

A STRATEGIC STUDY OF NON PERFORMING ASSETS OF STATE BANK OF INDIA & ITS ASSOCIATES

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Abstract: Major share of banking business in India is hold by public sector banks. Public sector banks include all nationalized banks and SBI & its associates. Problem of Non Performing Assets is on its peak in banking system of India. Profitability of banks decreases due to high provisioning requirement in NPA account. State Bank of India is the oldest and largest bank of India in the context of branch network, credit extension and area of operation. Level of NPA has significantly increased in SBI & its associates in the recent past. An effort has been made in the present study to examine the movements of NPA variables in SBI & associates during the study period (2003-2016). Study concludes with various suggestions which may be helpful to moderate the burden of stressed assets from the loan portfolio of SBI & associates.

Key words: Non Performing Assets, SBI & its associates, banking system of India, NPA variables

I. INTRODUCTION

Banks primarily deals in lending activities in different sectors of the economy to mobilize savings into profit/revenue generating assets. Lending in priority sectors is to be done in order to fulfil the socio economic aims of the nation. Interest income is the greatest source of earning of a bank whether it may public sector bank or private bank. State Banks of India is not peculiar in this context as it is biggest bank of the nation and having largest branch network in India and abroad. SBI also called as nation's biggest lender since the biggest quantum of credit extended by SBI & associates in different sectors of the economy. Loan/advance is to be considered high risky assets of the banks because of probability of becoming stressed assets associated with it.

State bank of India have witnessed large amount of stressed asset in its loan portfolio in recent past due to various big loan defaults. It is the oldest bank belong to India having biggest branch network and largest number of function offices with in the country mentions in Table-I below. SBI & associates has biggest bank size in the country as a whole (Table-II). Some other growth statistics are also given in Table-III (Interest income and other income SBI & associates) and Table-IV (composition of NPA in different sectors of the economy).

Table-I Number of functioning offices of SBI & its Associates

Number of Functioning Offices of SBI & its Associates (2003-16)			
Years	Number of Functioning Offices	Years	Number of Functioning Offices
2003	13739	2010	18474
2004	13782	2011	19504
2005	13896	2012	20495
2006	14360	2013	21680
2007	14736	2014	23347
2008	15921	2015	24215
2009	17001	2016	24881

Source: Statistical tables relating to banks in India

The number of functioning offices of SBI and its associates has increased with 4.71 % Average Annual Growth Rate (AAGR) during the 2003-2016.

Table-II Total assets (Bank size) of SBI & its Associates

Total assets of SBI & its Associates (2003-16) amount in INR			
Years	Total assets in INR	Years	Total assets in INR
2003	4939530	2010	14122533
2004	5492570	2011	15976842
2005	6271171	2012	17712801
2006	6918469	2013	20656689
2007	8057952	2014	23184968

2008	10109586	2015	26066576
2009	12800554	2016	28625141

Source: Statistical tables relating to banks in India

Total Assets includes Cash (Cash in Hand, balances with RBI and other banks in India and outside India, Money at call and short notice), Investment (in shares, government and other approved securities in India and outside India), Advance (including sector wise advance and term loans), Fixed assets and other assets. Total assets of SBI & its associate's banks have increased with highest (19.75%) Compound Annual Growth Rate during 2003-2016.

Table-III Interest income and other income of SBI & its Associates

Interest income and other income of SBI & Its associates as on end of March (Amount in Rupees Million)			
Year	SBI & Associates		
	Interest Income	Other Income	Total
2003	408690	79980	488670
2004	409560	109350	518910
2005	440515	94801	535316
2006	493006	95259	588265
2007	534648	94203	628852
2008	704277	118177	822454
2009	891958	160727	1052684
2010	979537	183937	1163473
2011	1098281	192400	1290681
2012	1435552	178231	1613782
2013	1637657	197462	1835118
2014	1841722	227075	2068797
2015	2020862	276164	2297027
2016	2146587	337406	2483993

Source: Statistical tables relating to banks in India

Interest Income of SBI & associates (includes Interest earned on advance and bills, income from investments, balance with RBI and other interbank funds) increased with 13.97 % AAGR during the study period while other income has been increased by 12.73 % AAGR. During 2003-2016 the total income of SBI and associates has been increased by 13.62 % AAGR.

Table-IV composition of NPA of SBI and its associates in different sectors

Composition of NPA in Priority and Non Priority sector							
SBI & its Associates as on 31 March (Amount in Rupees Billion)							
Years	Priority Sector		Non Priority Sector		Public Sector		Total
	Amount	%	Amount	%	Amount	%	Amount
2003	81	47.49	84	49.44	5	3.1	170
2004	71	47.07	78	51.48	2	1.45	152
2005	62	41.84	84	56.9	2	1.26	148
2006	73	58.27	51	40.25	2	1.49	126
2007	72	56.57	53	41.49	2	1.93	127
2008	89	57.5	64	41.62	1	0.88	155
2009	84	45.7	99	53.35	2	0.95	185
2010	109	46.45	126	53.51	0	0.04	235
2011	156	51.22	148	48.78	0	0	304
2012	234	48.44	233	48.27	16	3.29	482
2013	264	42.12	361	57.55	2	0.33	628
2014	261	32.76	537	67.24	0	0	798

2015	257	34.93	478	65.07	0	0	735
2016	289	23.7	931	76.3	17	1.41	1220

Source: Statistical tables relating to banks in India

76.30 % of Total NPA of SBI & Associates comes from Non priority sector and 23.70 % from priority sector as on 31 March 2016. Despite having biggest branch network, huge earning through interest income and other incomes, largest total assets SBI & associates are suffering through huge amount of loan defaults. Level of Non Performing Assets in SBI has shown a steep rise in recent past.

II. LITERATURE REVIEW

Dr Mahesh U Daru (2016) observed that Indian banking system is struggling with challenges related to NPA. He examined that behind mounting NPAs there are Internal, External and other factors. Internal factors are diversion of funds, poor credit appraisal and lack of modern technology platform. External factors according to author are recession, exchange rate fluctuations and frequent changes in government policies. He also observed other factors like tuff competition and reduction of tariffs, sudden crashing of capital market and inability to raise adequate capital etc. author concluded that Banks should be equipped with latest credit risk management techniques to shelter the bank funds and reduce insolvency risks.

Banambar sahu (2015) observed that Lack of cohesive regulatory framework, Political pronouncements like debt relief and Socio-political pressures on commercial credit decisions are the key reasons for augmented level of NPA in banking industry particularly in PSU banks. Author also examined the root cause of NPA from the borrower side like improper choice of project/activity, Adoption of obsolete technology and inefficient management etc. author suggested that bankers should adopt the corrective measures proactively in credit management. Further he suggested 3 'R' measures Rectification, Restructuring and Recovery to cope up with the problem of bad loan.

Dr Sonia narula and monika (2014) analyzed in their study that decline of NPA is essential to improve profitability. Research was conducted to find out relationship between Net profit and NPA of Punjab national bank for the period 2007-2012. Study examined that mismanagement by bank lead to higher NPA. Authors concluded that there is positive relation between Net profit and NPA of PNB due to wrong selection of borrower.

Chidambaram.P (2013) suggests on the problem of NPA of top 30 accounts belongs to PSU banks with a loan more than one crore, there should be a proper set up of recovery force which may take care of written off accounts. He also observed that the level of NPA is not as worst as it was in year 2000 when Gross NPA of Indian banks was about 14 percent. He suggests that SBI and other PSU banks should go with setting up separate verticals for the recovery of written off accounts. Further, he said that existing level of Non Performing assets is a function of economic slowdown. Because of the lower growth rate in the economy level of NPA slowly started creeping up.

Dr. Rohit R. Manjule (2013) analyzed in his research that Non Performing Assets (NPA) is one of the major concerns for banking system around the globe and Indian Banking system is not an exception to this universal phenomenon. He concluded that it is right time to take suitable and stringent measures to get rid of this problem. A proficient management information system must be developed. Official and bank staff of loan department must be trained about the proper documentation, charge of securities before sanctioning the advance and they must be motivated to take measures in preventing advance turning into NPA and constant following up and monitoring of loans after disbursement.

K.C.Chakrabarty (2013) deputy governor RBI said that credit risk management was lagging behind among public sector banks. Narrating the steps taken by the Central Bank over the years to address the issue of NPAs, Dr. Chakrabarty said that whenever RBI tightened regulations and prudential norms are not to kill banks but to secure their future" The sad part is according to him that these banks on their own never tried to analyze the reasons for the surging NPAs, especially large borrowers. But when it comes to small borrowers they were stringent. Sluggish growth in the economy contributed high level of Non Performing assets in Indian banks. Bad loan problem of banks have grown with significant rate before the Gross Domestic Product has come down. The cause behind the problem is big loans given to industries. Retail borrowers and farmers are not the reasons behind mounting NPA. Banks needs to change their approach towards big borrowers in order to cope up with the bad loan problem. Early recognition of bad loan is the better way to manage the NPA account.

Sandeep and Parul Mital (2012) observed that level of NPA is more significant in the PSU banks while private banks are better in management of Non Performing Assets. Researchers attempted to make a comparative analysis among private and PSU banks with reference to NPA. Study emphasized that Private banks are more efficient in tackling the problem of bad loans. Research has been conducted on the secondary data of past ten years of PSU banks and private banks. Researchers suggested that there is a strong need to strengthen the credit appraisal system in Public sector banks.

Jayasree, M. and Radhika, R(2011) examined that level of NPA has been increased in new private sector banks and foreign banks during the study period 2005 to 2009. Study focused on sector wise comparison of lending in private and foreign banks during the study period. Authors found that NPA renders negative impact on the profitability of banks. Further, it was suggested in the study that banks must follow RBI guidelines and prudential norms.

Meenakshi Rajeev, H P Mahesh (2010) emphasized in their study that early recognition and proper monitoring may be helpful to reduce the level of NPAs in Indian banks. Study focuses on the banking sector reforms and its impact. Further, the study also examines the level of NPA in Indian banks. Study also focused on the NPA of Indian banks as compare to other nations. Researchers observed that NPA is the root cause of global financial distress and it is the major factor for financial crisis in the economy. Researchers also examined that the level of NPA in priority sector is higher than other sectors due to pressure of fulfilment of the socioeconomic objectives.

Jayakumar b S. and Subbaiah A (2009) stated in their study that banks should provide financial assistance to borrower on the basis of need of the borrower but not on estimation of the project. Further, they concluded that borrowers who were punctual and prompt in repayment of loan must be rewarded and acknowledged by the banks so that it will render positive impact on the other borrower and they get motivate to make repayment on time.

Kamal Das (2008) found in their research that last two decades there has been a crisis due to volume and growth of NPA that holds the prime resources resulting in severe strains on the normal resource allocation process essential for development. The author made a study on the factors associated with NPA. The study attributes to the macroeconomic factor such as increasing interest, economic slowdown, and currency devaluation. The observation of the study led to systematic framework with a clear objective, flexibility and adequate financial support was required to 43 resolve the distressed situation and for the strategy to succeed, adequate legal provisions.

Angadi, Ansuya and Kumar, Ashwin (2007) observed in their study that problem of NPA is associated with entire banking system but magnitude of the problem is more significant with Public sector banks in India. Study emphasized that despite making several efforts to recover NPA, the problem is not under control and the main reason behind the problem is inefficiency of government machinery and poor judiciary system of India. Legal system of the nation is not supportive and because of the same lenders is not able to cope up with the problem of NPA. Study also emphasized that banks must follow capital adequacy norms so that reduction in NPA may possible and it will improve the profitability of banks.

Banerjee and Dan (2006) analyzed in his study that Problem of NPA is very serious concern for the banking sector and it is requiring serious attention particularly in Public sector banks. Researcher found in the study that the reasons behind the swelling of the NPA are bailout packages were provided at irregular intervals. It shows the inefficiency of government machinery in tackling of the problem. Another reasons that researcher found was banks could not take proper decisions for allocation of borrowed funds and consequently could not succeeded in creation of assets as a result the economic development was feeble.

Datta Chaudhuri (2005) examined in their study that if banks are not able to maintain capital adequacy it will render negative impact on the shareholder value and consequently it will restrict bank's ability or the ability of the financial institution to attain more equity from the capital market to enhance the level of capital adequacy. Thus the problem of bad loan should be focused and resolution of the same should be done effectively and quickly. Poor asset quality negates the profitability of the banks and financial institutions on various fronts. It negatively affects the balance sheet of the banks. Banks should follow rigid steps to cope up with the problem of bad loans. Further, researcher concluded several measures to reduce the level of Non-Performing Assets.

III. OBJECTIVES

1. To study movements of Gross NPA in SBI during study period
2. To study movements of Net NPA in SBI during study period
3. To give suggestions to moderate the problem of NPA

IV. RESEARCH METHODOLOGY

Exploratory research design grounded on available secondary data belongs to RBI website and its timeline publications. Time period of total 14 years (2003-2016) have been taken into consideration as study period. Movements of NPA have been examined with average annual growth rate (AAGR) and appropriate bar diagrams and trend lines. Database of NPA of SBI & its associates have been collected through handbook of statistics on Indian economy, statistical tables relating to banks in India etc. For better understanding of the Movements of NPA of SBI & its associates, entire study period has been divided into two time frames: (1) 2003-2009, (2) 2010-2016. Gross and Net NPA has been examined separately during the study period.

V. ANALYSIS OF DATA

(I) Movement of GNPA of SBI and Associates:

Table V Movement of Gross NPA of SBI & Associates during 2003-2016

Movement of GNPA of SBI and Associates As on 31 March (Millions)					
Year	Gross NPA (Rs Millions)	AGR	Year	Gross NPA (Rs Millions)	AGR
2002-03	135215	-4	2009-10	235325	28
2003-04	147960	9	2010-11	303928	29
2004-05	156165	6	2011-12	482144	59
2005-06	125410	-20	2012-13	627785	30
2006-07	126769	1	2013-14	798169	27
2007-08	154780	22	2014-15	735085	-8
2008-09	184139	19	2015-16	1219686	66
Average Annual Growth Rate(2003-09)		5.50	Average Annual Growth Rate(2010-16)		38.5
AAGR (2003-2016) = 18.85 % per annum					

Source: Statistical tables relating to banks in India

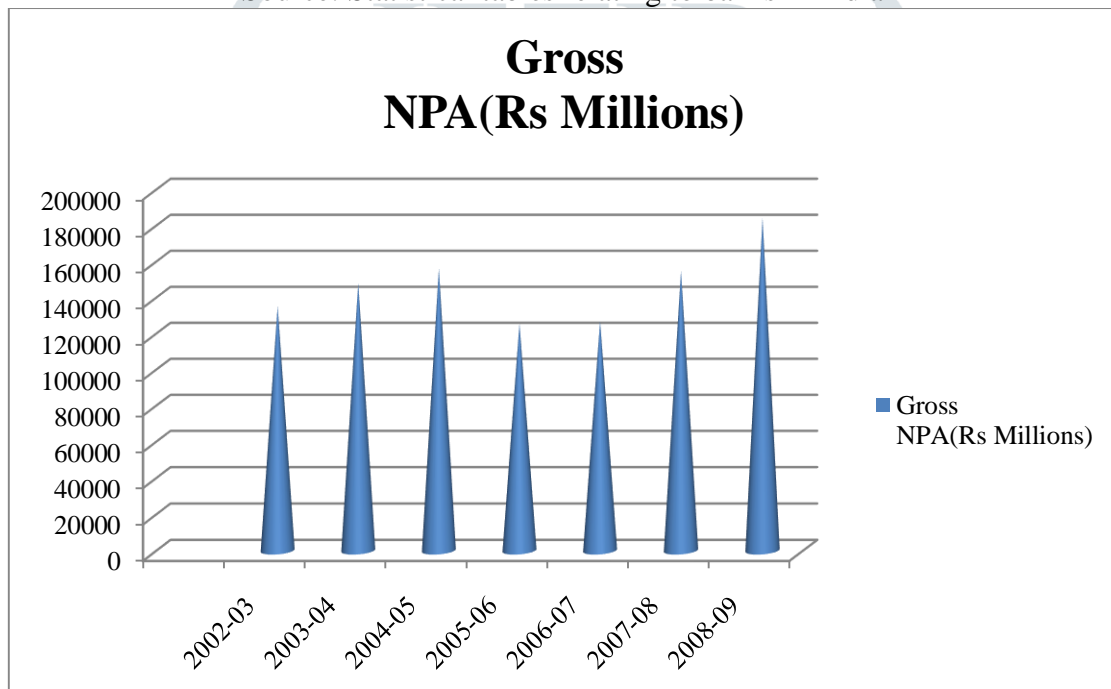


Figure: Movement of GNPA in SBI & Associates during 2003-2009

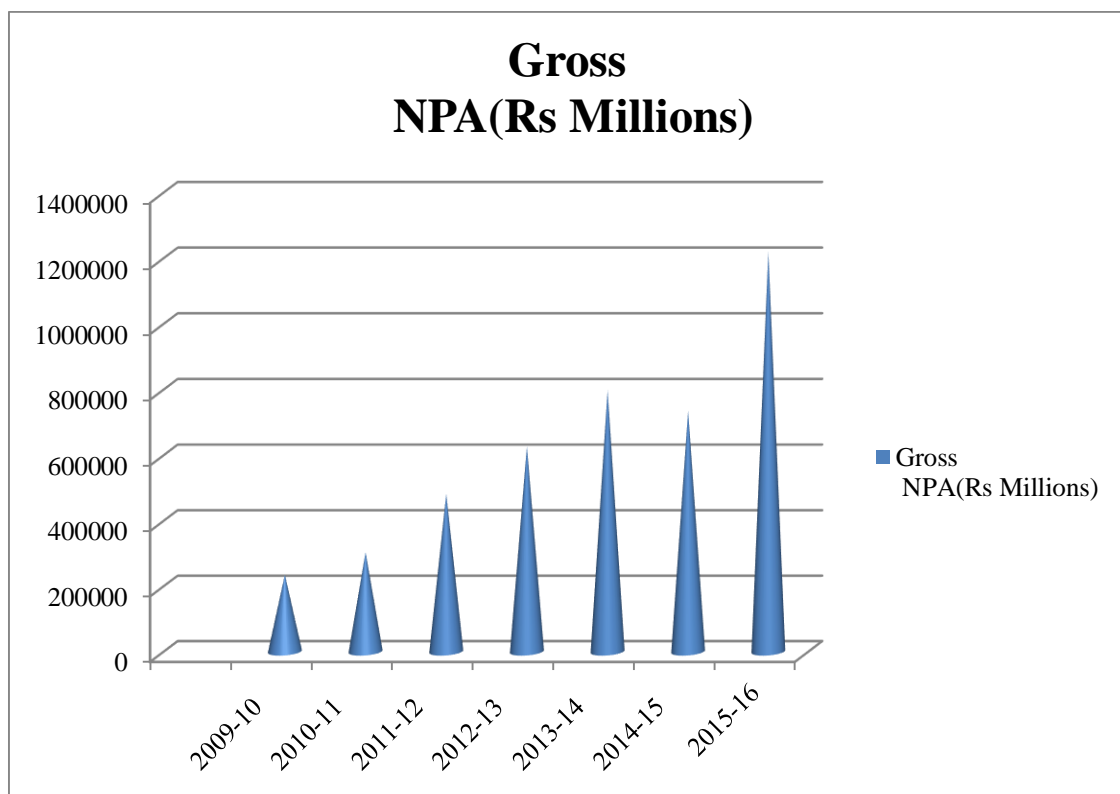


Figure: Movement of GNPA in SBI & Associates during 2010-2016

Analysis: Average annual growth rate of Gross NPA during the first half of the study period i.e. during 2003-2009 has remained 5.50 % while in the second half (2010-2016) the average annual growth rate remained 38.5 %. Significant rise has been observed in the level of Gross NPA during the second half of the study. During the entire study period the average annual growth rate has remained 18.85 %.

(II) Movement of Net NPA of SBI and Associates: Movement of Net NPA in SBI & Associates during the study period has shown in the below table.

Table VI Movement of Net NPA of SBI & Associates during 2003-2016

Movement of Net NPA of SBI and Associates As on 31 March (Millions)					
Year	Net NPA (Rs Millions)	AGR	Year	Net NPA (Rs Millions)	AGR
2002-03	62406	-11	2009-10	128303	18
2003-04	47150	-24	2010-11	147906	15
2004-05	63629	35	2011-12	202366	37
2005-06	60721	-5	2012-13	281007	39
2006-07	63593	5	2013-14	418151	49
2007-08	85089	34	2014-15	372777	-11
2008-09	108691	28	2015-16	688944	85
Average Annual Growth Rate(2003-09)		8.85	Average Annual Growth Rate(2010-16)		33.14
AAGR (2003-2016) = 21 % per annum					

Source: Statistical tables relating to banks in India

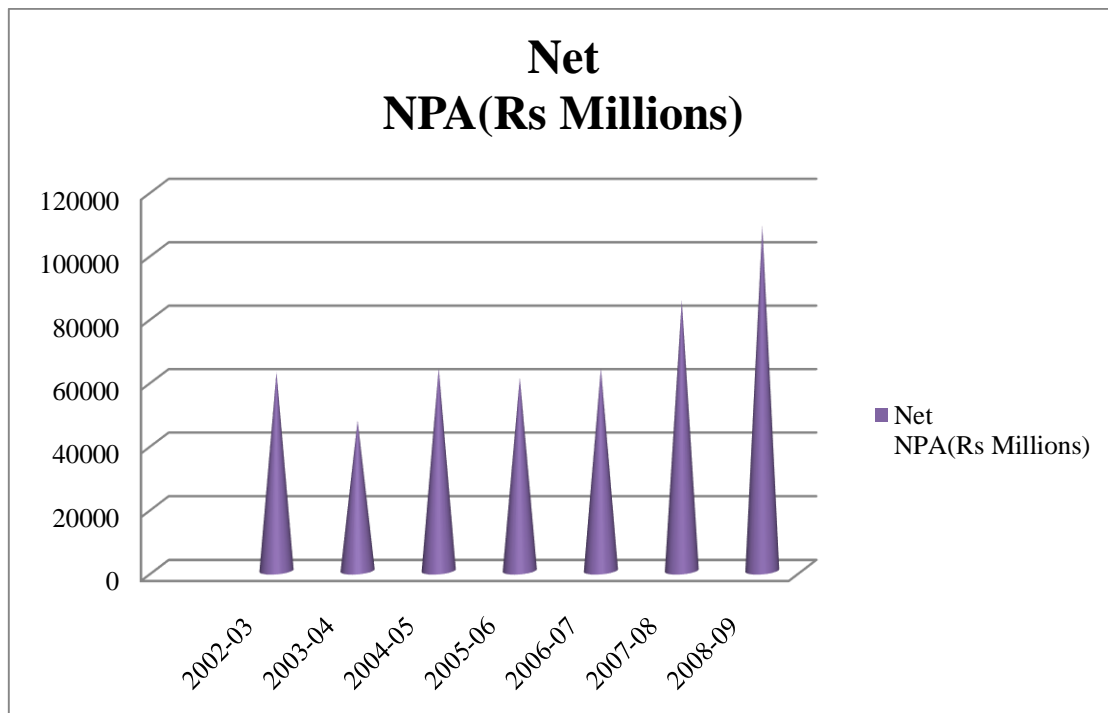


Figure: Movement of Net NPA in SBI & Associates during 2003-2009

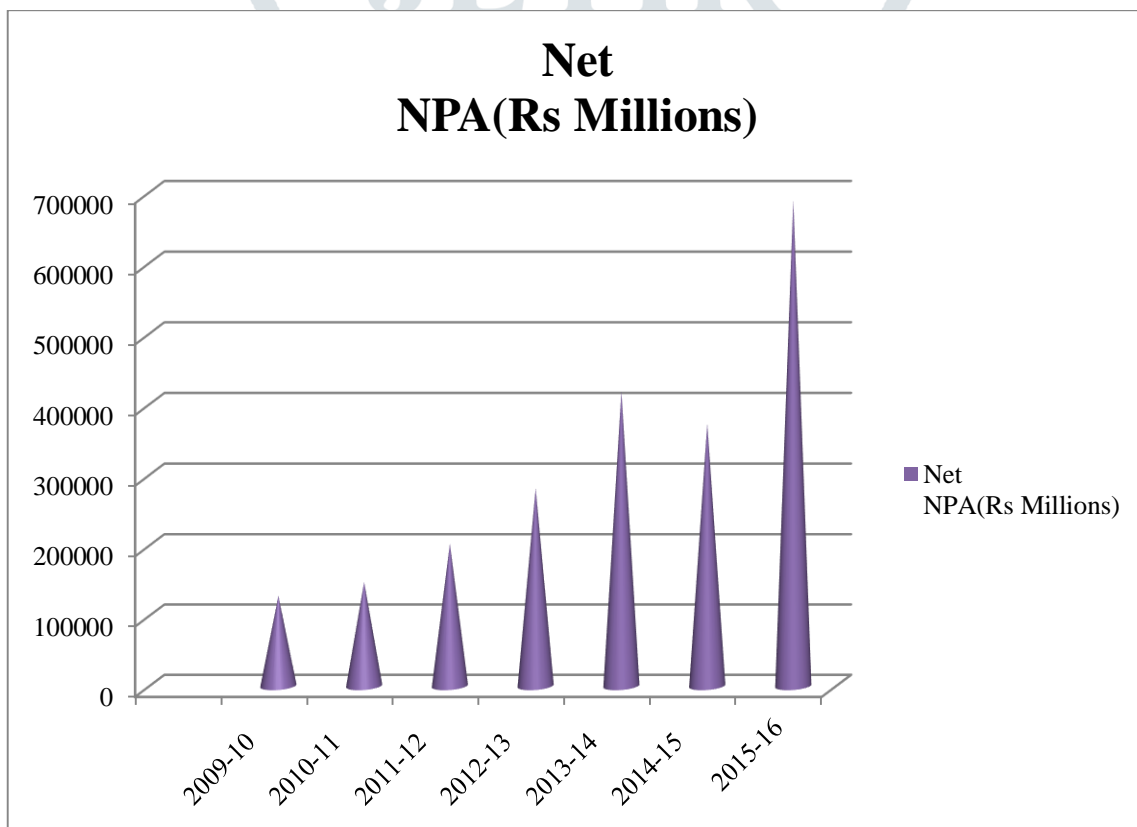


Figure: Movement of Net NPA in SBI & Associates during 2010-2016

Analysis: It has been observed that during the first half of the study (2003-2009) the average annual growth rate in the Net NPA remained 8.85 %, on the other hand during the second half (2010-2016) of the study period there is a steep rise in the average annual growth rate. The average annual growth rate of Net NPA during 2010-2016 has remained 33.14 %. It means during the second half of the study period the level of Net NPA has increased with a significant growth rate in SBI and its associates. For the entire study period (2003-2016), the average annual growth rate of Net NPA in SBI and Associates remained 21 %.

VI. FINDINGS

Initial years of the first half of the study period (2003-2009) has remained the witness of implementation of recommendations made by Narasimham committee on banking sector reforms (Phase-II). The major focus in the recommendations was on improving organizational effectiveness through following stricter prudential norms, greater emphasis on asset liability management etc. After the implementation of such recommendation a steep decline has been observed in the gross and net NPA of SBI & associates during the initial years of the study period. Further, after the introduction of securitization act in 2002 the recovery of NPA has got a new momentum and a steep downfall in the level of NPA started in SBI.

The major reason behind tremendous growth in NPA in the second half of the study period (2010-2016) is recessionary pressure, global economic meltdown in year 2008 and slower economic growth afterwards. Due to slower economic growth after global economic crisis most of the Projects/companies remained under stress and the borrowers could not make repayment of the loans/advance and because of the same level of NPA has significantly increased in the banking sector particularly in PSU Banks. Further, credit risk management practices were not that much effective in the second half (2010-2016) of the study period than they were in the first half of the study period (2003-2009).

The average annual growth rate of Gross NPA in the State bank & associates remained 5.50% and 38.50% during the first half and second half of the study period respectively. On the other hand the average annual growth rate in Net NPA remained 8.85 % and 33.14 % during the first half and second half of the study period respectively. During the entire study period (2003-2016) average annual growth rate of Gross NPA and Net NPA has remained 18.85% and 21.01% respectively in SBI & associates. Second half of the study period has remained the witness of significant rise in level of gross and net NPA in SBI & associate banks aggressive lending in non priority sector in the initial years of second half of the study period, poor credit appraisal system, inadequacy and inefficiency of staff to manage credit portfolio were the major reasons behind mounting NPA during the second half of the study period.

VII. SUGGESTIONS

- The study exhibited that the major cause behind NPA is wilful default. Due to wilful default, the borrower having potential to make repayment of loan do not repay the loan on time. The kind of problem can be administered by employing more human capital particularly in the credit department of the banks.
- Immense training must be provided to the officials and subordinating personals to deal such problem by facilitating close and frequent follow-ups to the borrower and accurate assessment of the execution of the project for which loan/advance taken. If project is not commissioned well or there is a need to rejuvenate the officials of banks must be enabling to take the right and prompt decision.
- Study revealed that Major portion of Non Performing Assets belongs to Non priority sector, aggressive lending in the recent past in non priority sector is the main reason behind it. Contribution of priority sector in Total NPA of PSBs is less than the Non priority sector. PSBs must focus on the improved credit appraisal mechanism particularly in non priority sector lending. Extension of credit must depend up on the credit worthiness of the borrower and viability of the project whether it may be priority sector or non priority sector.
- Public sector banks in India should follow a selective approach for the extension of credit particularly in Non priority sector. Loans/advance must be granted on the basis of the credit worthiness of the borrower instead of Name and fame of the borrower
- Credit management should be viewed as part of a co-ordination group efforts made by all departments involved with customers to minimize bad debts and maximize profit instead of leaving it in the hands of the credit risk management department
- Public Sector Banks needs to strengthen the existing credit appraisal system and they must emphasize to develop a cohesive lending policy framework with standard global practices of close pre-sanction approval and post sanction follow-ups along with effective use of information and communication technology.

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