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A COMPREHENSIVE STUDY OF TRENDS OF NON- PERFORMING ASSETS OF SBI IN THE RECENT TIMES.

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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, business, 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 5th 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 analyze the size of NPA, reasons and the different ways banks and Reserve Bank of India (RBI) are working on, to reduce NPAs.

Index Terms - **Non Performing Assets (NPA), Stata Bank of India, Economic Liberalization, RBI, SMA, GROSS NPA, NET NPA, GROSS PROFIT, NET PROFIT, WRITE-OFFs.**

I. INTRODUCTION

Non-Performing Assets are almost always an inevitable liability in the banking industry. The methods used to handle Non-Performing Assets (NPAs) and hold them within the necessary amount are vital to the bank's success. As a result, the only way to regulate the amount of NPAs in banks is to prepare and implement an efficient monitoring and control policy that is backed up by proper legal reforms.

According to the Reserve Bank of India, "An asset becomes non-performing when it ceases to generate income for the bank. Earlier an asset was considered as non- performing asset (NPAs) based on the concept of 'Past Due'. A "Non-Performing Asset" (NPA) was defined as credit in respect of which interest and/or instalment of principal has remained 'past due' for a specific period of time."

CATEGORIES OF NPAs:

Non-Performing Assets are categorized by banks into three depending on the amount of time the asset has been non-performing:

1. *SUBSTANDARD ASSETS*

An asset is called a substandard asset when the loan or advance has been non-performing for less than or equal to 18 months.

2. *DOUBTFUL ASSETS*

An asset is called a doubtful asset when it has been in the non-performing for more than 18 months. They have a higher level of risks than substandard asset.

3. *LOSS ASSETS*

An asset is called a loss asset when the bank or internal or external auditors or the inspection by the RBI identifies the loss, but it still has not been written off.

FACTORS CONTRIBUTING TO NPAs:

I. Recession, power and input shortages, inflation, injuries and natural disasters contribute to default in the payment of past dues.
II. Poor market research, hasty borrowers' financial analysis, and inadequate credit worthiness measurement processes and banks failing to perform follow-up procedures along with their defective regulation mechanism for loan documentation.
III. The government policies that have been adopted/implemented such as excise duty reforms, emission control, priority sector lending, and obsolete legal structures.
IV. When funds are used for expansion or activities that require upgrade by launching new ventures, this is compounded by recessionary conditions, strained labor relations, inappropriate infrastructure, obsolete equipment and products, technological issues, inept management and the inability to access needed funds in the capital & debt markets.
V. Intention to default, syphoning off funds, promoter fraud and misappropriation, and director disagreements and inadequacies on the part of banks, such as delays in disbursing funds and the government's release of subsidies.

CAUSES OF NPAs:

Following are the various factors that contribute to non-performing assets:

I. Bank's Lending Activities: When it comes to lending loans, banks can strictly follow the laws and regulations. An effective and efficient estimate of credit worthiness of the borrowers should be made. The bank's poor lending practices were blamed for the subprime crisis of 2008.
II. Organizational Risk: The organization periodically runs into difficulties in its environment where it operates, which leads to financial loss.
III. Risks related to environment: Natural calamities such as cyclones, droughts, earthquakes, and floods may place farmers and agribusinesses in situations where they don't get the yield they need.
IV. The Borrower's Psychology: Occasionally, the individual's attitude prevents him from repaying the money, even though he is capable of doing so.

PROBLEMS CAUSED BY NPAs:

I. Profitability: The banks generate income from the loans advances they give out to customers, and when these loans are not repaid, the banks lose money because they can only make money when the loans/advances are repaid.
II. Liquidity and Goodwill: As a result of the bank's decreased profitability, they are not able to give out loans freely, which affects their liquidity status and, as a result, their goodwill.
III. Economy: The banking industry is extremely important to the growth of a nation's economy. It is the cornerstone of a country's financial capital. As a result, if a bank's performance suffers as a result of a rise in non-performing assets, the country's economy suffers as well.

REASONS FOR RISE IN NPAs:

I. The Indian economy was booming from 2000 to 2008, when banks, especially public sector banks, began advancing loans heavily to businesses.
II. However, because of the financial crisis of 2008-2009, profits of the companies plummeted, and the government outlawed mining ventures. With significant delay in permits related to environment, the

situation worsened, affecting the infrastructure sector-electricity, iron, and steel-and resulted in raw material price variations and a supply shortage.

III. Another reason is that banks have relaxed lending standards, particularly when it comes to large companies, enabling them to buy pass financial and credit review.

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 Assets 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.

NPAs IN INDIAN BANKING SYSTEM

Non-Performing Assets (NPAs) appeared unexpectedly in the Indian banking system. The Indian banking system lacked objective and realistic business processes. Negative outcomes resulted from political influence, lack of competition, and a complete lack of scientific decision-making. Inadequate accounting practices and impervious balance sheets were used to hide the inadequacies, which failed to expose the country's financial institutions' progressive decline and institutional vulnerability to the public eye. Ravi Agarwal writes, "Reforms have brought the Indian banking sector well ahead of the days of nationalization". He argues that the root cause of the NPA was present both within and outside the banking system. He claims that banks eventually had to fund the losses suffered by critical industries and companies. The problem of Non-Performing Assets (NPAs) unexpectedly exploded in size, and banks were unable to examine it. The crisis was caused by our banking system's lack of preparation and systematic weakness to respond to the evolving scenario. It has compiled comprehensive data on Non-Performing Assets (NPAs) in a number of financial companies (NBFCs), among others. The real social banking is represented by advances to the poorer parts of society below Rs. 25,000. NPAs in this sector account for 8 to 10% of the total number. As a result, NPA regulation will be automated by a sector-by-sector approach that includes a function for actively participating members. It is the duty of both business and industry to acknowledge transparency for NPA management. NPA is a pervasive national hazard that has an impact on the whole Indian economy. The government incurs loss of revenue in the form of taxation and excise due to the closing of many lakhs of one-thriving manufacturing units and inefficient use of expensive industrial infrastructure. In the end, it reflects industrial uncertainty, writes Ravi Agarwal. The NPA represents credit recipients' debts, which are then moved and parked with the ban. To be reliable, preventive action should begin with credit receivers and then spread to bankers. We should not attempt to fix business and banks; instead, we should assist industry and banking.

II. LITERATURE RIVEW

Sanjiv Bhootra (2021): Non-Performing Assets 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 decreasing consistently since the year 2013-14 and has managed NPAs better than SBI.

Varuna Agarwala, Nidhi Agarwala (2019): A critical view of Non-Performing Assets in the Indian Banking Industry. Here the researchers are studying the different bank's performance from 2010-2017 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 bank 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 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.

III. 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 2019-2023 and also from different web sources. The data has been analyzed using statistical methods. 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.

IV. DATA ANALYSIS AND INTERPRETATION

Table: 1

FINANCIAL YEARS AND GROSS NPA:

FINANCIAL YEARS	GROSS NPA
2019-2020	172,750.36
2020-2021	149,091.85
2021-2022	126,389.02
2022-2023	112,023.37
2023-2024	90,927.78

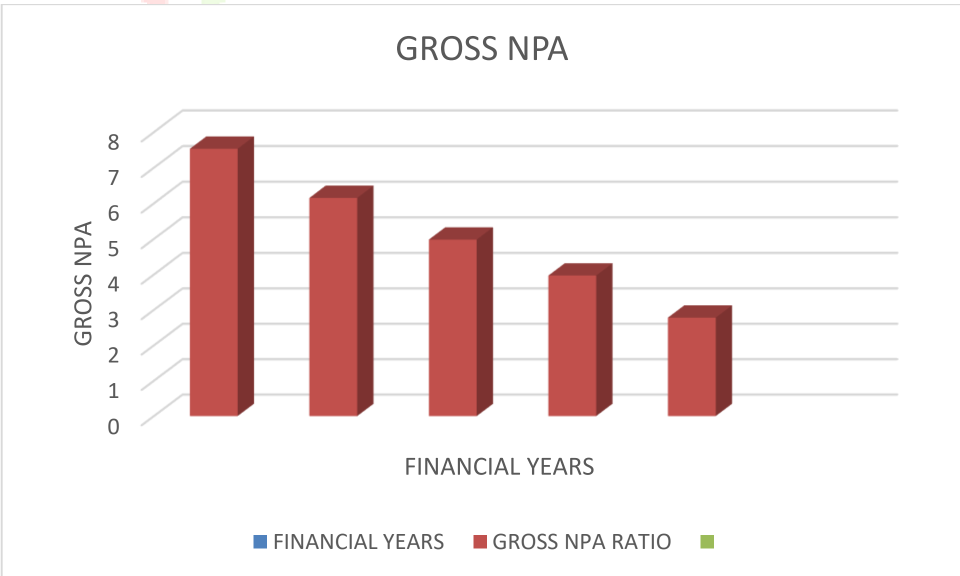

Table:1; Analysis of Gross NPA (Rs.)24

INTERPRETATION: Above table: 1; shows that Gross NPA from 2019-2024. It is clearly showing that with the increasing financial years, Gross NPA is decreasing as it was 172,750.36 in 2019-2020 and in 2023-2024 is 90,927.78. It is good symbol for SBI.

Table: 2

FINANCIAL YEARS AND GROSS NPA RATIO:

FINANCIAL YEARS	GROSS NPA RATIO
2019-2020	7.53
2020-2021	6.15
2021-2022	4.98
2022-2023	3.97
2023-2024	2.78

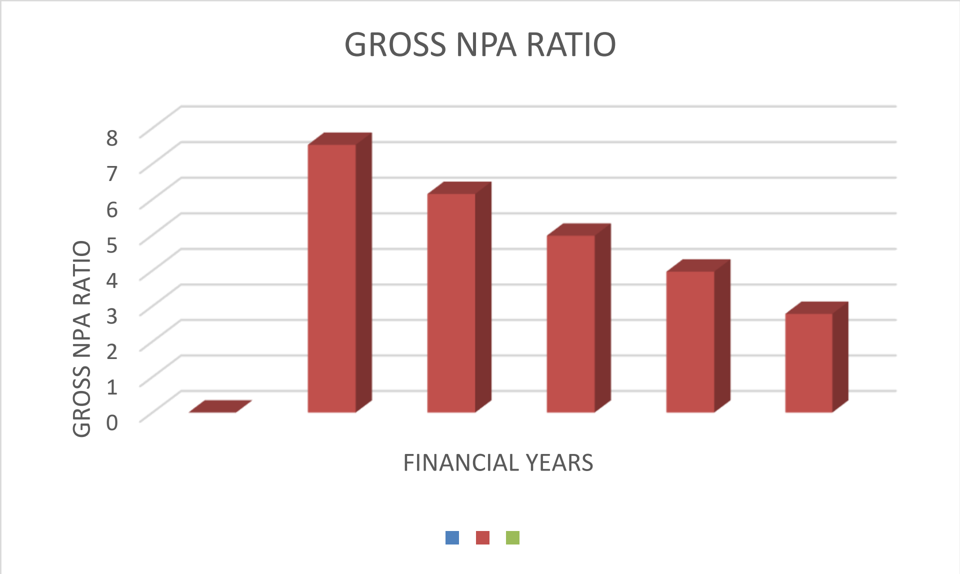

Table:2; Analysis of Gross NPA (%)

INTERPRETATION: Above table: 1; shows that Gross NPA Ratio from 2019-2024. It is clearly showing that with the increasing financial years, Gross NPA Ratio is decreasing as it was 7.53 in 2019-2020 and in 2023-2024 is 2.78. It is good symbol for SBI.

Table: 3

FINANCIAL YEARS AND NET NPA:

FINANCIAL YEARS	NET NPA
2019-2020	65,894.74
2020-2021	51,871.30
2021-2022	36,809.72
2022-2023	27,965.71
2023-2024	21,466.64

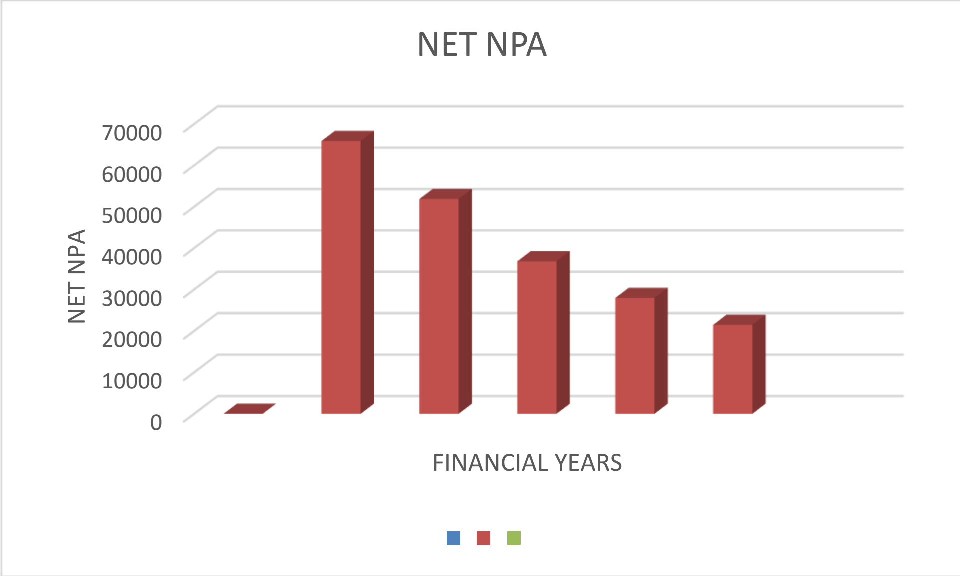

Table:3; Analysis of Net NPA (Rs.)

INTERPRETATION: Above table: 1; shows that Net NPA from 2019-2024. It is clearly showing that with the increasing financial years, Net NPA is decreasing as it was 65,894.74 in 2019-2020 and in 2023-2024 is 21,466.64. It is good symbol for SBI.

Table: 4
FINANCIAL YEARS AND NET NPA RATIO:

FINANCIAL YEARS	NET NPA RATIO
2019-2020	3.01
2020-2021	2.23
2021-2022	1.50
2022-2023	1.02
2023-2024	0.67

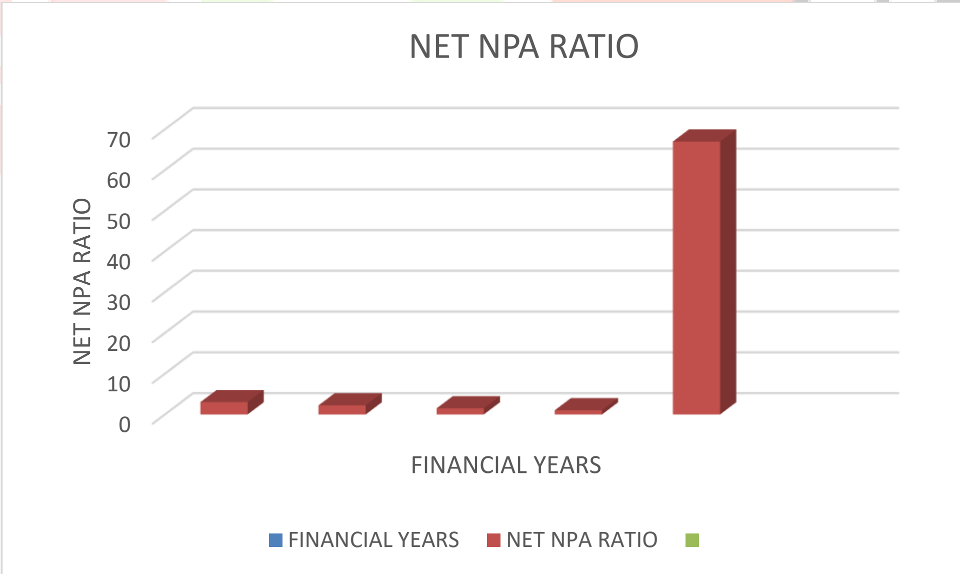

Table:4; Analysis of Net NPA (%)

INTERPRETATION: Above table: 1; shows that Net NPA Ratio from 2019-2024. It is clearly showing that with the increasing financial years, Net NPA Ratio is decreasing as it was 3.01 in 2019-2020 and in 2023-2024 is 0.67. It is good symbol for SBI.

V CONCLUSION

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 reflected on its balance sheet. The main reasons for the reduction of NPAs 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 2016-2017 was a negative 6547 (cr.), this in itself is a remarkable performance by SBI.

VI. RECOMMENDATIONS FOR REDUCING NPAs

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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