Non-Performing Assets in Associate Banks of SBI in India-A Study

Dr. A. S. Shiralashetti

Associate Professor, PG Dept. Of Commerce, Karnatak University, Dharwad. India

Abstract

Banks act as intermediaries to mobilize the savings of the depositors and to deploy credit in various forms to borrowers to provide necessary finance to promote sound development of the economy. A sound banking system plays very important role in the growth and development of economy. The sound financial position of a bank depends upon the level of recovery of loans and its level of non-performing assets (NPAs). Therefore, the study of management of non-performing assets, assumes a great significance in a developing economy. The present study is on management of non-performing assets in SBI associate banks over the period of five years (2010-2014). The study is based on the secondary data collected from the annual reports of the associate banks of SBI through websites and the data collected is analyzed by using mean and ANOVA. The study concluded that the management of non-performing assets is a difficult task for every bank in the banking industry. Willful defaults, improper processing of loan proposals, poor monitoring, etc, are the some causes for assets becoming NPAs. Hence, steps should be taken to cure this problem at the earliest and in an efficient manner.
Keywords: Gross Npa, Net Npa, Sbi, Associate, Banks, Management.

Introduction:

The banking system plays a very important role in economic development of the country. They mobilize the surplus funds from the savings community and provide them to deficit sector for productive purpose. The SBI and its associates are the public sector banks; have been playing played a major role in Indian Banking sectors. Modern trade and commerce would almost be impossible without the services of banking sectors. The money is advanced in the form of loans and invested in productive activities in expectation of income and repayment of principle at periodic intervals as per the contractual obligations between the lender and borrower. The assets which is performing as per the contractual obligations (i.e. payment of interest and repayment of principal as and when it fall due) is called as performing asset or standard asset. The asset which fails to meet obligation of payment of interest and repayment of principal within a specified date from due date is called non-performing asset or non-standard asset. Non-performing asset (NPA) is one of the major concern and problem for banking sector in India. NPAs reflect the degree of risk and quality of assets and profitability of 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 NPA growth involves reduced income from assets and the necessity of provisions, which reduces the overall profits and shareholders' value. The level of non-performing assets is at the alarming rate in Indian banking system as compared to banking system of other countries.

Review of Literatures:

Ratikantha Ray (2013)[1] had compared the non-performing assets of commercial and cooperative banks by selecting the banks operating in Pune**.** Researcher selected two banks viz, Bank of Maharashtra from commercial banking sector and Janata Sahakari Bank Ltd from co-operative banking sector. The study concluded that occurrence of NPA affects adversely to the profitability and health of a bank.

Chandan Kumar Tiwari and Ravindra Sontakke (2013)[2] investigated the causes of non-performing assets in banks and their study revealed that a high level of NPAs leads to high probability of large number of credit defaults that affect to the profitability and liquidity of banks. The NPA growth involves the necessity of

provisions, which reduces the overall profits and shareholders' value.

D.Ganesan, R.Santhanakrishnan (2013)[3] found that banking industry has undergone a major change after the first phase of economic liberalization; hence the importance of credit management has emerged. In recent times, banks are very cautious in extending loans due to mounting NPAs. This article highlights the reasons for an assets becoming NPA and remedial measures to be taken. Due to various steps taken by the Government of India, NPA levels were reduced to considerable level.

B.Selvarajan & G.Vadivalagan (2013)[4] found that major portion of bad debts in Indian banks arose out of lending to the priority sector at the dictates of politicians and bureaucrats. If banks monitored their loans effectively, the bad debt problem could have been contained if not eliminated. The top management of the banks was forced by the politicians and bureaucrats to throw good money after bad in the case of unscrupulous borrowers.

Namita Rajput, et.al, (2012)[5] have discussed NPA, factors contributing to NPA, magnitude and consequences. By using analytical perspective, the researchers observed that NPAs affected significantly to the performance of the banks in the present scenario. On the other hand, factors like better credit culture, managing the risk and business conditions which lead to lowering of NPAs. The empirical findings using observation method and statistical tools like DEA, correlation, regression and data representation techniques, identified that there is a negative relationship between profitability measure and NPAs.

Zahoor Ahmad, M.Jegadeeshwaran (2013)[6] analyzed the non-performing asset management in nationalized bank**.** The researchers collected the secondary data for a period of five years and analyzed by using mean, CAGR, ANOVA and ranking. The study revealed that there is significant difference in the level of NPAs of nationalized banks which reflect their varied

Analysis of NPAs:

efficiency in management of non-performing assets.

Pallab Sikdar and Manish Makkad (2013)[7] attempted to put forward the means of interpreting credit risk from existing levels of bank NPAs. Their research highlights the significant steps taken and procedures implemented by major Indian commercial banks, within the public and private sector, towards recovery of loans and advances slipping into the NPA bracket. The researcher found that the problem of NPAs can be tackled only with proper credit assessment and risk management mechanism.

Objectives of the Study:
The main objectives of the study are;
1. To analyze the sector wise NPA of SBI associate banks
2. To highlights the NPA position (gross and net) of SBI associates banks.

Hypothesis:
1. **H_o:** There is no significant difference between Gross NPA of SBI associate banks.
   H_1: There is significant difference between Gross NPA of SBI associate banks.
2: **H_o:** There is no significant difference between Net NPA of SBI associate banks
   H_1: There is significant difference between Net NPA of SBI associate banks.

Methodology:
The study is based on the secondary data. The period of study is 5 year (2009-10 to 2013-14). The information has been retrieved from annual report of all SBI associate banks and RBI Report on Trend and Progress of Banking in India. It examines the sector wise distribution of NPA of SBI associate banks and trend in Gross NPAs, Net NPAs and assesses the quality of NPA management and ranks them on the basis of mean of last five years. The data has also analyzed by using one-way ANOVA.

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Table 1: Non-Performing Assets in Agriculture and Allied Activities Sector
(Figures in %)

Banks	Years					
	2010	2011	2012	2013	2014	Mean
State Bank of Bikaner & Jaipur	0.13	1.41	6.21	9.25	7.16	4.83
State Bank of Hyderabad	0.63	1.00	2.10	1.91	2.35	4.93
State Bank of Mysore	8.03	7.92	9.31	10.22	7.57	8.61
State Bank of Patiala	5.21	3.55	7.19	9.41	6.54	6.38
State Bank of Travancore	0.78	0.83	0.73	1.65	1.84	1.16

Sources: Annual Reports of SBI's

Associate Banks

It is revealed from 1 that the average non-performing assets in agriculture and allied sector of State Bank of Travancore is 1.16 per cent which is very low compared to other SBI Associate banks and the State Bank of Mysore is 8.61 per cent which is the highest NPA in agricultural allied activities sector over the period of study. Further, there is not much difference in NPA of State Bank of Bikaner and Jaipur and State Bank of Hyderabad, i.e. 4.83 per cent and 4.93 per cent respectively during the period of study.

Table 2: Industry wise Non-Performing Asset (micro, small, medium and large) of SBI Associate Banks

(Figures in %)

Bank/Year	2010	2011	2012	2013	2014	Mean
State Bank of Bikaner & Jaipur	1.82	2.58	2.63	2.42	3.99	2.68
State Bank of Hyderabad	1.30	2.12	1.27	4.43	8.63	3.55
State Bank of Mysore	3.91	4.89	5.72	3.86	6.03	4.88
State Bank of Patiala	2.18	2.28	2.08	2.26	5.35	2.83
State Bank of Travancore	1.92	2.06	8.79	2.37	5.80	4.18

Sources: Annual Reports of SBI's Associate Banks.

Table 2 clears that, the average NPA in Industrial Sector over the period of study is 4.88 per cent in State Bank of Mysore, 4.18 per cent in State Bank of Travancore, 3.55 per cent in State Bank of Hyderabad, 2.33 per cent in State Bank of Patiala and 2.68 per cent in State Bank of Bikaner and Jaipur. This shows that NPA is high in State Bank of Mysore and less in State

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Bank of Bikaner and Jaipur. Hence, State Bank of Mysore can adopt appropriate recovery strategies to minimize NPAs.

Table 3: Non-Performing Assets in Service Sector of SBI Associate Banks

(Figures in %)

Bank/Year	2010	2011	2012	2013	2014	Mean
State Bank of Bikaner & Jaipur	2.64	1.65	3.83	7.80	5.58	4.3
State Bank of Hyderabad	1.69	2.30	5.92	5.18	4.70	3.95
State Bank of Mysore	8.11	7.22	7.32	9.50	6.95	7.82
State Bank of Patiala	3.12	3.30	4.63	5.03	3.01	3.81
State Bank of Travancore	2.03	1.65	2.93	3.45	6.54	3.32

Sources: Annual Reports of SBI's Associate Banks.

It is evident from Table 3 that the average non-performing assets is 7.82 per cent in State Bank of Mysore, 4.3 per cent in State Bank of Bikaner & Jaipur, 3.95 per cent in State Bank of Hyderabad, 3.81 per cent in State Bank of Patiala and 3.32 per cent in State Bank of Travancore during the period of study. This indicates that the average NPA in service sector is high in State Bank of Mysore and the low in State Bank of Patiala among the SBI group. This signifies that State Bank of Mysore should try to manage the NPA by adopting suitable recovery strategies appropriate to the context.

Table 4:   Non-Performing Assets in Personal Loan of SBI Associate Banks

(Figures in %)

Bank/Year	2010	2011	2012	2013	2014	Mean
State Bank of Bikaner & Jaipur	2.02	1.79	2.26	2.03	1.74	1.96
State Bank of Hyderabad	1.53	1.17	1.62	1.05	1.00	1.27
State Bank of Mysore	1.08	2.12	1.23	1.99	1.81	1.64
State Bank of Patiala	2.08	3.13	3.36	2.99	1.42	2.59
State Bank of Travancore	1.29	1.31	1.74	2.36	2.47	1.83

Sources: Annual Reports of SBI's Associate Banks.

It is clear from table 4 that the average NPA of State Bank of Hyderabad in personal loan is lowest (i.e. 1.27 per cent) and it is the highest in State Bank of Patiala (i.e. 2.53 per cent) as compared to other banks of SBI group during the period of study. The average non-performing assets is 1.64 per cent in personal loan in State Bank of Mysore, 1.96 per cent in State Bank of Bikaner & Jaipur, 1.27 per cent in State Bank of Hyderabad, 2.59 per cent in State Bank of Patiala and 1.83 per cent in State Bank of Travancore during the period of study. This

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signifies that State Bank of Patiala and State Bank of Bikaner and Jaipur focus more on recovery of personal loans as compared to other banks due to their high percentage of NPA.

Table 5: Gross-Non-Performing Assets to Gross Advances

(Figures in %)

Bank/Year	2010	2011	2012	2013	2014	Mean	Rank
State Bank of Bikaner & Jaipur	1.72	2.0	3.30	3.62	4.18	2.96	2
State Bank of Hyderabad	1.21	1.8	2.56	3.46	5.89	2.98	3
State Bank of Mysore	1.99	2.5	3.70	4.53	5.54	3.65	5
State Bank of Patiala	2.14	2.6	2.94	3.25	4.83	3.15	4
State Bank of Travancore	1.65	1.8	2.66	2.56	4.35	2.60	1

Sources: RBI's Statistical Report.

It is clear from table 5 that the ratio of NPA to Gross Advances in State Bank of Travancore is the lowest and the same is the highest in State Bank of Mysore as compared to the ratio of NPA to Gross Advances of other SBI banks. This signifies that State Bank of Travancore is more efficient in management of recovery of dues and NPAs. State Bank of Bikaner and Jaipur and State Bank of Hyderabad stood second and third position in the ratio of NPA to gross advances with mean ratio of 2.96 per cent and 2.98 per cent respectively.

Table 6: ANOVA

GNPA	Sum of Squares	d.f	Mean Squares	F ratio	Table value at 5% level of significance
Between Samples	2.906	4	0.727	0.41	2.87
Within Samples	35.135	20	1.757		
Total	38.041	24	2.484		

Table 6 shows that calculated F value of 0.414 which is very much lower than table value or critical value of 2.87 at 5 per cent level of significance with 24 degrees of freedom (v1=4 and v2=20) and hence there is no significant difference in gross NPA ratios of SBI associated banks. This shows that all SBI associate banks have performed evenly in management of NPAs.

Table 7: Net Non-Performing Assets to Net Advances

(Figures in %)

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Bank/Year	2010	2011	2012	2013	2014	Mean	Rank
State Bank of Bikaner & Jaipur	0.78	0.83	1.92	2.27	2.76	1.71	4
State Bank of Hyderabad	0.55	0.87	1.30	1.61	3.12	1.49	1
State Bank of Mysore	1.02	1.38	1.93	2.69	3.29	2.06	5
State Bank of Patiala	1.04	1.21	1.35	1.62	3.17	1.67	3
State Bank of Travancore	0.91	0.98	1.54	1.46	2.78	1.53	2

Sources: RBI Statistical Report.

Table 7 depicts that State Bank of Hyderabad and State Sank of Travancore stood first and second respectively in the ratio of NPA to Net advances as compared to the ratios of other banks of SBI. State Bank of Patiala, State Bank of Bikanur and State Bank of Mysore got third, fourth and fifth rank respectively in net NPA to Net Advances. This indicates that these three banks can make more efforts in recovery of NPA as compared to other SBI banks.

Table: 8 ANOVA

NNPA	Sum of Squares	d.f	Mean Squares	F ratio	Table value at 5% level of significance
Between Samples	1.064	4	0.254	0.32	2.87
Within Samples	15.763	20	0.788		
	16.779	24	1.042		

Table 8 evidenced that the calculated F statistics value is 0.32 and table value is 2.87 at 5 per cent level of significance. Since, the calculated value is less than the table value at 5 per cent level of significance; there is no significant difference between Net NPA to Net Advances of SBI associated banks. This signifies that all banks of SBI should improve their credit management by proper planning and control.

Findings:

1. The highest average NPA (i.e. 7.16 per cent) in agricultural and allied sector is recorded at State Bank of Mysore.
2. Highest and lowest NPA in credit to SSI is recorded at State Bank of Mysore and at State Bank of Bikaner and Jaipur respectively.
3. The NPA in service sector is highest at State Bank of Mysore as compared to other SBI Associate Banks.
4. Average NPA in Personal Loan sector is low at State Bank of Hyderabad as compared to other SBI banks.
5. Ratio of NPA to Gross Advances is the lowest and highest at State Bank of

Travancore and State Bank of Mysore respectively.

Suggestions:

1. Improvement in recovery of credit
2. Effective and regular follow-up of the end use of funds
3. Healthy Banker-Borrower relationship should be developed.
4. Assist the borrowers in proper utilizing the fund.
5. Use Compromise Settlement Schemes or One Time Settlement Schemes to recover NPA.

Conclusion:

Of late, the banking industry in India in particular and elsewhere in general is worried much about the problems of rising non-performing assets. The banking sector in India has been using all measures to overcome from the accumulating NPAs. It used lok adalats, debt recovery tribunal, one time settlement and SARFEASI, etc to recover the overdue loans. However, it is not possible to bring down NPAs at par with foreign banks. The accumulated NPAs directly affected adversely to the overall performances of banking industry and indirectly affected to the growth and development of Indian economy. Hence, it is essential to make these recovery measures still more effective to punish will full defaulters and bring awareness about significance of timely recovery of credit in recycling of funds.

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