European Journal of Business & Social Sciences
Available at https://ejbss.org/
ISSN: 2235-767X
Volume 07 Issue 05
May 2019

Assets Quality of State Bank of India

Dr. M. VANAJA
Asst. Prof. in Commerce
SKSS Arts College
Tiruppanandal - 612 504

Dr. S. MOHAN
Principal
SKSS Arts College
Thiruppanandal – 612 504

Abstract

Indian banking system is one of the largest systems in the world which provides financial services to the vast population of this country through its branches and networks. Primarily, the entire banking system is under the direct monitoring of the Reserve Bank of India and each and every operation of the banks has been continually scrutinized by the Reserve Bank of India for the smooth functioning of financial system in the country. In India, both private and public sector banks are playing key role for the development of economy of the country. The survival and continuous service of the bank depends on the financial status of the bank. Though the services of the banks are more or less same in India, the performance of the banks varies from bank to bank which entirely depends on the efficiency in its operations. Considering these facts, now every bank has promoted variety of initiatives to compete with other banks to get maximum financial results. The State Bank of India is the largest banking service providers in India through its thousands of branches and lakhs of employees.

*****

Loan assets portfolio for a bank is vital, where the bank deploys its working funds to earn significant income so as to meet the cost of mobilisation of funds and to earn profits. In case of loans and advances, traditionally periodical interest was debited to loans account and the same was taken to income account irrespective of actual recovery of the interest charged. The banks classify the bad and doubtful debt based on non-availability of security only. Much importance was not given to the non-recovery of interest or instalment or both. The bad debts were identified by the banks arbitrarily at the end of the financial year to show a rosy picture of their balance sheets. As a result many commercial banks including nationalised banks faced critical financial losses and administrative failures during eighties and nineties of the previous century.

Based on the recommendations of Narasimham Committee and as a part of financial sector reforms initiated by RBI, new prudential norms were implemented in all commercial banks from 1992-93. This bold act of RBI has changed the conservative accounting system and irrational or illogical classification of assets in the entire Indian Banking Sector. The application of new prudential norms has made the banks to study each and every account under loans and advances portfolio. Based on the actual recovery of interest and instalments, the loan assets (accounts) have been classified as performing and non-performing assets. Performing assets are those assets where the interest and instalments of principal are recovered regularly. Non-performing assets are those where repayment of interest, instalment or both remains unpaid for more than 90 days. Thus, when a loan asset ceases to generate income, it becomes NPA. Further, when a loan account becomes NPA, thereafter, unless the dues are collected, the banks cannot debit the loan account for interest. These non-performing assets have been further classified into sub-standard, doubtful and loss assets based on the risk of recovery and availability of security in each loan account.

In order to improve the standard of Indian Banking practices, and to move towards international banking standards, the RBI has introduced Income Recognition and Assets Classification norms in all commercial banks for the proper identification of NPAs. The codified norms to identify NPA were modified in 1995, 2001 and in 2004. Initially, when the interest and/or instalment remain past due for four quarters from the due date, the loan account would become NPA. RBI has tightened the norms to identify NPA by reducing the four quarters to one quarter i.e., 90 days. Thus at present, when there is no recovery of interest and /or instalment in a loan account for 90 days from the due date, then the account will become NPA. Thus, the performing assets, where the recovery is regular have been identified as standard assets. Once the recovery fails and remain unpaid for 90 days, the status of the account slips from standard to sub-standard. These sub-standard assets, when remain in the same status without any further recovery for two years, they will fall into doubtful category. Those accounts, where there is no scope of recovery or there is no security cover, will be classified as loss assets by RBI or by the concerned bank. These three classifications of NPAs, namely, sub-standard, doubtful and loss assets are made to facilitate graded provisioning for NPAs by the banks.

The prevalence of NPA in a bank affects its financial performance in many ways as follows;

- As per IRAC norms, when the account becomes NPA, the bank cannot charge interest on the account. Therefore, interest income is affected.
- The statutory graded provisioning for NPA is made from the profits of the bank. Thus, the profits are affected.
- Identified NPAs in doubtful and loss category attracts maintenance cost including time and man-power for the follow-up measures, legal action, etc.
- Existence of NPAs affect bank's credibility and morale of the employees. Also it affects customer loyalty. The bank may face the threat of losing its customer base.
- The reduction of profit due to provisions for NPA, fails to strengthen the net worth of the bank. The low profit or loss weakens the capital formation. The weak capital formation will affect the financial performance and the image of the bank.

Therefore, assets quality is an important parameter to evaluate the bank's financial performance. The analysis of assets quality of the State Bank of India has been made in this study choosing State Bank of India (SBI) and two of the associate banks namely State Bank of Travancore (SBT) and State Bank of Bikaner & Jaipur (SBBJ). The position of NPAs in the sample banks is studied with the help of the following four ratios: 1. Gross NPAs to Gross advances; 2. Net NPAs to Net advances; 3. Gross NPAs to Total assets; and 4. Net NPAs to Owned funds i.e., Proprietors' risk ratio

Gross NPAs to gross advances

The ratio of gross NPAs to gross advances is a measure of the quality assets in a situation, where the management has not provided for NPAs. This ratio gives the first hand information about the quantum of NPAs under each category of NPAs, namely, sub-standard, doubtful and loss. The data about gross NPA helps the bank to take early steps to upgrade the NPAs to standard category by stepping up the recovery or by re-phasing the repayment period on case to case basis within the permissible norms. Increase in the ratio over the years denote the deterioration of quality of assets and decrease in the ratio over a period indicates the improvement in the quality of assets. Low level of NPAs exhibits the better credit management of the bank. Here the gross NPAs include all those accounts classified as sub-standard, doubtful and loss assets as on the date of balance sheet. Similarly, the gross advances include all the loans and advances, both performing and non-performing, as on the data of balance sheet.

Regarding SBI, the advances have grown up positively throughout the decade of study. The quantum of gross NPA in SBI has set an ascending order of increase throughout the study period from Rs.9,998.22 crores in 2006-07 to Rs.98,172.80 crores in 2015-16, except a reduction in 2014-15. A sharp increase of about Rs.41,447 crores in gross NPA is seen in 2015-16 over that of 2014-15. The rate of growth in gross NPA is more than that of gross advances. This is evident as the gross NPA has grown by about 10 times in 10 years whereas the gross advances have grown only by about 4.4 times during the same period. The ratios clearly state that during the first 5 years, the growth rate of gross NPA is slow and in the second half of the decade it has grown at a faster rate. The ratios are around 3.7 per cent during the first 5 years and it has been around 4.7 per cent in the next 4 years. The sudden jump of the ratio from 4.36 per cent in 2014-15 to 6.71 percent in 2015-16 is due to the alarming increase in gross NPA in 2015-16.

In SBT, the advances have set an ascending order of growth from 2006-07 to 2013-14 (8years) and then the amount declined to show Rs.65,466.27 crores in 2015-16. In case of gross NPA, the figures have not set any trend of increase or decrease, as the gross NPA has been reduced in 2008-09 (from 570.83 to 526.00) and in 2014-15 (from 3076.94 to 2357.05). As in the case of SBI, here also the rate of growth in gross NPA is more than the rate of growth in advances for SBT. The gross NPA has grown around 6 times in 10 years, whereas the gross advances has grown only around 2.6 times during the same period. The lowest ratio (1.61) and the highest ratio (4.89) are seen in 2008-09 and 2015-16 respectively. The ratio for SBT indicates that the rate of growth of gross NPA is more in second half of the decade of study.

Regarding SBBJ, the amount of advances has grown annually with positive increase throughout the period of study. In case of gross NPA, the quantum has grown every year from Rs.437.31 crores in 2007-08 to Rs.3,602.76 crores in 2015-16. Reduction in gross NPA is seen only in 2007-08 as the figure declined from Rs.463.03 crores in 2006-07 to Rs.437.31 crores in 2007-08. The growth of gross NPA in 9 years from 2006-07 is around 8.3 times. Whereas advances has grown by only 2.7 times during the same period of 9 years. From the column of ratios, the higher ratios in the second half of the decade exhibit the higher growth rate of gross NPA in the second half.

When compared the ratios of the sample banks, the growth rate of gross NPA is more in SBI. The alarming increase in the gross NPA in 2015-16 is undesirable. Such surprise growth in gross NPA is not seen in SBT or SBBJ. The growth rate of gross NPA is almost similar in SBT and SBBJ. For all the three sample bank, the ACGR is between 9 and 9.5 as the growth of gross NPA in all the three banks is vividly faster in the second five years of the study period. So, it is essential for the banks to monitor the NPAs and contain the ratio early.

Ratio of net NPAs to net advances

The ratio of net NPAs to net advances is the most standard measure of quality of loan assets. Net NPAs is the gross NPAs net of provisions for NPAs. Similarly, the Net advances is the gross advances net of provisions for NPAs. Thus, Net NPA = Gross NPA – Provisions for NPAs; and Net Advances = Gross advances – Provisions for NPAs

As per the prudential norms, the loan asserts are classified as standard, sub-standard, doubtful and loss assets. Subsequent to the initiation of prudential norms in 1992-93, RBI has amended the norms for IRAC and provisioning. At present, cushioning provision is made for standard assets to absorb probable future risk of non-recovery. Provision of 10 per cent on the sub standard assets, three slab rate provisions of 20 per cent, 30 per cent and 50 per cent on the doubtful assets based on the age of NPA and on the available security coverage of NPAs and 100 per cent provision for loss assets are made statutory under new prudential norms. These provisions are made by the banks from their profit and loss account. The provisions for NPA increases the quantum of reserves meant for a specific purpose, reduces the quantum of total advances and gross NPAs. Here, it is to be noted that the recovery of interest and instalments in NPAs help the bank to upgrade loan asset and thereby the provisions will be reversed to that extent.Thus, this ratio of net NPAs to net advances helps the banks to know the gravity of assets quality and to draw strategies to improve recovery so as to upgrade the NPAs from doubtful to sub-standard, sub-standard to standard and to arrest new creation of NPAs.

In case of SBI, the ratio has varied during the first 5 years, between the lowest at 1.56 and the highest at 1.79 but in the next 5 years, i.e., from 2010-11, the ratio increased annually, except a reduction in 2014-15. The ratio is higher in the second half than in the first half. The inference derived is that the net NPAs has grown in the second half, i.e., from 2011-12. In other words, NPAs are increasing in SBI and the increase is alarming in 2015-16, as the ratio of this year is the highest of the decade.

ISSN: 2235-767X
Volume 07 Issue 05
May 2019

In case of SBT also, the ratio of net NPAs to net advances is less during the first 5 years of the decade than that of next 5 years. The ratios have ups and downs throughout the decade of study, between 1.08 and 2.77. It is clear from the table that net NPA increased in SBT and it is more in 2013-14. In spite of reduction in 2014-15, the NPAs have shoot up in 2015-16. The average ratio of the decade is 1.51 and co-efficient of variation is 51.84.

Similar to the performance of net NPAs in SBI and SBT, in SBBJ also the ratio has increased in the second half of the decade and reached 2.75 in 2015-16. This position of the ratio reveal that the net NPAs have increased in SBBJ and the net NPAs are almost doubled in the last four years of the decade.

The ACGR for the ratio of SBI, SBT and SBBJ are 10.43, 11.03 and 10.83 respectively. The ACGR of these banks are almost similar as they are close to each other with narrow difference. The analysis of the data states that the net NPAs have been increasing in all the three sample banks during the second half of the decade of study. Further, it reveals that the increase in NPAs is alarming during the last three years of the decade. All the sample banks, have to draw strategies early to contain the NPAs and to make appropriate provisions, whereby the net NPAs will also be contained.

Gross NPAs to Total assets

The ratio of gross NPAs to total assets indicates the efficiency of the bank in assessing the credit risk and to an extent in recovering the debts. Loans and advances form the major and vital portal of total assets of a bank and normally it covers around 60 per cent of total assets. The investments cover around 20 per cent of the total assets. The advances and investments together occupy around 80 per cent of total assets. These two categories of assets contribute the total interest income to the bank and the interest income forms around 70 per cent to 80 per cent of the total income of the bank. The rate of interest earned from investments is always less than from advances. But, the risk of recovery of interest and principal is more in case of advances than in investments. The risk of creation of NPAs has more relevance with advances. Existence and enhancement of NPAs adversely affect the interest income of the bank and the impact will be visible in the decline of total income. Thus, the ratio of gross NPAs to total assets will help the bank to understand or evaluate the loss of assets quality at the incipient stage itself. Banks are expected to arrest the increase of this ratio taking appropriate steps, failing which, the bank may lose its income, profits and may lose its credibility also in long run.

As regards SBI, the ratio is higher in the second half than that of first half of the decade. The ratio increased from 1.76 in 2006-07 to 4.35 in 2015-16. The growth rate of NPAs is higher than that of total assets in SBI during the decade. The figures show clearly that the gross NPAs have grown around 10 times while total assets have grown only around 4 times during the same period of 10 years. It denotes that NPAs in SBI has grown, more particularly in 2015-16, the end year of the decade.

In case of SBT, the ratio of gross NPAs to total assets is similar to that of SBI, in the sense that the growth of NPA is more after 2011-12. Further, similar to SBI, the growth rate of gross NPAs (around 6 times) is higher than that of total assets (around 3 times) during the decade. It is clear that in SBT, NPAs have grown more in the last three years of the study period. The ratio increased from 1.42 in 2006-07 to 2.79 in 2015-16. The average of the decade is 1.93 and co-efficient of variation is 39.47.

Regarding the ratio of gross NPAs to total assets of SBBJ, the status does not differ much from that of the other two sample banks, SBI and SBT. The rate of growth of gross NPAs in SBBJ (around 8 times) is higher than that of total assets (around 3 times) for the decade. The ratio has grown more in the last few years of the decade and has shown the highest as 3.27 in 2015-16. Thus the table denotes that the NPAs of SBBJ have grown alarmingly in 2015-16.

The overall inference derived from this table is that, in all the three sample banks, the NPA level has gone up alarmingly in the last few years of the decade and touched almost the maximum in 2015-16 for the decade. Though the growth is seen both in gross NPAs and total assets, the rate of growth in gross NPAs is high. Hence, all the three sample banks have to concentrate early to control the growth of NPAs through improved recovery and overall credit management.

Proprietors' risk ratio

Proprietor's risk ratio is the ratio of net NPAs to owned funds. Net NPA = Gross NPA – Provisions made for NPA; and Owned funds (equity) = Capital + Reserves + Surplus. Shareholders are the proprietors who contribute capital and ultimate owners of a business including banking business. Shareholders always expect improved performance of the bank so as to earn improved dividends. Increased NPA position in a bank decreases the income, provision for NPA eats away a sizeable portion of existing income, non-addition of surplus weakens the capital and the resultant of these adverse features of NPA increases the risk of loss to the Proprietor or shareholder. Thus, the ratio of net NPAs to owned funds or the proprietor's risk ratio serves as an important indicator for the occurrence of loss, which may weaken the capital. Increase of this ratio in every subsequent year exhibits clearly the decrease in profit or increase in loss. Consequently, the capital will get eroded. Therefore, this ratio cautions the management of the bank about the erosion of capital and weakening of its CAR.

In case of SBI, the amount of net NPAs has grown by about 10 times in 10 years, whereas the amount of owned funds has grown only about 4.5 times during the same period. Thus the growth rate of net NPAs is higher than that of owned funds. The ratio increased from 16.80 in 2006-07 to 38.68 in 2015-16. The ratio calculated for the last four years of the decade denotes that the net NPAs of SBI has grown more than the average and touched the maximum of the decade in 2015-16.

In case of SBT also, the amount of net NPAs has grown by around 7 times while that of owned funds by only around 4 times in 10 years period. The growth of net NPAs has been fast in the second half of the decade. The ratio has ups and downs throughout the decade of study between 16.73 in 2006-07 to 30.12 in 2015-16. The highest ratio is seen in 2013-14 (38.88). The reduction of net NPAs in 2014-15 has not been maintained by SBT and thereby it increased again in 2015-16.

As seen in SBI and SBT, in SBBJ also, the growth rate of net NPAs is more than that of owned funds. The growth of net NPAs in 10 years is around 9 times and that of owned funds in around 4 times. The ratio increased from 13.47 in 2006-07 to 29.74 in 2015-16. The higher ratios are seen in the second half of the decade, i.e., the ratios 33.06 and 29.74 are seen in 2013-14 and 2015-16 respectively.

In all the three sample banks, namely, SBI, SBT and SBBJ, the rate of growth in net NPAs is higher than that of owned funds and hence the ratio has grown, in spite of reduction in some intermediate years. The ratio of last 3 years denote clearly that all the 3 sample banks have taken steps to reduce net NPAs and succeeded to some extent in 2014-15. However, all the 3 banks have failed to repeat the success and thereby the ratio has grown in 2015-16, the end year of the study.

As the stock of NPA that exists in a bank causes the continuous erosion of profits, banks have to draw strategic plans to reduce these NPAs through effective measures of recovery. Further, banks have to exercise almost caution in arresting the creation of new NPAs, as these fresh NPAs pose visible threat to the bank's efficiency in its credit management. Incessant efforts, without any sort of sluggishness, are essential on the part of bank management to keep the percentage of NPA at the minimum level.

ANOVA

With a view to examine whether the NPA is the same on the average over the years of study period, the test for the equality of the means is carried out using the One-way Analysis of Variance procedure.

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	9.961	2	4.98	3.441	0.047
Within Groups	39.081	27	1.447		
Total	49.041	29			

Post Hoc Tests - Duncan Method

Bank	N	Subset for alpha = 0.05	
		1	2
SBT	10	2.8000	
SBBJ	10	2.9740	
SBI	10		4.1000
Sig.		0.749	1.000

Means for groups in homogeneous subsets are displayed.

a. Uses Harmonic Mean Sample Size = 10.000.

From the ANOVA table, it is observed that the F ratio is 3.441. The significant value is 0.047 and it is lower than 0.05. Hence, the null hypothesis is rejected, which means that the average NPA is not the same for all the banks over the years. It may be said that there is significant difference in NPAs of SBI, SBT and SBBJ. Further, by using Duncan method, the NPA of select banks is grouped into two groups based on the banks.

ISSN: 2235-767X
Volume 07 Issue 05
May 2019

Conclusion

The risk of recovery attached to loan assets is more than that of any other category of assets. While the average ratio of gross NPAs to gross advances around 3 to 4.5 per cent, the ratio of net NPAs to net advances are around 1.5 to 2 per cent for the sample banks. However, the performance of the sample banks during the last few years of the study period exhibit their failure to contain their NPA level within their respective average level for the decade. The proprietor's risk ratio of the sample banks indicates the gravity of their performance as their net NPAs are around 23 to 24 per cent of their respective owned funds. Therefore the select banks have to enhance their recovery performance.

References

1. www.sbi.co.in
2. https://en.wikipedia.org/wiki/State_Bank_of_India
3. www.sbbjbank.com
4. https://en.wikipedia.org/wiki/State_Bank_of_Travancore
5. www.sbt.co.in
6. https://en.wikipedia.org/wiki/State_Bank_of_Travancore
7. Annual reports of sample banks.

ISSN: 2235-767X
Volume 07 Issue 05
May 2019

NPA Ratios

(in percent)

Year	Gross NPAs to Gross Advances			Net NPAs to Net Advances			Gross NPAs to Total Assets			Proprietors' risk ratio		
	SBI	SBT	SBBJ	SBI	SBT	SBBJ	SBI	SBT	SBBJ	SBI	SBT	SBBJ
2006-07	2.96	2.18	2.26	1.56	1.08	1.09	1.76	1.42	1.34	16.80	16.73	13.47
2007-08	3.08	2.03	1.74	1.78	0.94	0.83	1.78	1.29	1.06	15.14	15.58	12.20
2008-09	2.90	1.61	1.64	1.79	0.58	0.85	1.63	1.06	1.06	16.70	8.34	12.36
2009-10	3.09	1.67	1.74	1.72	0.91	0.77	1.85	1.08	1.13	16.48	12.34	11.22
2010-11	3.35	1.81	2.03	1.63	0.98	0.83	2.07	1.18	1.33	19.00	13.02	11.97
2011-12	4.57	2.69	3.35	1.82	1.54	1.92	2.97	1.73	2.28	18.84	22.08	22.70
2012-13	4.90	2.59	3.68	2.10	1.46	2.27	3.27	1.72	2.46	22.20	22.65	27.36
2013-14	5.09	4.43	4.26	2.57	2.78	2.76	3.44	2.92	3.01	26.29	38.88	33.06
2014-15	4.36	3.43	4.23	2.12	2.04	2.54	2.77	2.23	2.88	21.48	24.42	29.42
2015-16	6.71	4.89	4.94	3.81	2.77	2.75	4.35	2.79	3.27	38.68	30.12	29.74
Average	4.56	3.02	3.41	2.09	1.51	1.66	2.89	1.93	2.27	23.47	23.11	24.10
CV	30.49	42.40	41.71	32.21	51.84	52.19	35.29	39.47	44.80	33.10	45.07	43.88
ACGR	9.50	9.39	9.10	10.43	11.03	10.83	10.53	7.80	10.39	9.71	6.75	9.20

Source : Compiled from the annual reports of selected banks.