPA might be due to poor credit system in bank.

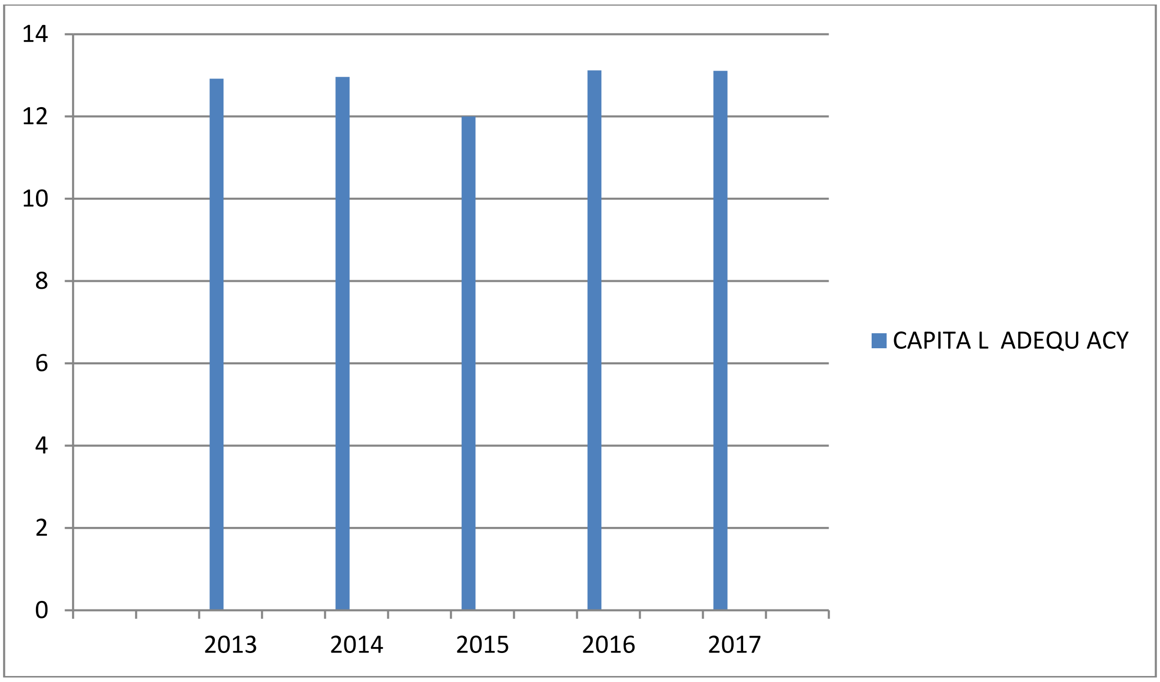
CAPITAL ADEQUACY RATIO

The bank manages and maintains capital as a cushion against risk of problem losses and to protect its depositors and creditors. The capital requirement in future of the bank is shown as a part of its yearly business plan, according to its business strategy. In calculating the capital requirements of the banks, broad parameters viz. The composition of the balance sheet , portfolio mix , Its annual growth rate and necessary discounting are considered. In addition, views regarding market behaviour of interest rate and liquidity positions are also taken into account.

The New Capital Adequacy Framework (NCAF) of RBI stipulates the methodology for computation of CRAR which is a ratio of the total capital of the bank to its risk adjusted assets. The CRAR for the bank is calculated on a quarterly basis and credit, market and operational risks are considered to arrive at the ratio. The bank has adopted the standardized approach for credit risk, the Standardized Measurement Method (SMM) for market risk and the Basic Indicator Approach (BIA) for operational risk. The position of the CRAR of the bank is as follow.

TABLE 6

YEAR	CAPITA LA DE QU ACY RATIO
2013	12.92
2014	12.96
2015	12.00
2016	13.12
2017	13.11



INTERPRETATION

Each bank must produce the capital reserve to compensate the NPAs. Here, SBI has shown higher capital adequacy magnitude relation with 13.12% in 2016 as compared to 12.00% in 2015, 12.92% in 2013, 12.96% in 2014 and 13. 11 in 2017. The capital adequacy magnitude relation is very important for them to take care of as per the regulation. every bank must produce the capital reserve to compensate the non- acting assets.

PROVISION
magnitude relation

Provisions are to be created for the safety of the Non Performing Assets and it directly affects the net profits of the banks. The availability magnitude relation is nothing however total provision command to gross NPA of the banks. The formula for that is:

$$\text{Provision Ratio} = \frac{\text{Total Provision}}{\text{Gross NPAs}} \times 100$$

(Additional Formula: Net NPA = Gross NPA- Provision
Therefore, provision = Gross NPA – Net NPA)

TABLE 7

YEAR	TOTAL PROVISIONS (IN CR.)	GROSS NPA (IN CR.)	PROVISION RATIO
2013	16977	51189.39	33.16

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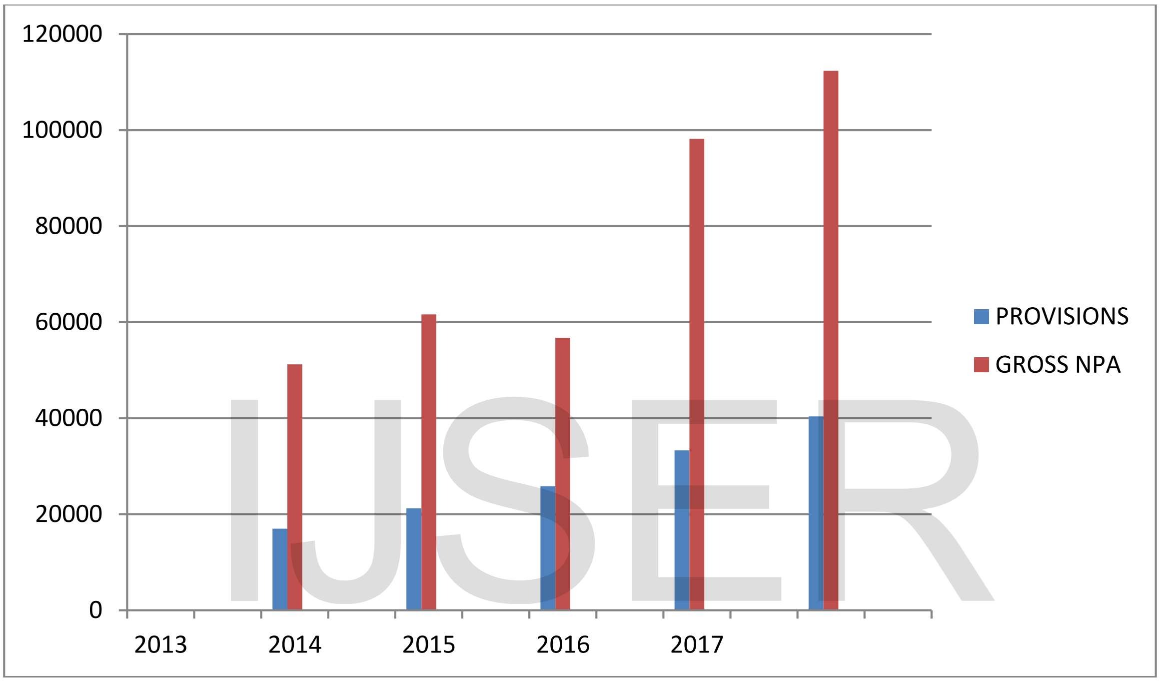
2014	21218	61605.35	34.44
2015	25811	56725.34	45.50
2016	33307	98172.80	33.92
2017	40363	112342.99	36.17



FINDINGS:-

After finding the trend in average GNPA to Gross Advance ratio, let us see if there is any significant difference in the same on the basis of size. For this purpose we have applied One Way ANOVA. A perusal of Table 8 reveals that there is no significant difference in average GNPA to Gross Advance ratio as the p value obtained (1.05) is greater than .05 at 5% level of significance. Thus the alternate hypothesis is rejected and it has been safely concluded that there is no significant difference in average Gsross NPA to Gross Advances..

Anova: Single Factor

TABLE 8

SUMMARY

Groups	*Count*	*Sum*	*Average*	*Variance*
Column 1	5	380035.9	76007.17	7.52E+08
Column 2	5	6795876	1359175	4.67E+10

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	4.12E+12	1	4.12E+12	173.501	1.05E-06	5.317655
Within Groups	1.9E+11	8	2.37E+10			
Total	4.31E+12	9				

After studying the trend in Net NPA to Net Advance of the banks, let us see if there is any significant difference between the three groups of banks on this front. For this purpose we applied One Way ANOVA, the result of which is presented in Table 9
A perusal of Table 4 reveals that there no significant difference between the three groups of banks as p value obtained (7.48) is greater than .05 at 5% level of significance. Thus the alternate hypothesis is rejected and it has been safely concluded that there is no significant difference in average Net NPA to Net Advance .

Anova: Single Factor
TABLE 9
SUMMARY

Groups	Count	Sum	Average	Variance
Column 1	5	194727.5	38945.51	2.84E+08
Column 2	5	6590316	1318063	4.29E+10

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	4.09035E+12	1	4.09E+12	189.5436	7.48E-07	5.317655
Within Groups	1.7264E+11	8	2.16E+10			
Total	4.26299E+12	9				

Conclusion:
The quality of assets of banks is one among the foremost necessary indicators of their monetary health. It additionally reflects the potential of banks credit risk management and therefore the recovery atmosphere. The SBI bank has shown superb performance as so much because the monetary operations area unit involved. however non- acting assets (NPA) has caused some issues. The foreign terrorist organization has been ceaselessly increasing this was thanks to ineffective recovery

of bank credit, credit recovery system, inadequate legal provision etc.

A banks need to strengthen their credit administration Machinery and place in situ effective credit risk management systems to cut back the recent incidence of NPAs. Banks shall keep a shut watch on the manner within which money recoveries ought to over offset the recent write-offs in NPAs.The attitude of the borrowers must amendment so a culture of correct utilization of credit facilities and timely compensation is developed.One of the most reason for company default is on account of diversion of funds and company entities ought to step forward to avoid this follow within the interest of robust and sound monetary system. Extending credit involves lenders and borrowers and each ought to understand their role and responsibilities. They must appreciate the difficulties of every alternative and may endeavour to figure contributive to a healthy economic system.

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