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Non-performing assets: Analysis of SBI

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Abstract

With the development and growth of the economy the importance of banking system has also increased. But one of the biggest challenges the Indian banks are facing is the amount of Non-Performing Assets (NPA). State bank of India popularly known as SBI is one of leading bank of public sector in India. Now the SBI is largest public bank in India. Though the problem of NPAs has not been solved all together, so the study of SBI is presented in the reference of NPAs for a particular period of time from year 2017 to 2021. This research article is based on the secondary data.

Keywords: SBI, non-performing assets, gross NPA, net NPA

Introduction

With the development and growth of the economy the importance of banking system has also increased. But one of the biggest challenges the Indian banks are facing is the amount of Non-Performing Assets (NPA) especially after nationalization of commercial bank from 1969. After nationalization the amount of Non-Performing Assets was around 15% which can be considered as one of the biggest limitations for the commercial bank. RBI issued many guidelines to very punctual in granting loan and more importantly to collect the amount of loan that is recovery of loan. Though the problem of NPAs has not been solved all together, so the study of SBI is presented in the reference of NPAs for a particular period of time from year 2017 to 2021.

SBI Bank

The origin of State bank of India (SBI) in 19th century with the establishment of bank of Calcutta in 2 June 1806. An act was passed by the Parliament in 1955 and on 1st July 1955 the State bank of India was constituted. State bank of India popularly known as SBI is one of leading bank of public sector in India. Now the SBI is largest public bank in India in terms of assets, deposits and employees. SBI is the preferred banker for most of public sector corporation. The bank occupies a unique place in the Indian money market because it commands more than 1/3 of Indian banking resources.

Objective of the Study

1. To analyses the types of assets and effect of NPA on it.
2. To study the causes of NPA of bank.
3. To study Gross NPA and Net NPA of SBI for the year 2017 to 2021
4. To study the trends of Gross NPA and Net NPA during 2017 to 2021.

Research Methodology

This research article is based on the secondary data. The data is taken from annual reports, relevant journals and website of bank. The study covers the time period of five years from 2017 to 2021. The percentage analyses were applied to analysis and compares the trend in banks.

Literature Review

Rajeev Meenakshi and Mahesh H.P. (2010) ^[1] in the working paper 252 Banking sector reforms and NPA: A study of Indian Commercial Banks they said that the problem of NPA has received considerable attention after the liberalisation of the financial sector in India.

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Accounting norms have been modified substantially and mechanisms are in place for reduction of bad loans. NPA in the priority sector is still higher than that of the non-priority sector.

Das S. and Dutta A. (2014)^[2] in the article A study on NPA of Public Sector Bank in India with the help of statistical tool ANOVA, said that banks irrespective of their operation have similar NPAs in the recent years.

Jaiswal A. and Jain C. (2016)^[3] in their article A Comparative Study of Financial Performance of SBI and ICICI Banks in India they find that on the part of NPA, again SBI has fewer bad debts as compare to ICICI the reason may be the sound image of SBI in the eyes of customers. SBI is leading and has also many rural and urban branches, it also gives strength to SBI and makes it enable to cover the advance given which in turn reduce the bad debts of SBI whereas in case of ICICI, it needs to work hard to recover the amount given as advance. The data also reveals that ICICI has circulated more advances to the customers as compare to SBI, this also one reason which increases the bad debts of ICICI.

Kanagavalli G. and Rajendran S.D. (2018)^[4] in their article Financial performance of State Bank of India they find that SBI is maintaining the required standard and running profitability. SBI overall performance has been analyzed in detail in terms of deposit mobilization, loan and advances, investment position, non-performing assets, earning and profitability efficiency.

Das S.K. and Utpal K. (2021)^[5] in their paper NPAs and profitability in Indian banks: An empirical analysis finds that NPA have a negative impact on Return on assets for Indian commercial banks using a Random effects model and also including Economy wide characteristics like inflation and GDP rate of growth.

Definition of NPA

The assets of the banks which don't perform are called NPA. Bank's assets are the loans and advances given to customers. If customers don't pay either interest or part of principal amount or both, the loan turns into bad loan. According to RBI, terms loans on which interest or installment of principal amount remain overdue for a period of more than 90 days from the end of a particular quarter is called a Non-performing Asset. In terms of Agriculture/Farm Loans the NPA is defined as under-for short duration crop agriculture loans such as paddy, Jowar, Bajra etc. If the loan (installment / interest) is not paid for 2 crop seasons, it would be termed as NPA. For Long Duration Crops the above would be 1 Crop season from the due date.

Classification of NPAs

Sub-Standard Assets - That particular Assets that remains overdue for less then or equal to 12 months.

Doubtful Assets - That Assets remains in the category of Sub-Standard NPA for equal or less then 12 months.

Doubtful Assets - The loss assets occur when the NPA has been recognized as a loss incurred by the bank of financial institution as per the inspection done by RBI. The loan has not been not completely written off.

Table 1: Provisioning Requirements on various Categories of Assets

Asset Category	NPA Duration	Provisioning Rate
Sub- Standard Assets	< 1 year	15%
Doubtful Assets	Upto one year	25%
	One to three years	40%
	More than three years	100%
Doubtful Assets		100%

Source: RBI report

Causes of NPAs

The causes for NPA are two types like External Causes and Internal causes.

External Causes

Changes in government policies, Change in economic condition, Natural calamities and climatic condition, recession, Industrial problems, Impact of liberalization on industries, technical problems, Willful defaults etc.

Internal causes

Lack of professionalism and appraisal standard, Failure of projects, lack of monitoring poor knowledge of product risks and technology, Defective lending process, Absence of regular follow-up etc.

Effect on bank's performance

NPA reduced bank's interest income and Investor do not get rightful returns. Bank suffer a lowering of profit margins then stress in banking sector because less money available to fund other projects and it give negative impact on the national economy. NPA related cases add lot of pressure on judiciary.

Types of NPA: Gross NPA and Net NPA

Gross NPA

Gross NPA (non-performing asset) refers to overall quantity of loans that have gone bad debts. It consists of all the nonstandard assets like as sub-standard, doubtful, and loss asset.

Gross NPA is a non standard asset, on which bank has made provisions, and which is still held in banks' books of account.

“Gross NPAs Ratio = Gross NPAs / Gross Advances”

Net NPA

Net NPAs are those advances which are obtained after deducting the provisions from Gross NPA. Net NPA shows the actual burden of banks. The banks have to make certain provisions against the NPA's according to the RBI guidelines.

“Net NPAs = Gross NPAs – Provisions / Gross Advances – Provision

Types of NPA

Gross NPA: It refers to overall quantity of loans that have

gone bad debts. It consists of all the sub standard, doubtful and loss assets. In other words, we can say that Gross NPA is a non-standard asset, on which bank has made provision and which is still held in bank's book account.

Net NPA: Net NPA are those advances which are obtained after deducting the provision from Gross NPA. In other

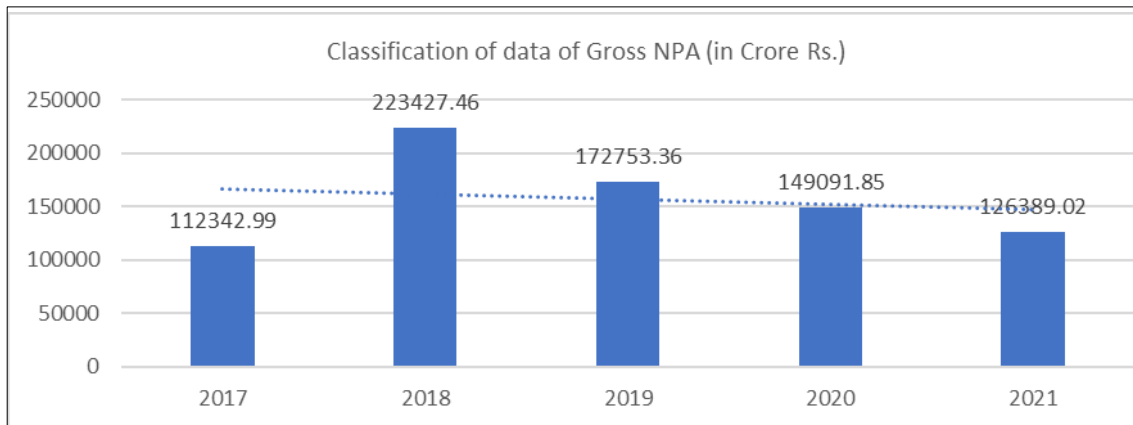
words, we can say that Net NPA shows the actual burden of bank. The bank has to make certain provision against Npa according to the RBI guidelines.

Data Analysis

Table 1: Analysis of Gross NPA (in Crore Rs.)

Particulars	2017	2018	2019	2020	2021
Gross NPA	1,12,342.99	2,23,427.46	1,72,753.36	1,49,091.85	1,26,389.02

Source: www.moneycontrol.com/financial/statebankofindia



Source: www.moneycontrol.com/financial/statebankofindia

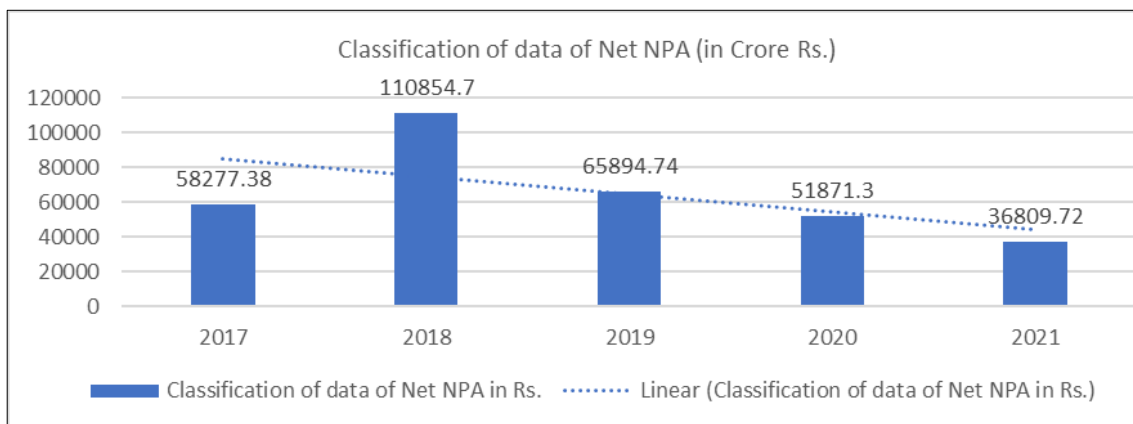
Chart 1: Classification of data of Gross NPA (in Crore Rs.)

Above table shows that Gross NPA from the year 2017 to 2021 of SBI. The table represents that Gross NPA for the bank has been maximum in year 2018 and it is just double from 2017. After then the Gross NPA decreasing.

Table 2: Analysis of Net NPA (in Crore Rs.)

Particulars	2017	2018	2019	2020	2021
Net NPA	58,277.38	1,10,854.70	65,894.74	51,871.30	36,809.72

Source: www.moneycontrol.com/financial/statebankofindia



Source: www.moneycontrol.com/financial/statebankofindia

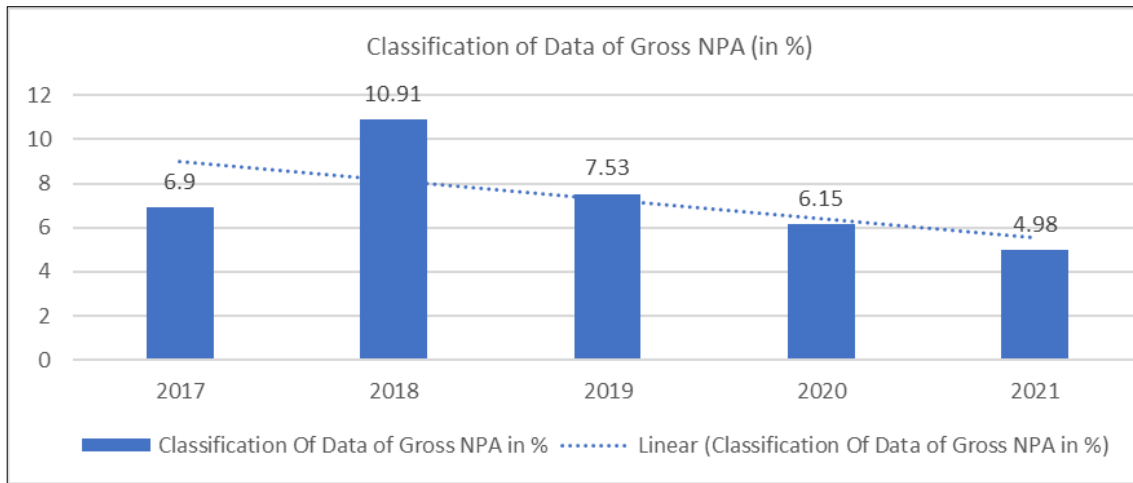
Chart 2: Classification of Data of Net NPA (in Crore Rs.)

Above table shows that Net NPA from the year 2017 to 2021 of SBI. The table represents that Net NPA for the bank has been maximum in year 2018 and it is just double from 2017. After then the Net NPA decreasing.

Table 3: Analysis of Gross NPA (in %)

Particulars	2017	2018	2019	2020	2021
Gross NPA %	6.90	10.91	7.53	6.15	4.98

Source: www.moneycontrol.com/financial/statebankofindia



Source: www.moneycontrol.com/financial/statebankofindia

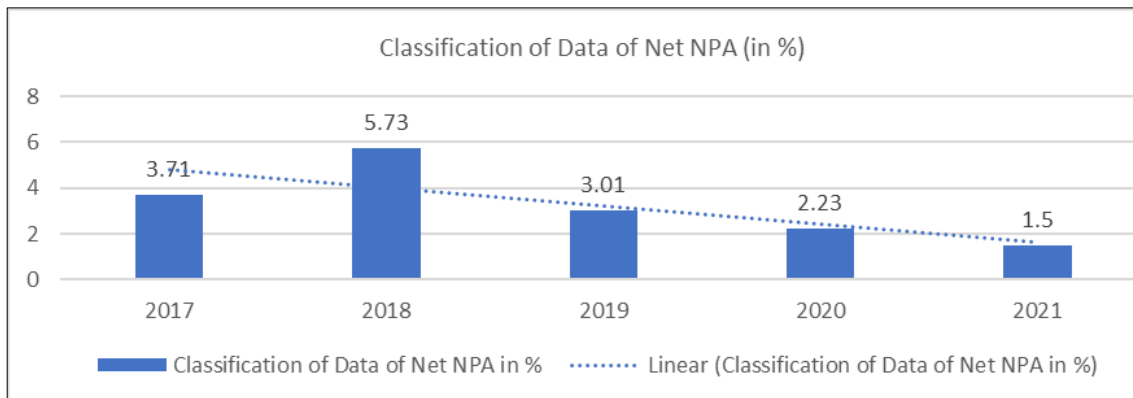
Chart 3: Classification of Data of Gross NPA (in %)

Above table shows that Gross NPA % from year 2017 to 2021 of SBI. It is shows that Gross NPA % is increased in 2018 and it is maximum 10.91%. After then it has decreased year by year. It decreased to 4.38% in year 2021. The trend line also shows that Gross NPA% decreasing.

Table 4: Analysis of Net NPA (in %)

Particulars	2017	2018	2019	2020	2021
Net NPA %	3.71	5.73	3.01	2.23	1.50

Source: www.moneycontrol.com/financial/statebankofindia



Source: www.moneycontrol.com/financial/statebankofindia

Chart 4: Classification of Data of Net NPA (in %)

Above table shows that Net NPA % from year 2017 to 2021 of SBI. It is shows that Net NPA % is increased in 2018 and it is maximum 5.73%. After then it has decreased year by year. It decreased to 1.5% in year 2021. The trend line also shows that gross NPA% decreasing.

Finding

1. Gross NPA and Net NPA is Maximum in year 2018 and then after decreasing in terms of rupees.
2. Gross NPA and Net NPA is Maximum in year 2018 and then after decreasing in terms of percentage.
3. It seen that securitization is very good which reflects in the NPA of SBI bank.

Conclusion

The analysis done above points towards the centrality of Non-Performing Assets in ensuring the stability SBI. Non-Performing Assets have an impact not only via capital erosion but also through reducing the net interest margin of bank ans impacting its profitability. SBI is in good condition in the case of Non-Performing Assets.

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