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Management of Non Performing Assets: A Study of SBI Group

Abstract

Banks plays an important role in the economic development of a country. The sound financial position of a bank depends upon the recovery of loans or its level of Non-performing assets (NPAs). Reduced NPAs generally gives the impression that banks have strengthened their credit appraisal processes over the years and growth in NPAs involves the necessity of provisions, which bring down the overall profitability of banks. The Indian banking sector is facing a serious problem of NPA. The magnitude of NPA is comparatively higher in public sectors banks. To improve the efficiency and profitability of banks the NPA need to be reduced and controlled. In this paper, an effort has been made to evaluate the non-performance assets of the SBI since 2002, NPAs.

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Introduction

Indian banks functionally diverse and geographically widespread, have played a crucial role in the socio- economic progress of the country. Banks extend credit to different types of borrowers for many different purposes. For most customers, bank credit is the primary source of available debt financing. For banks good loans are the most profitable assets. Return comes in the form of loan interest, fee income and investment and the most prominent assumed risk is credit risk. Credit risk involves inability or unwillingness of customer or counterpart to meet commitments in relation to lending once a loan is overdue and ceases to yield income it would become a Non Performing Asset.

Proper management and speedy disposal of NPAs is one of the most critical tasks of banks today. The problem of Non Performing Assets [NPAs] in banks and financial institutions has been a matter of grave concern not only for the banks but also the real economy in general, as NPAs can choke further expansion of credit which would impede the economic growth of the country. Any bottleneck in the smooth flow of credit is bound to create adverse repercussions in the economy. NPAs are not therefore the concern of only lenders but also the public at large. Granting of credit for economic activities is the prime duty of banking. Apart from raising resources through fresh deposits, borrowings and recycling of funds received back from borrowers constitute a major part of funding credit dispensation activity. Lending is generally encouraged because it has the effect of funds being transferred from the system to productive purposes, which results into economic growth. However lending also carries a risk called credit risk, which arises from the failure of borrower. Non-recovery of loans along with interest forms a major hurdle in the process of credit cycle. Thus, these loan losses affect the bank's profitability on a large scale. Though complete elimination of such losses is not possible, but banks can always aim to keep the losses at a low level.

Non-performing Asset (NPA) has emerged since over a decade as an alarming threat to the banking industry in our country sending distressing signals on the sustainability and insurability of the affected banks. The positive results of the chain of measures affected under banking reforms by the Government of India and RBI in terms of the two Narasimhan Committee Reports in this contemporary period have been neutralized by the ill effects of this surging threat. Despite various correctional steps administered to solve and end this problem, concrete results are eluding. It is a sweeping and all pervasive virus confronted universally on banking and financial institutions. The severity of the problem is however acutely suffered by Nationalised Banks, followed by the SBI group, and the all India Financial Institutions.

What is NPA?

A nonperforming asset (*NPA*) refers to a classification for loans or advances that are in default or are in arrears on scheduled payments of principal or interest. In most cases, debt is classified as nonperforming when loan payments have not been made for a period of 90 days. In another words it can also be said that the banks are required to classify NPAs further into Substandard, Doubtful and Loss assets.

Categories of NPA

These are classified into the following categories:

Sub-Standard Assets

A sub-standard asset is one which has remained NPA for a period less than or equal to 18 months. In such cases, the current net worth of the borrower, or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full. Such assets will have well defined credit weakness that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the bank will sustain a loss.

Doubtful Assets

A Doubtful Asset which has remained NPA for a period exceeding 18 months. It has all the weaknesses inherent to a sub-standard asset with the added characteristic that the collection or liquidation in full – on the basis of currently known facts – is highly questionable and improbable.

Loss Assets

A loss asset is one where a loss has been identified by the bank or, internal or external auditors but the amount has not been written off wholly.

Guidelines for Classification of NPAs

Broadly speaking, classification should be done taking into account the degree of well defined credit weaknesses and the extent of dependence on collateral security for realization of dues. Banks should establish appropriate internal systems to eliminate the tendency to delay or postpone the identification of NPAs, especially in respect of high value accounts.

1. Accounts with temporary deficiencies: These should be classified based on the past recovery records.
2. Accounts regularize near about the balance sheet date: These accounts should be handled with care and without scope for subjectivity. Where the account indicates inherent weakness based on available data, it should be deemed as an NPA.
3. Asset classification should be borrower-wise and not facility-wise: If a single facility to a borrower is classified as NPA, others should also be classified the same way, as it is difficult to envisage only a solitary facility becoming a problem credit and not others.
4. Advances under consortium arrangements: Classification here should be based on the recovery record of the individual member banks.
5. Accounts where there is erosion in the value of the security: If there is a significant (i.e. the realizable value of the security is less than 50% of that assessed by the bank during acceptance) the account may be classified as NPA.

Review of Literature

For the present study, following literature has been reviewed:

Jain Vibha (2015) report says about the increase in NPA and the condition of NPA in private banks, as the public banks are denying to give excess loan to the defaulters. Gynedi Rasika (2014), study reveals the international scenario of NPA in India, the increasing trend of NPA in India and the present status of NPA in India. Siraj K.K. & Pillai, P.Sudarsanan (2014) focuses on the failure of banking regulation to reduce the problem of NPA in the economy. Similarly, Singh (2013) in his paper entitled recovery of NPAs in Indian commercial banks says that the origin of the problem of rapidly increasing NPA's lies in the system of credit risk management by the banks. Banks are required to have adequate preventive measures in fixing pre-sanctioning appraisal responsibility and an effective post-disbursement supervision. Banks should continuously monitor loans to identify accounts that have potential to become non-performing. Selvarajan & Vadivalagan (2013) in A Study on Management of Non -Performing Assets in Priority Sector reference to Indian Bank and Public Sector Banks (PSBs) find that the growth of Indian Bank's lending to Priority sector is more than that of the Public Sector Banks as a whole. Indian Bank has slippages in controlling of NPAs in the early years of the decade. Dr. Jayanta Ghosh(2010) defines the NPA and it`s classifications and also the remedial measures to prevent the growing NPA. Meenakshi Rajeev and H P Mahesh,(2010) study states the recommendations of Tandon Committee and also the Narashimham Committee, to control the NPA in banking system and to make a sound banking business in India.

Objectives of the Study

Following are the main objectives of the study:

1. To study the position of non - performing assets in SBI group
2. To know the impact on NPA on strategic banking variable
3. To know the reason for an asset becoming NPA

Hypothesis of the Study

Following are the main hypothesis of the study:

Ho: There is no satisfactory position of NPA in SBI

H1: There is a satisfactory position of NPA in SBI

Analysis and Interpretation

The analysis and interpretation of data is explained as follows:

Table: 1

Gross NPA of SBI

Years	Gross NPA (In Crores)	Index No. 2013-14 = 100
2013-14	51189.39	100.00
2014-15	61,605.35	120.35
2015-16	56,725.34	110.81
2016-17	98,172.80	191.78
2017-18	1,12,342.99	219.47

It is clear from the above table that the gross NPA of SBI was Rs. 511189.39 Crores in 2013-14 which fluctuated during the period of study, marked highest in 2017-18 at 112342.99 crores. Similarly, the index is also marked highest in 2017-18 at 219.47 forming a range of 119.47, which is highly skewed.

The volume of NPA was marked highest due to the poor policies of recovery or may be due to merger with the entire subsidiary.

Table : 2
Net NPA of SBI

Years	Net NPA (In Crores)	Index No. 2013-14 = 100
2013-14	21956.48	100.00
2014-15	31,096.07	141.63
2015-16	27,590.58	125.66
2016-17	55,807.02	254.17
2017-18	58,277.38	265.42

It is clear from the above table that the net NPA of SBI was Rs. 21956.48 Crores in 2013-14 which fluctuated in 2014-15 at Rs. 31096.07 during the period of study. After this year, the NPA was marked an increment trend and marked highest in 2017-18 at 112342.99 crores. Similarly, the index is also marked highest in 2017-18 at 265.42 forming a range of 165.42, which is highly skewed.

Table: 3
% of Gross NPA of SBI

Years	% of Gross NPA	Index No. 2013-14 = 100	% of Net NPA	Index No. 2013-14 = 100
2013-14	4.75	100.00	2.1	100.00
2014-15	4.95	104.21	2.57	122.38
2015-16	4.25	89.47	2.12	100.95
2016-17	6.5	136.84	3.81	181.43
2017-18	6.9	145.26	3.71	176.67

It is clear from the above table that the percentage of gross NPA of SBI was 7.75 in 2013-14 which increased to 4.95 in 2014-15 but, in 2015-16 it decreased to 4.25. It shows that the SBI's policy related to the recovery of NPA and loan sanctioned policies were good. After merger with its subsidiaries, the NPA was increased to 6.5 percent in 2016-17 and 6.90 in 2017-18. Similarly, the index also marked minimum at 89.47 and maximum at 145.26 forming a range of 55.79.

Table: 4
Chi-square Test

	Asymp. Sig.	df	Chi-Square
Gross NPA	1.000	4	0.000
Net NPA	1.000	4	0.000

Table: 5
Independent t Test

	Test Value = .5					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Gross.NPA	9.580	4	.001	4.97000	3.5296	6.4104
Net.NPA	6.274	4	.003	2.36200	1.3168	3.4072

It is clear from the above table that the p value of t test is 0.000 which shows that the null hypothesis is accepted. Hence, the SBI is using its proper recovery policies for recovery of NPA.

Conclusion

It can be concluded that the company is performing its good performance but the NPA of subsidiary companies was higher. For the recovery of these NPA the SBI needs to develop some effective recovery policies and launch some new loan sanctioned plans for less NPA in future.

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