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## Descriptive Analysis Of Trend Of Non-Performing Assets Of SBI And The Reasons For Its Decrease In The Recent Times.

P. Vishal Mudaliar

PhD scholar, NET Qualified

Martin Luther Christian University, shillong

### Abstract:

The development and well being of banks in an economy is very crucial. Banks are the main suppliers of money and credit to the individuals, businesses, industries etc. The central bank of any country is responsible for credit control and proper flow of currency in the country but they are able to implement most of their policies through the banking channels. Banks are responsible for advancing loans for various developmental works in different sectors of the economy. Banks are the backbone of any country and their proper functioning reflects in the sound health of the economy. But banks have been facing the problem of stressed assets, more specifically, the Non-Performing Assets (NPAs). According to Economic Times, in the financial year 2019, globally India ranked 5<sup>th</sup> in case of countries having the highest NPAs. In the past, there were various committees formed in order to tackle the range of problems faced by banks such as p. Selvam committee, Khanna committee, James Raj Committee etc. Due to the collective efforts of RBI and other agencies, in the recent years, banks have been able to reduce the growing NPAs to a substantial level. This paper focusses on the performance of State Bank of India (SBI), a major public sector bank of the country, in dealing with the NPAs. In this paper, an effort has been made to analyse the size of NPA, reasons and the different ways banks and Reserve Bank Of India (RBI) are working on, to reduce NPAs.

**Keywords:** SBI, RBI, NPA, SMA, Gross NPA, Net NPA, Net Profit, Write-offs

### Introduction:

The smooth functioning of the banking sector ensures a good and a healthy economy. Indian banking sector have been facing the problem of NPA since a long time. It is detrimental to the prospects of a better future, as the vicious circle of bad loans will always grip the banks and will keep it from proper functioning. Bearing this in mind, RBI along with different banks has brought forward various measures to deal with and tackle the problem of NPA. Hence, NPAs have shown a constant decline since the last few years. This has also positively impacted the profitability of the banks.

### Concept of Non-Performing Assets (NPA):

From the year 2014, according to RBI guidelines, Classification of special mention accounts was introduced for early identification of accounts that are potential to become NPA. If some account shows signs of sickness /irregularities in payments of interest/principal then those accounts are classified as Special Mention Accounts.

The Special Mention Accounts are categorized in terms of duration. They are:

SMA - NF : Those accounts that shows signs of sickness.

SMA - 0 : Those accounts that has overdue period between 1 to 30 days.

SMA - 1 : Those accounts that have overdue period between 31 to 60 days.

SMA - 2 : Those accounts that have overdue period between 61 to 90 days.

After the period of 90 days those Accounts will be categorized as NPAs.

NPA: An Asset becomes NPA, when it ceases to generate income for the bank, since the last 90 days.

NPA is the loan on which :-

1. Interest/ instalment remains overdue for a period of more than 90 days in respect of term loans.
2. Account remains ' out of order ' in respect of overdraft/ cash credit.
3. Bills remains overdue for a period of more than 90 days in case of bills purchased and discounted.

#### **Categories of NPA.**

Sub-standard Assets: For less than or equal to 12 months.

Doubtful Assets: For more than 12 months.

Loss Assets: where loss if identified by bank's internal/external auditor or RBI's notification.

#### **Adverse effect suffered by Banks due to NPA.**

1. Diminished profitability
2. Shrinking share prices of banks.
3. Increasing NPA causes banks to fear advancing fresh loans for projects. This makes genuinely good projects suffer due to lack of finance.
4. Banks are spending more effort, time and money for recovery of earlier loans, thus cannot focus on other important areas.
5. Banks declare assets as NPA after a considerable passage of time, so legal proceeding also takes long to start.

#### **Reasons/ Causes of NPA.**

1. Economic Crisis.
2. Banks lending without much knowledge about a corporation's/individual's credit worthiness.
3. Norms for lending are lenient.
4. Loans applied for reasons otherwise mentioned in the bank
5. Loans given to vested interest groups.
6. Advancing loans for projects with doubtful prospects.
7. Lack of sufficient means to gather information regarding credit worthiness of corporations/individuals.
8. Ineffective methods of recovery
9. Long time taken by bank to declare an assets as NPA.
10. Willful default.

11. Public sector banks have certain obligations towards the rural sector and the marginalized.

### **Remedies/ measures taken by RBI and banks to tackle NPA.**

1. Loan restructuring options was made available to the recipient of loans having problems with repaying loans can have their loans restructured.
2. Moratorium facilities were provided during the time of COVID-19 Pandemic.
3. Strict adherence with the timeline was decided according to the resolution plan.
4. Lenders were given certain incentives for agreeing to resolution plan.
5. Proper cooperation and better incentives was given to Factoring and Asset reconstruction Companies.
6. RBI has sought possibilities of Securitization of stressed assets, so that the potential bad loans can be sold to a third party.

### **Objectives:**

- To examine the current state of SBI with regards to NPA.
- To examine the possible reasons for the decline in NPA of SBI in the last few years.
- To suggest methods that might be helpful in dealing with NPA in the future years.

### **Literature Review:**

Sanjiv Bhootra (2021). Non-Performing Asset Management: A comparative study of SBI and HDFC Bank. Here the researcher focuses on the fact that Non performing assets poses a big challenge to both the banks and its affecting its liquidity balances in a negative way. It is increasing their bad debts and also decreasing their profitability. The researcher points out that SBIs NPA is much larger as compared to HDFC and also that SBI's profit is not consistent. He also analyses that HDFC's NPA is decreasing consistently since the year 2013-14 and has managed NPAs better than SBI.

Varuna Agarwala, Nidhi Agarwala (2019) A Critical review of non-performing assets in the Indian banking industry. Here the researchers are studying the different bank's performance from 2010 to 2017 and the contribution of different banks individually to the NPA in the industry. The researchers found that the private sector banks are able to manage the NPA better as compared to the public sector banks, hence, have NPAs that are much larger.

Rajiv Ranjan, Sarat chandra Dhal (2003) Non-Performing Loans and terms of credit of Public sector Banks in India: An empirical Assessment. Here the researchers are studying the effect of three major factors i.e. terms of credit, bank size induced risk preference and macroeconomic shocks. The study found out that the terms of credit had more influence on the bad loans of banks as compared to banks size induced risk preference and macroeconomic shocks.

J. K. Das, Surojit Dey (Non Performing Assets of Public and Private sector Banks in India: An Empirical Study. Here in this paper the researchers have attempted to find out the NPA generated by priority sector as well as the one's generated by Non-priority sector and it also investigates the relationship of bad loans with various economic parameters. It further makes an attempt to find out the relationship between the corporate debt restructuring and NPAs. It was later found out that the NPA generated by the non-priority sector is lower as compared to the priority sector. Corporate debt restructuring was found to increase rapidly from 2013 in the banking sector and that the non-priority sector NPA increased to new heights due to which the banks had to make huge provisions.

Satish Kumar (2022) Banking reforms and non performing Assets emerging strategies issues and challenges. Here according to the findings of the researcher, one of the major causes of NPA is the poor control over banks as well as the procedure for debt recovery and legal procedure is very long and time consuming. He also stresses on the use of technology and new as well as innovative techniques for debt collection to be used. He further goes on to state the need to give heed to the recommendations of various commissions formed for banking reforms.

Barhdan, samaresh (2008) Some problems related to the measurement and regulation of non-performing assets of banks with special reference to India. Here the researchers analyses the actual behaviour of actual NPA ratio and tolerable NPA ratio. They also look into the problem of wilful default and its implication on the profitability and lending behaviour of the bank.

Sudin Bag, Sajjilul Islam (2017) Non-Performing Assets a Biggest challenge in banking sector- A comparative study between India and Bangladesh banking sector. Here the researcher have analyzed that the problem of NPA is rising both in the public sector banks of India as well as Bangladesh. In comparison to the public sector banks the private banks are in a much better position with regards to NPA, as they have been able to handle the NPA problem in a better way. They pointed out that the banks profitability increased if the NPAs of bank goes down. In the end they suggested that the in both the countries, focus of the banks should be on the nature of clients rather than efforts to maximize profitability.

Dr. Jayaprasad.D. (2018). A study on Non Performing Assets Management of Rural Banks with Special Reference to Kaveri Gareema Bank. Here the researcher is making an effort to review the Non-Performing Assets of Regional Rural Banks after merger/Amalgamation. It is observed that, that Regional Rural banks mostly extend credit to the Govt. Sponsored projects at a subsidised and cheaper rate of interest. It was also noticed that the Regional Rural banks are only looking after the needs of the poor but is not able to attract the much needed funds from the rich, so had low scope of investment. It was further observed that that the bank suffered from inadequate finance and poor recovery of bad loans.

S. Gautami, Dr. K. Tirumalaiah, V.Satish Kumar, (2015). Factors Influencing Non Performing Assets in Commercial Banks: An Emperical Study. Here the researchers study the opinions of bank officials and borrowers with regards to the unwillingness to pay back the loan. It was found out that 78.53% borrowers agreed that the main reason for non performing asset is the unwillingness to pay the loan. 92.02% of the respondents agreed that the main reason for default are various domestic problems such as divorce, death, marriage, hospital expenses etc. It was further found out that the absence of sharing of credit information among finacial institution was also another major cause of bad loans as the banks often advance loans to parties whose credit-worthiness is questionable. It was also noticed that incase of politicians the chances of default was more and also the lack of proper initiative on the part of bank officials, to recover the loan was another major cause of bad loans.

Sujeesh Kumar S. (2013). Total Factor Productivity of Indian Banking Sector - Impact Of Information Technology. Here the researcher is studying the impact of Information Technology on the Indian banking sector using multiple regression model. There was 28% technological progress during the period 2008-10, which led to banking sector's average annual productivity growth rate of 11%. Furthermore, it was noticed that increase in productivity was also due to the use of electronic means in transaction.

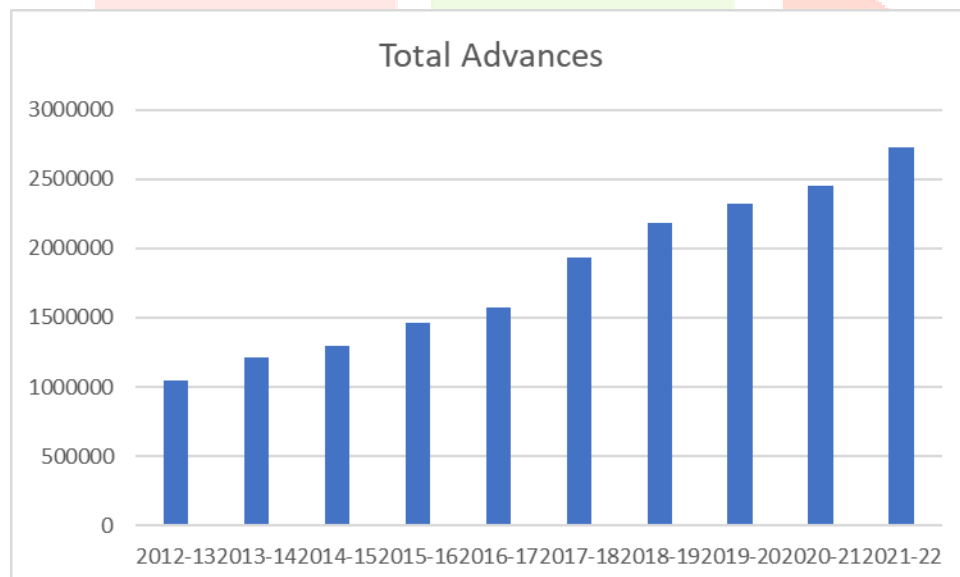
### **Research Methodology:**

All data used in this descriptive analysis is secondary data and is taken from previously published financial statements of SBI for the years 2012-13 to 2021-22 and also from different web sources . The data has been analyzed using statistical methods including regression analysis. Table is used to present the extracted data and Microsoft Excel charts have been used for graphical visualization of data and also to analysis and interpret the data.

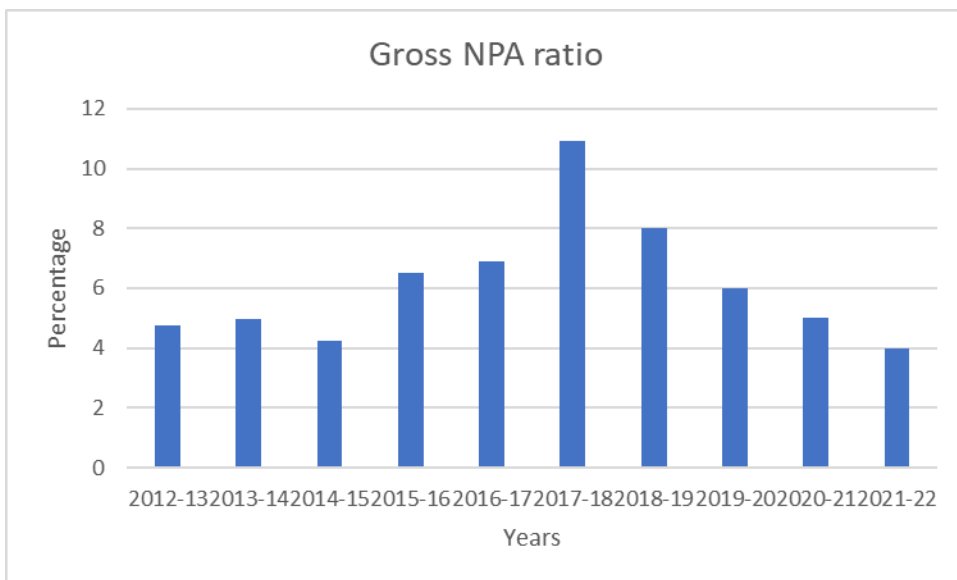
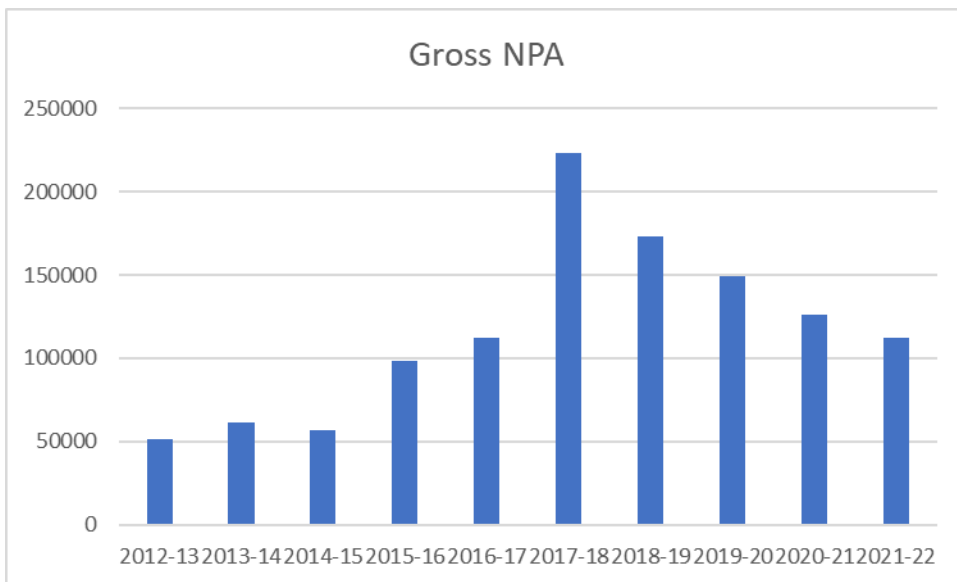
**Data Analysis and Interpretation****Table: 1****Years, Total Advances, Gross NPA, Gross NPA Ratio, Net NPA, Net NPA Ratio Net Profits**

FINANCIAL YEARS	Total Advances (Crores)	Gross NPA (Crores)	Gross NPA ratio	Net NPA (Crores)	Net NPA Ratio	Net Profit (Crores)
2012-13	1045617	51189	4.75	21956	2.1	14105
2013-14	1209829	61605	4.95	31096	2.57	10891
2014-15	1300026	56725	4.25	27591	2.12	13102
2015-16	1463700	98173	6.5	55807	3.81	9951
2016-17	1571078	112343	6.9	58277	3.71	10484
2017-18	1934880	223427.46	10.91	110854.7	5.73	-6547
2018-19	2185877	172753.6	8	658947.4	3.01	862.23
2019-20	2325290	149091.85	6	51871.3	2.23	14488.11
2020-21	2449497.79	126389	5	36809.72	1.5	20410.47
2021-22	2733966.59	112023	4	27965.71	1.02	31675.98

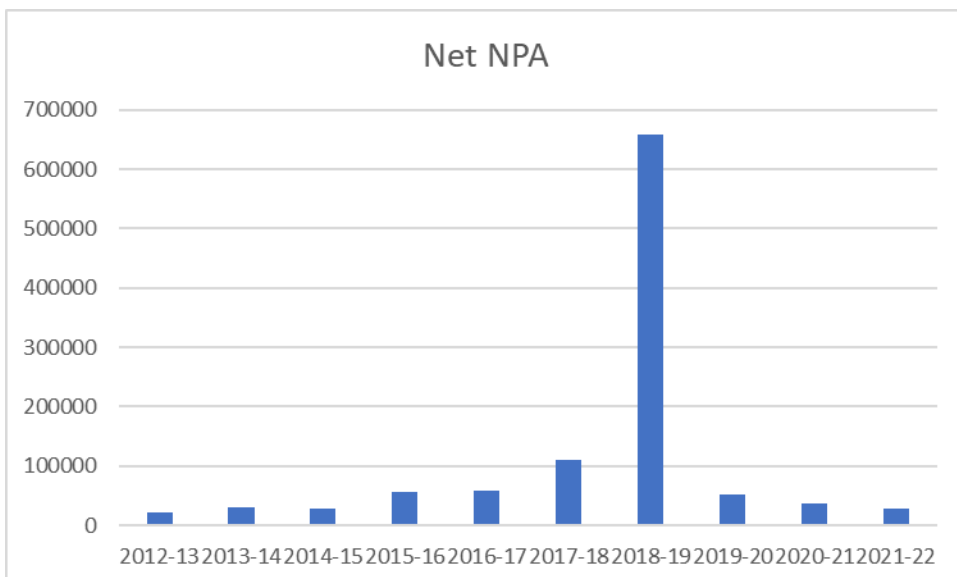
Source: sbi.co.in

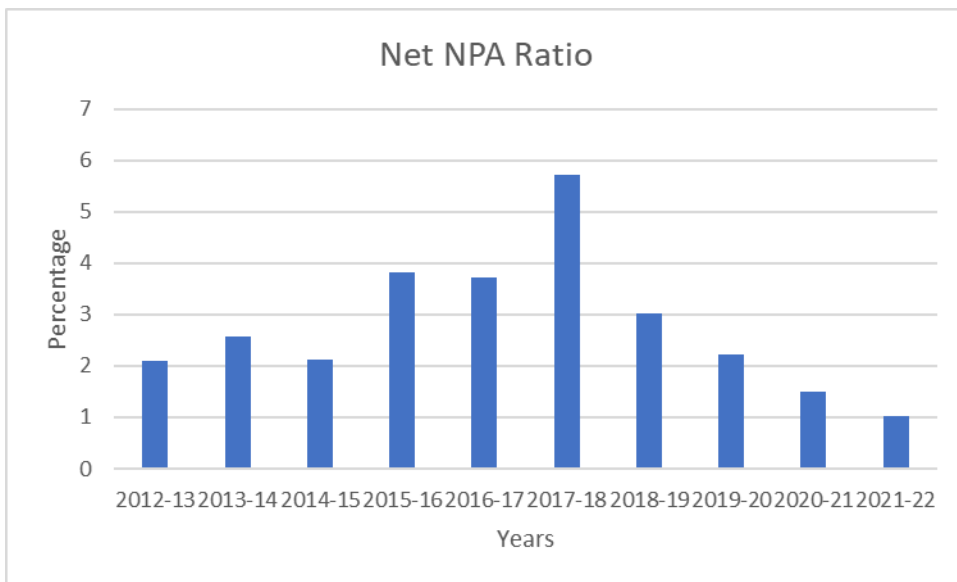


Here. In this chart, an upward trend of Advances has been noticed. Every year, advances are increasing, on an average of ..... The maximum being in the year 2022 and the minimum being in the year 2012. Increasing Advances is a sign of an increase in economic activities.



Gross NPA is maximum in the year 2017-18. It is increasing from the year 2014-15 till 2017-18 but from the year 2018-19 is showing a downward trend and is at the lowest in the year 2022. Decreasing NPA is a sign of good management of stressed assets.



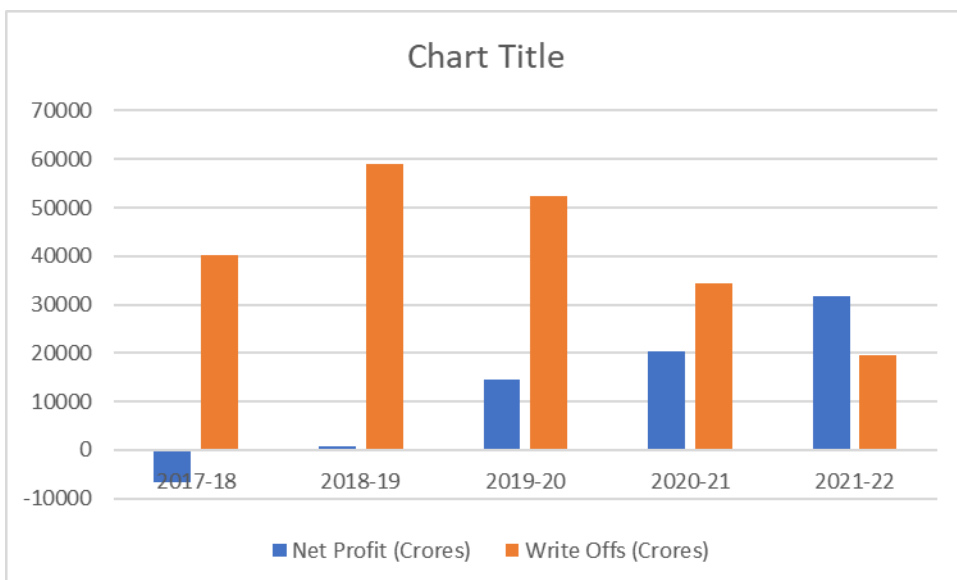


Net NPA is maximum in the year 2018-19. but from the year 2019-20 has been showing a downward trend. Net NPA is the actual loss suffered by the Bank and it is noticed that almost 50% of all Gross NPA are actually turn into Net NPA. Since Gross NPA is decreasing, the Net NPA is decreasing as well.

Table 2: Net Profit and NPA Written-off

FINANCIAL YEARS	Net Profit (Crores)	Write Offs (Crores)
2017-18	-6547	40196
2018-19	862.23	58905
2019-20	14488.11	52387
2020-21	20410.47	34402
2021-22	31675.98	19666

Source: Sbi.co.in



In the above Chart, it is can be noticed that in the year 2017-18, SBI had to incur loss and a big reason behind that can be attributed to the bad loan written off. There can be seen an increasing trend in Net Profits after the year 2018-19 till 2021-22 and a decreasing trend in NPAs written off after the year 2018-19 till 2021-22. Here, we notice that the even though the bad loans written off is fairly large, and the Net profits earned are large too. The profitability of the bank was fairly good. It is because of the innovative measures taken by SBI as well as the RBI to better handle NPA. SBI has been able to achieve this improvement due to recoveries and higher write offs.

### **Conclusions:**

SBI has been able to better manage the menacing NPA, by dealing with it through the adoption of the multiple innovative methods. SBI has significantly reduced NPA and thus it its reflected on its balance sheet. The main reasons for the reduction of NPA is the increased profitability and write-offs of bad loans. SBI's consistently rising profitability will hopefully bring the NPA within a universally acceptable limit of 3%. SBI's net profit in the financial year 2016-17 was a negative 6547 (Cr) but I the year 2021-22, it shot up to 31675.98 (Cr), this in itself is a remarkable performance by SBI.

### **Recommendations for reducing NPA.**

1. Set up new special recovery cells in branches having substantial NPAs, to be looked after by a team specially trained in recovering bad loans.
2. Increase in write-offs of bad loans by banks i.e. the bad loans have been taken off from the balance sheets of the banks.
3. Frequent meetings with the borrowers.
4. Consolidation/ merger of multiple banks.
5. Considering CIBIL score, before advancing loans.
6. Settlement of loans by better innovative schemes.
7. Seeking active assistance of Debt recovery Tribunals, Lok Adalats, NCLT etc.
8. Information regarding defaulters should be shared in all possible platforms.
9. Making use of Factoring services.
10. Reformation of legal system is needed to better administer NPA.
11. Enforcement of SARFAESI Act 2002.
12. Reform bankruptcy and insolvency code.
13. Selling NPA to other banks.



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