A Comparative Study of Non-Performing Assets of SBI & Associates & Other Public Sector Banks

Bratati Gupta*

ABSTRACT

Non-performing assets are one of the major concerns for banks in India; Post liberalization the Indian banking system has undergone sea changes. NPAs reflect the performance of banks Increasing Non-performing Asset (NPA) at a alarming rate is a threat to the banking industry sending distressing signals on the sustainability of the affected banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and also erodes the value of the asset. The problem of NPAs is not only affecting the banks but also the economy as a whole. Several prudential and provisioning norms have been introduced, and these are pressurizing banks to improve efficiency and trim down NPAs to improve the financial health in the banking system. In this paper, an effort has been made to understanding the concept of NPAs, its magnitude and major causes for increasing NPA & to evaluate the operational performance of SBI & Associates & other Public Sector Banks. In other words this paper analyze how efficiently SBI & Associates & other Public sector banks have been managing NPA in India.

Keywords: NPA, Bank, Public Sector, SBI & Associates, Efficiency

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Introduction

Post liberalization Indian Banking Sector has undergone a sea change. Reserve Bank of India has nationalized good amount of Commercial Banks for providing socio economic service to the people of the nation. The Public sector banks have also shown very good performance as far as the financial operation is concerned. However none performing Asset had been the single cause of irritation of the banking sector in India. Especially the Public Sector Banks because increasing NPAs have a direct impact on banks profitability as legally banks are not allowed to book income on such accounts and at the sometime are forced to make provision on such assets as per the Reserve Bank of India (RBI) guidelines. Also, with increasing deposits made by the public in the banking system, the banking industry cannot afford defaults by borrower s since NPAs affects the repayment capacity of banks.

As per the RBI guideline “Non-performing Asset” (NPA) means an asset in respect of which:

a) Interest or principal (or installment thereof) is overdue for a period of 180 days or more from the date of acquisition or the due date as per contract between the borrower and the originator, whichever is later;

b) Interest or principal (or installment thereof) is overdue for a period of 180 days or more from the date fixed for receipt thereof in the plan formulated for realization of the assets referred to in paragraph 7(1)(6) herein;

c) Interest or principal (or installment thereof) is overdue on expiry of the planning period, where no plan is formulated for realization of the assets.

d) Any other receivable, if it is overdue for a period of 180 days or more in the books of the Securitization Company or Reconstruction Company.
Types of NPA:

Gross NPA is the amount outstanding in the borrower accounts in the books of the bank other than the interest which has been recorded & not debited to the borrower account.

Net NPA is the amount of gross NPA less

1. Interest debited to borrow and not recovered & not recognized as income & kept in insurance suspense
2. Amount of provision held in respect of NPAs &
3. Amount of claim received & not appropriated

Gross NPA Ratios reflects the quality of the loans made by banks

Gross NPA Ratio = GROSS NPA/ (GROSS ADVANCE)*100

Net NPA Ratio shows the actual burden of banks.

Net NPA Ratio = (GROSS NPA-PROVISON)/ (GROSS ADVANCE-PROVISION)

Reason for Rising NPA

The NPAs in Public Sector Banks are growing due to external as well as internal factors.

1.1 External factors
1.1.1 Willful Defaults
Group of borrowers although capable of paying but intentionally defaulted in making payment. They should be identified and proper measures should be taken to recover the money from them.

1.1.2 Natural Calamities
This is the measure factor, which is creating alarming rise in NPAs of the Public Sector Banks. Every now and then India is hit by major natural calamities thus making the borrowers unable to pay back there loans. Thus the bank has to make large amount of provisions in order to compensate those loans, hence end up the fiscal with a reduced profit.

1.1.3 Industrial sickness
Improper project handling, ineffective management, lack of adequate resources, lack of advance technology, day to day changing govt. Policies give birth to industrial sickness. Hence the banks that finance those industries ultimately end up with a low recovery of their loans reducing their profit and liquidity.

1.1.4 Lack of demand
Entrepreneurs in India could not foresee their product demand and starts production which ultimately leads to stock piling thus making them unable to pay back the money they borrow to operate these activities. The banks recover the amount by selling of their assets, which covers a minimum label. Thus the banks record the non-recovered part as NPAs and has to make provision for it.

1.1.5 Change on Govt. policies
With every new govt. banking sector gets new policies for its operation. Thus it has to cope with the changing principles and policies for the regulation of the rising of NPAs.

1.1.6 Recession
Due to, recession globally stock markets have tumbled, The Indian economy has been much affected due to sticky legal system, poor infrastructure facilities, high fiscal deficit, cutting of

Gupta

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exposures to emerging markets etc. Further, international rating agencies like, Standard & Poor have lowered India’s credit rating to sub-investment grade. Under such a situation, it goes without saying that banks are no exception and are bound to face the heat of a global downturn one would be surprised to know that the banks and financial institution in India hold non performing assets worth Rs. 110000 crores. Unless the level of NPA is reduced bank will struggle to survive.

1.1.7 Ineffective recovery tribunal
The Govt. has set of numbers of recovery tribunals, which works for recovery of loans and advances. Due to their negligence and ineffectiveness in their work the bank suffers the consequence of non-recover, thereby reducing their profitability and liquidity

1.2 Internal factors

1.2.1 Defective lending process
The banker should, therefore take utmost care in ensuring that the enterprise or business for which a loan is sought is a sound one and the borrower is capable of carrying it out successfully True picture of business will be revealed on analyzing all the financial statement of the company.

1.2.2 Inappropriate technology
Due to inappropriate technology and management information system, market driven decisions on real time basis cannot be taken. Proper MIS and financial accounting system is not implemented in the banks, which leads to poor credit collection, thus NPA.

1.2.3 Analyzing Borrowers Profile
Banks should consider the borrowers own capital investment. It should collect credit information of the borrowers from

   a) From bankers.

   b) Enquiry from market/segment of trade, industry, business.

   c) From external credit rating agencies.
1.2.4 Project feasibility study
Before sanctioning any loan the bankers should study the viability of the project i.e. they should analyze whether the project undertaken by the borrower is feasible or not.

1.2.5 Poor credit appraisal system
Poor credit appraisal is another factor for the rise in NPAs. Due to this the bank gives advances to those who are not able to repay it back. They should use good credit appraisal to decrease the NPAs.

1.2.6 Managerial deficiencies
The banker should always select the borrower very carefully and should take tangible assets as security to safeguard its interests.

1.2.7 Absence of regular industrial visit
The irregularities in spot visit also increases the NPAs. The NPAs due to willful defaulters can be collected by regular visits.

2 Impact of NPA on Banking Industry

Like any other Industry risk is inherent in banking. Credit risk (i.e., the borrower’s inability or unwillingness to repay the loan) is the principal risk faced by the all commercial banks NPA creates three major problems before any bank- As the bank has to make provision against NPA, so their profit is reduced. & also the interest income

As NPA does not generate any Income. So as an overall result the capacity of the bank to make fresh loans also reduced. It also creates mismatch of assets & liabilities of the banks. Huge accumulation of NPA in banks leads to heavy expenditure to maintain such poor quality of assets in their books.

3 NPA Management

The RBI has introduced internal checks and control scheme; to reduce the level of NPA s they also appointed relationship managers who have complete knowledge of the borrowers, credit

Gupta

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rating system, and early warning system and so on. It also tried to improve the securitization Act and SRFAESI Act and other acts related to the pattern of the borrowings such as CDR mechanism. One time settlement schemes, enacted of SRFAESI ACT etc

Although RBI has taken number of measures the results is not up to the expectations. To improve NPAs each bank should be motivated to introduce their own preventive steps. Before lending the banks must evaluate the feasible financial and operational prospective results of the borrowing companies. The nature of business the overall impacts of all the factors that influence the business.

4 Objective of the study

Find out trends in NPA Level.

- Analyse the NPAs position in Public Sector Banks
- Assess the comparative position of NPA in State Bank of India & Associates & other Public sector banks
- Assess the variation of NPA ratio in SBI & Associates & other Public Sector Banks.

5 Research methodology

For the study, secondary data has been collected using annual report of “Reserve Bank of India” publication including “Trend & Progress of banking in India”, statistical tables related to banks in India and report on currency and finance. Major guidelines issued by RBI from time to time were studied in depth, Articles and papers relating to NPA published in different business journals, magazines, newspaper, periodicals were studied and data available on internet and other sources has also been used.

In the present study, various statistical tools ratio, Averages, percentages, ratio analysis, Measure of central tendency, frequency distribution, Standard Deviations, coefficient of variation and ANOVA test have been used to analyze and interpret the data.
In the light of the above-mentioned objective, the present study is confirmed to examine the various aspects of NPAs in SBI & Associates & other Public sector banks. The study covers the period from 2007-2011.

6 Limitation of the study

The study is restricted to public sector banks & the period of study is limited to 5 years from 2007-2011. Further the analysis is constrained by the quality of data, changing definition & composition as regard to Gross NPA & Net NPA & is concerned.

7 Research question

Q.1) Is there any significant difference in Gross NPA to Gross Advance Ratio of SBI & Associates, with the NPA of other Nationalized Banks?

2) Is there any significant difference in Net NPAs to Net Advances ratio of SBI & Associates, with the NPA of other Nationalized Banks?

8 Hypothesis

Ho: There is no significant difference in Gross NPAs to Gross Advances ratio of SBI & Associates and of other Public Sector Banks?

H1: There is significant difference in Gross NPAs to Gross Advances ratio of SBI & Associates & &Associates and of other Public Sector Banks

Ho: There is no significant difference in Net NPAs to Net Advances ratio of SBI

H1: There is no significant difference in Net NPAs to Net Advances ratio of SBI & Associates, with the NPA of other Public Sector Banks?

Gupta

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9 Analysis

9.1 Gross NPA ratio (in %): (Position of Gross NPA to Gross Advances)

From table 1 we can see that there has been marginal decrease in NPAs level of SBI & Associates till 2009, Gross NPAs to Gross Advances ratio of SBI decreased from 2.59 percent at the end of March 2007 to 1.67 percent at the end of March 2009. In Case of other PSB this ratio decreased from 2.69 percent at the end of March 2007 to 1.97 percent at the end of March 2011. But in case of SBI & Associates Gross NPAs to Gross Advances ratio increased to 3.12 percent at the end of 2011.

To ascertain the significance difference between NPA ratios of SBI & Associates & other Public Sector Banks ANOVA test by formulating null hypothesis (Ho) is attempted.

From table 1(a) we can find that the bank group wise mean of GNPA ratio of SBI & Associates is having the higher value of 2.56 than other PSB which is having a value of 2.09 similarly the Standard Deviation of SBI & Associates is .54 which is much higher than the other PSB. Where as the COV of PSB is higher 21.2 in compare to the SBI & associates which is having a COV value of 16.9.

It is observed from above table 1(b) that the calculated value is less than the table value resulting in accepting of null hypothesis meaning thereby there is no significant difference in GNPAs to Gross Advances ratio of SBI & Associates & other public sector banks.

9.2 Net NPA ratio (in %): (Position of Net NPA to Net Advances)

It is observed from table 2 that there has been marginal reduction in Net NPAs ratio of all PSB banks over the considered period. Net NPAs to Net Advances ratio of PSB reduced from .94 percent at the end of March 2007 to .91 percent at the end of March 2011. In Case of SBI & Associates...
Associates this ratio increased from 1.17 percent at the end of March 2007 to 1.49 percent at the end of March 2011.

**Table: 2(a)** shows that bank group wise mean, standard deviation & coefficient of variation of NNPAs ratio of SBI & Associates & other PSB. It has highest mean value while PSB has lower value in comparison to other.

Standard deviation of Net NPAs to Net Advances Ratio is 11.758 of PSB with highest coefficient of variation with 14.8% While SBI & Associates. Has less Standard Deviation & coefficient of variation.ie.1611& 11.75 respectively.

It is observed from above **table 2(b)** that the calculated value is less than the table value resulting in accepting of null hypothesis meaning thereby there is no significant difference in NNPAs to Net Advances ratio of SBI & Associates & other public sector banks.

**10 Conclusion**
The industry is currently in a transition phase. Containing NPAs has been in focus ever since the banking sector reforms were initiated in 1992. All banks have been making efforts to contain the NPAs level and reduce the drag on their profitability. Even as individual banks devised various policies for containment of NPAs, the magnitude of the problem of slippage of performing assets to NPAs category has become a cause of permanent concern. On the one hand, the PSBs, which are the main pillar of the Indian Banking system, are in trouble with excessive manpower, excessive NPAs and excessive governmental equity, while on the other hand the private sector banks are consolidating themselves through adoption of latest technology and system.

Because NPA is one kind of obstacle in the success of bank and affects the performance of banks negatively so, for that the management of NPA in bank is necessary. And this management can be done by following way:

**11 NPA - Recommendations**

Although RBI has introduced number of measures to reduce the problem of increasing NPAS.
Each bank should have its own independence credit rating agency which should evaluate the financial capacity of the borrower before than credit facility

An effective committee can be formed for management of NPA comprising of financial experts who had wide knowledge in this field.

Banks can appoint professionals to identify the genuine borrowers & can analyze their profile NPA can be considered as a crucial rating factor for any bank; it should continuously monitor the borrowers A/C to prevent NPA.

The credit rating agencies should regularly evaluate the financial condition of the clients.

Special accounts should be made of the clients where monthly loan concentration report should be made.

It is also wise for the banks to carry out special investigation audit of all financial and business truncations and books account of the borrower company when there is possibility of the diversion on the funds and mismanagement.

Bank should evaluate the SWOT analysis of the borrower companies.ie how they would face the environmental threats and opportunities with the use of their strength and weakness, and what will be their possible future growth in concerned to financial and operation performance.

There should be proper monitoring of the restructuring accounts because there is every possibility of the loan slipping into NPAs category again.

Proper training is important to the staff of the banks at the appropriate level either ongoing process. That hoe they should deal the problem of NPAs and what continues steps should take to reduce the NPAs.

Willful default of bank loans should be made a criminal offence. No loan is to be given to a group whose one or the other undertaking became a defaulter.

There should be proper monitoring of the restructured accounts because there is every possibility of the loans slipping into NPAs category again.

Independent settlement procedure should be more strict and faster and the decision made by the settlement committee should be binding both borrowers and lenders and any one
of them failing to follow the decision of the settlement committee should be punished severely

**Tables and Figures for Discussions:**

Table-1 Gross NPA to Gross Advance Ratio-(%)

<table>
<thead>
<tr>
<th>Year</th>
<th>SBI &amp; Associates</th>
<th>Other PSB</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>2.59</td>
<td>2.69</td>
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<td>2008</td>
<td>2.58</td>
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<td>2009</td>
<td>1.67</td>
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<td>2010</td>
<td>2.82</td>
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<tr>
<td>2011</td>
<td>3.12</td>
<td>1.97</td>
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**Source:** Reports on Trend & Progress of Banking in India

Table-1(a) Analysis of Mean, Standard Deviation & Coefficient of Variation

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<tr>
<th>Mean</th>
<th>SD</th>
<th>COV</th>
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</thead>
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<tr>
<td>2.56</td>
<td>0.54</td>
<td>16.9</td>
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<tr>
<td>2.09</td>
<td>0.35</td>
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</table>

**Source:** calculated on the basis of data in Table 1.

Table-1(b) ANOVA Table

Anova: SinglFactor(GNPA)

**SUMMARY**
Groups | Count | Sum | Average | Variance
---|---|---|---|---
Column 1 | 2 | 4.65 | 2.325 | 0.11045
Column 2 | 2 | 0.89 | 0.445 | 0.01805
Column 3 | 2 | 38.1 | 19.05 | 9.245

ANOVA

<table>
<thead>
<tr>
<th>Source of Variation</th>
<th>SS</th>
<th>df</th>
<th>MS</th>
<th>F</th>
<th>P-value</th>
<th>F crit</th>
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<td>Within Groups</td>
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*Source:* calculated on the basis of data in Table 1.

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<th>YEAR</th>
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<td>2007</td>
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<td>2011</td>
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**Source:** Reports on Trend & Progress of Banking in India

Table-2(a) Analysis of Mean, Standard Deviation & Coefficient of Variation

| Source: calculated on the basis of data in Table 2 |

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<td>1.37</td>
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<td>0.83</td>
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Table-2(b)ANOVA Table-

Anova: Single Factor(NNPA)

**SUMMARY**

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ANOVA

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**Source:** calculated on the basis of data in Table 2.

**References:**


