



# “A Study of Impact of Non-Performing Assets on Profitability of State Bank of India”

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## ABSTRACT

*This study focuses on the impact of Non-Performing Assets on the Profitability of the State bank of India. This can contribute to economic growth and development of the country. The motive of this study is to analyze the Non -performing assets of State Bank of India and its impact on profitability of the bank. The study uses the annual reports of State bank of India for the period of ten years from 2011-12 to 2020-21. The data has been analyzed by using graph and coefficient of correlation. From this analysis it is noted that decrease in NPA is necessary to improve profitability of State Bank of India. While analyzing the impact of NPA level of State bank of India the researcher derived the conclusion that there is a negative relation between NPA and Net Profits of SBI. It simply means that as NPA increase Net profits decrease. It is because of the mismanagement on the side of bank. The purpose of study is to investigate whether there is a significant relationship between non- performing assets and the performance of bank.*

**KEY WORDS:** Non-Performing Assets, RBI, State Bank of India, Net Profit,

## **INTRODUCTION:**

### **State bank of India**

The State Bank of India is the largest commercial bank in the country. It was established on 1st July 1955 with passing of the State Bank of India Act 1955 by taking over the whole assets and liabilities of the Imperial Bank of India (datta and Sundaram). State Bank of India a fortune 500 companies is a Public Sector Banking and Financial services statutory body headquartered in Mumbai. The bank group has important role to provide

integrated credit to the rural sector. the financing of priority sector is the basic aspect of banking operations in the rural areas.

### Non-Performing Assets

An asset is classified as Non-performing Asset (NPA) if due in the form of principal and interest are not paid by the borrower for a period of 180 days. However with effect from March 2004, default status would be given to a borrower if dues are not paid for 90 days. If any advance or credit facilities granted by banks to a borrower become non-performing, then the bank will have to treat all the advances/credit facilities granted to that borrower as non-performing without having any regard to the fact that there may still exist certain advances / credit facilities having performing status. A lot of practical problems have been found in Indian banks, especially in public sector banks. For Example, the Government of India had given a massive waiver of Rs. 15,000 Crs. under the Prime Minister ship of Mr. V.P. Singh, for rural debt during 1989-90. This was not a unique incident in India and left a negative impression on the payer of the loan.

Poverty elevation programs like IRDP, RREP, SUME, SEPUP, JRY, PMRY etc., failed on various grounds in meeting their objectives. The huge amount of loan granted under these schemes was totally unrecoverable by banks due to political manipulation, misuse of funds and non-reliability of target audience of these sections. Loans given by banks are their assets and as the repayment of several of the loans was poor, the quality of these assets was steadily deteriorating. Credit allocation became 'Lon Melas', loan proposal evaluations were slack and as a result repayment was very poor.

### Categories of NPAs:

Banks are required to classify non-performing assets further in the following three categories based on the period for which the assets has remained non-performing and the reliability of the dues. Further the NPAs can be categorized into –

- a. **Sub-standard Assets:** An asset classified as an NPA for less than 12 months is called a substandard asset.
- b. **Doubtful Assets:** A doubtful asset is an asset that has been nonperforming for more than 12 months.
- c. **Loss Assets:** Loss assets are loans with losses identified by the bank, auditor, or inspector that need to be fully written off.

## Types of Non-Performing Assets:

1. **Gross NPA:** Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI guidelines as on Balance Sheet date. Gross NPA reflects the quality of the loans made by banks. It consists of all the non-standard assets like as sub-standard, doubtful and loss assets.
2. **Net NPA:** Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA shows the actual burden of banks.

## LITERATURE REVIEW

**Mishra, T.P. (2003)** revealed the high rise in gross and Net NPA of the banking sector in the recent past as the exponential rate giving an indication, that the ongoing recession was taking a heavy toll on corporate audit discipline. This was further supported by recovery climate, legal system, approach of the lenders towards lending and many other factors. Despite myriad problems and existing set up, banks had to perform well and achieve the target for NPA reduction affixed as per international standard.

**Kanika Goyal (2010)** “Empirical study of Non-Performing Assets Management of Indian Public Sector Banks” study is analytical in nature, and it is based on the secondary data retrieved from Report on Trend and Progress of Banking in India, Report on Currency and Finance etc. The scope of the study is limited to the analysis of NPAs of the public sector banks for the period 2002-03 to 2008-09. She examined trend of NPAs; quality of assets; health of several loan assets; sector wise NPAs etc. Her study observed increase in gross as well as net NPAs in absolute terms and improved asset quality of banks.

**Chaitanya, V.K (2004)** proposed a view that Non Performing Assets are one of the major concerns for banks in India. NPAs reflect the performance of banks. A high level of NPA suggests high profitability of a large number of credit defaults that affect the profitability and net worth of banks and also erodes the value of the assets. The NPAs growth involves the necessity of provisions, which reduces the overall profits and shareholder value. The problem of NPAs is not only affecting the banks but also the whole economy. The researcher discusses the concept of NPAs, its magnitude and major causes for an account becoming nonperforming.

**Dr. Sonia Narula & Monika Singla (2014)** in their research paper “Empirical Study on Non-Performing Assets of Bank” found that Because of mismanagement in bank there is a positive relation between Total Advances, Net Profits and NPA of bank which is not good. Bank is unable to give loans to the new customers due to lack of funds which arises due to NPA.

**Ajit Kumar (2016)** in his research paper found that a high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and liquidity of banks. The extent of NPAs has comparatively higher in public sectors banks in comparison to private banks. To improve the efficiency and profitability of the banks, NPAs should have to be controlled and reduced. Various steps have been taken by government and banks to reduce the level of NPAs. It is highly impossible to have zero percentage NPAs. But at least Indian banks should take care to ensure that they give loans to creditworthy customers.

**Selvam, P. and Premnath S., (2020)** in their study titled “Impact of coronavirus on NPA and GDP of Indian Economy” finds that the NPAs increased during the period and suggested that government should resolve pending cases quickly and stop mandatory landings which are the real problem segment.

### Hypothesis:

$H_{01}$ : There is no significant relationship between Net NPA and Net profit of state bank of India

### OBJECTIVES

1. To measure the impact of Non-Performing assets on profitability of State Bank of India.
2. To analyze the financial performance of State Bank of India.
3. To understand the concept of Non-performing assets (NPAs).
4. To study the nature and causes of NPAs.

### RESEARCH METHODOLOGY:

#### Data Collection

The study is based on secondary data pertaining to the period of 2011-12 to 2020-2021. The data pertaining to bank was sourced from annual reports of State Bank of India. The data collected is mainly secondary in nature. The sources of data for this research include the website Moneycontrol.com, literature published by State bank of India and the Reserve Bank of India, various magazines, Newspapers, Journals and Books dealing with the current banking scenario and research papers.

**The Study:** The study was Causal in nature

**Sampling Element:** State Bank of India.

**Time- Period of the study:** 10 year's data from 2011-2012 to 2020- 2021 is used for the study.

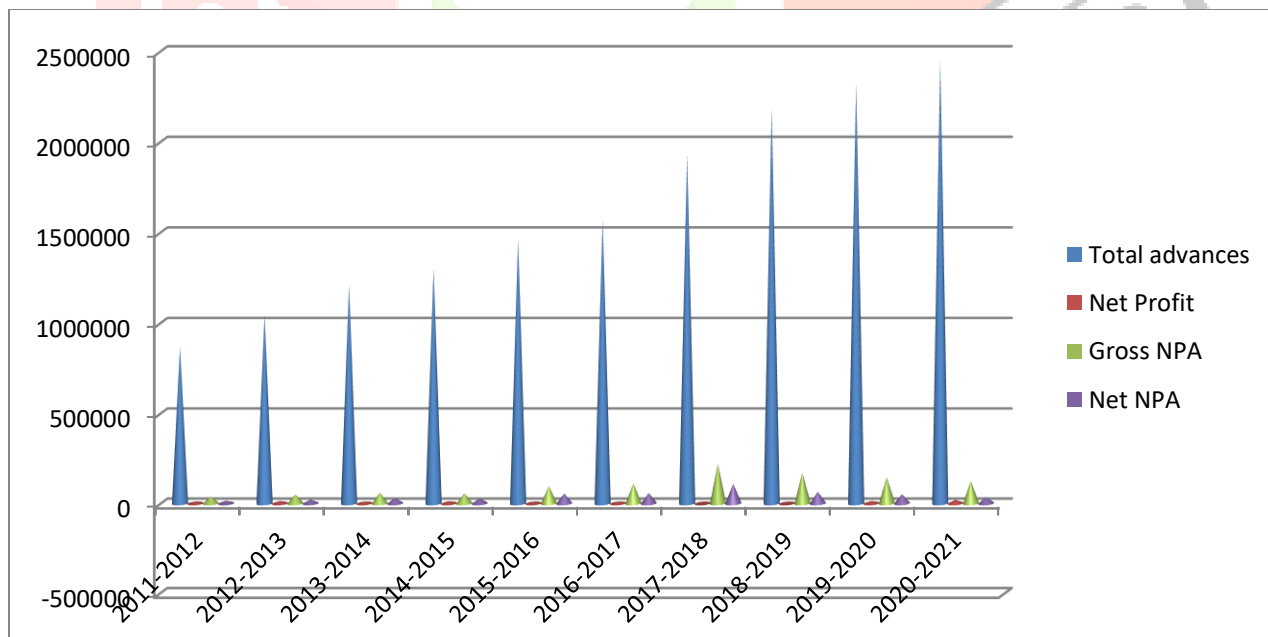
**Research Model:** Correlation analysis was carried out to test the impact of NPA on the profitability.

**Table No. 1:SBI Total Advances compared with Net Profit, Gross NPA &N NPA (In croreRs.)**

Financial Year	Total advances	Net Profit	Gross NPA	Net NPA
2011-2012	867579	11707	39676	15819
2012-2013	1045617	14105	51189	21956
2013-2014	1209829	10891	61605	31096
2014-2015	1300026	13102	56725	27591
2015-2016	1463700	9951	98173	55807
2016-2017	1571078	10484	112343	58277
2017-2018	1934880	-6547	223427	110855
2018-2019	2185877	862	172750	65895
2019-2020	2325290	14488	149092	51871
2020-2021	2449498	20410	126389	36810

Source: Annual Reports of SBI

**SBI Total Advances compared with Net Profit, Gross NPA &N NPA (In croreRs.)**

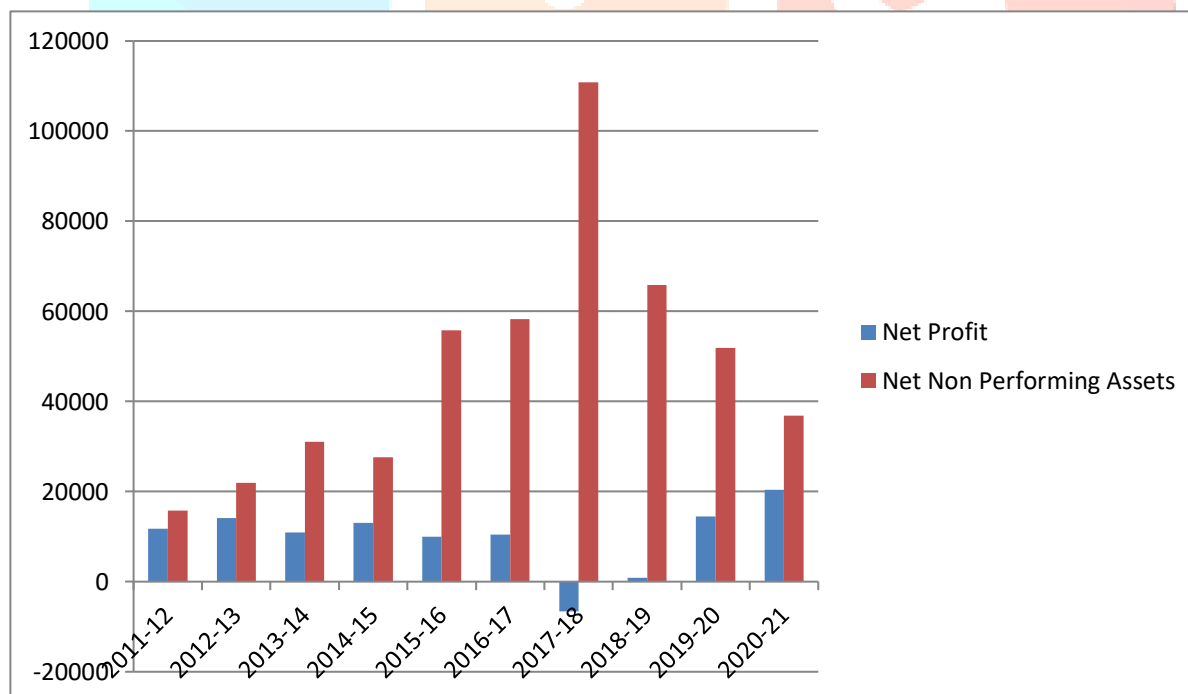


**Table No. 2 - Amount of Net Profit & Net Non - Performing Assets of State Bank of India (Rs. in Cr.)**

Year	Net Profit	NNPA
2011-12	11707	15819
2012-13	14105	21956
2013-14	10891	31096
2014-15	13102	27591
2015-16	9951	55807
2016-17	10484	58277
2017-18	-6547	110855
2018-19	862	65895
2019-20	14488	51871
2020-21	20410	36810

Source: Annual Reports of SBI

**Amount of Net Profit & Net Non-Performing Assets**



## Relationship between Net NPA and Net Profits of State Bank of India:

**Correlation:** Correlation is a numerical measure used to determine the degree of relationship between variables.

**Formula:**

$$r = \frac{N\sum dx dy - \sum dx \sum dy}{\sqrt{(N\sum dx^2 - (\sum dx)^2)} * \sqrt{(N\sum dy^2 - (\sum dy)^2)}}$$

### CALCULATION OF CORRELATION BETWEEN NET PROFIT & NET NPA OF SBI:

Year	Net Profit (X)	dx=X-A A=10484	dx <sup>2</sup>	NET NPA (Y)	dy=Y-A A=58277	dy <sup>2</sup>	dx dy
2011-2012	11707	1223	1495729	15819	(-)42458	1802681764	(-)51926134
2012-2013	14105	3621	13111641	21956	(-)36321	1319215041	(-)131518341
2013-2014	10891	407	165649	31096	(-)27181	738806761	(-)11062667
2014-2015	13102	2618	6853924	27591	(-)30686	941630596	(-)80335948
2015-2016	9951	(-)533	284089	55807	(-)2470	6100900	1316510
2016-2017	10484	0	0	58277	0	0	0
2017-2018	(-)6547	(-)17031	290054961	110855	52578	2764446084	(-)895455918
2018-2019	862	(-)9622	92582884	65895	7618	58033924	(-)73300396
2019-2020	14488	4004	16032016	51871	(-)6406	41036836	(-)25649624
2020-2021	20410	9926	98525476	36810	(-)21467	460832089	(-)213081442
		$\sum dx = (-)5387$	$\sum dx^2 = 519106369$		$\sum dy = (-)106793$	$\sum dy^2 = 8132783995$	$\sum dx dy = -1483013960$

**Formula:**

$$r = \frac{N\sum dx dy - \sum dx \sum dy}{\sqrt{(N\sum dx^2 - (\sum dx)^2)} * \sqrt{(N\sum dy^2 - (\sum dy)^2)}}$$

$$r = \frac{10 \times (-1483013960) - (-5387) \times (-106793)}{\sqrt{10 \times 519106369 - (-5387)^2} \times \sqrt{10 \times 8132783995 - (-106793)^2}}$$

$$r = -0.067$$

## Causes of NPA

1. Funds borrowed for a particular purpose but not use for the said purpose.
2. Project not completed in time.
3. Poor recovery of receivables.

4. Business failures.
5. Diversion of funds for expansion\modernization\setting up new projects\ helping or promoting sister concerns.
6. Willful defaults, siphoning of funds, fraud, disputes, management disputes, misappropriation etc.
7. Deficiencies on the part of the banks viz. in credit appraisal, monitoring and follow-ups, delay in settlement of payments\ subsidiaries by government bodies etc.
8. Natural calamities.

### **ANALYSIS AND INTERPRETATION:**

As we can see that  $r$  that is correlation coefficient is equal to  $-0.067$  .it means there is a negative relation between NPA and Net Profits of SBI from 2011-2012 to 2020-2021. It simply means that from 2011-12 to 2020-21, NPA of SBI is increasing and Net Profits are decreasing very highly. It is because of the mismanagement on the side of bank. But think if there is good management by bank then amount of NPA decrease and Profits will increase more by the amount not become NPA. But as we know there are two types of Customers (good and bad). Good customers' leads to increase in profits by paying interest and installments on total advances timely and Bad customers leads to increase in NPA by not paying interest and installment on total advances timely.

### **FINDINGS AND CONCLUSION:**

From this study we found that Gross NPA & Net NPA is continuously increasing in the State Bank of India from 2011-12 to 2020-21. On one side Total advances given by SBI is increasing continuously but on other side Net Profit is continuously decreasing. Because of mismanagement in bank NPA is increasing and Net Profit is decreasing. We can see that in year 2017-2018 there is a loss of 6547 croreRs. There is an adverse effect on the Liquidity of Bank and Bank is unable to give loans to the new customers due to lack of funds which arises due to NPA.

### **SUGGESTIONS:**

1. Total elimination of NPA's is not possible from banks but its incidence can be minimized by taking some precautionary actions by State bank of India and other banks.
2. SBI should examine the risk and feasibility of the project for which they are giving the loan before sanctioning the loan.
3. Strict legal action should be taken against willful defaulters.



4. Banks should develop a performance appraisal system based on Non-Performing Assets which will motivate the employees to concentrate on recovery of NPA.
5. In present scenario of increasing NPA, good management needed on the side of banks to decrease the level of NPA, and proper selection of borrowers required to get timely payment.

## LIMITATIONS OF STUDY AND FURTHER PROSPECTIVE FOR RESEARCH

This research is based on secondary data. Researcher just made the conclusion on the bases of analyzing the data collected through Annual reports of past 10 years. We suggest the research scholars that they can further do the research on the topic related to comparison of NPA of various banks.

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