

Non Performing Assets in SBI (State Bank of India)

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Abstract

The three letters Strike terror in banking sector and business circle today. NPA is short form of 'Non Performing Asset'. The problem of NPA has troubled the entire Indian Banking Sector. The major reason for the increasing graph of NPA is focusing on quantitative aspect of achieving targets and less attention towards qualitative aspect of lending of money.

Changes should be required to tackle NPA problem which results in effective results. The significance of the paper is expected to be an immense use to the society and to the various banks dealing with NPA problem. This study provides the information related to this problem. The basis of this paper was the survey done from the SBI Meerut Branch of the years 2010, 2011 & 2012.

Key words: Overdraft/Cash Credit (OD/CC), PSBs, MIS

1. Introduction

NPA is short form of 'Non Performing Asset'. We know the built up of NPA has been the major factor in destroying the profitability of the Public sector Banks in India, the Narasimham Committee (II) underscored the need to reduce the average level of NPAs of all banks and recommended prudential norms on income recognition, asset classification & provisioning. The dreaded NPA rule says simply this: when interest or other due to a bank remains unpaid for more than 90 days, the entire bank loan automatically turns a non performing asset¹. The recovery of loan has always been problem for banks and financial institution¹. To come out of these first we need to think is it possible to avoid NPA, no cannot be then left is to look after the factor responsible for it and managing those factors³. With a view to moving towards international best practices and to ensure greater transparency, it has been decided to adopt the '90 days' overdue' norm for identification of NPAs, from the year ending March 31, 2004³. Accordingly, with effect from March 31, 2004, a non-performing asset (NPA) shall be a loan or an advance where¹.

- i. Interest and/or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan.
- ii. The account remains 'out of order' for a period of more than 90 days, in respect of an Overdraft/Cash Credit (OD/CC).
- iii. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
- iv. Interest and/or installment of principal remains overdue for two harvest seasons. But for a period not exceeding two half

years in the case of an advance granted for agricultural purposes.

2. Classification of Bank Assets

1. NPA: An asset is classified as non-performing asset (NPAs) if dues in the form of principal and interest are not paid by the borrower for a period of 90 days⁴.
2. Standard Assets: Such an asset is not a non-performing asset. In other words, it carries not more than normal risk attached to the business⁴.
3. Sub-standard Assets: It is classified as non-performing asset for a period not exceeding 18 months⁴.
4. Doubtful Assets: Asset that has remained NPA for a period exceeding 18 months is a doubtful asset⁴.
5. Loss Assets: Here loss is identified by the banks concerned or by internal auditors or by external auditors or by Reserve Bank India (RBI) inspection⁴.
6. Statutory Liquidity Ratio (SLR): It is the one which every banking company shall maintain in India in the form of cash, gold or unencumbered approved securities, an amount which shall not, at the close of business on any day be less than such percentage of the total of its demand and time liabilities in India as on the last Friday of the second preceding fortnight, as the Reserve Bank of India (RBI) may specify from time to time.
7. Cash Reserve Ratio (CRR): It is the reserve which the banks have to maintain with itself in the form of cash reserves or by

way of current account with the Reserve Bank of India (RBI), computed as a certain percentage of its demand and time liabilities². The objective is to ensure the safety and liquidity of the deposits with the banks.

3. Literature Review

- Prashanth K Reddy, D 904, emphasis on the importance of sound understanding of the macro economic variables and systematic issues pertaining to banks and the economy to solve the NPA problem along with the critically strong legal framework and legislative framework.
- Dr. A. Shyamala Assistant Professor of Economics, M.S.S. Walk Board College, Affiliated to Madurai Kamaraj University, Madurai on the topic NPAS in Indian banking sector: impact on profitability which gives us idea about the impact of NPA in profitability of public sector banks.
- Poongavanam. S H.O.D., Department of Management studies, Ranipettai Engineering College, Thenkaddapanthangal, Walaja Taluk, Vellore District. -632513 Tamil Nadu. Asian Journal of Institution assub-standard, doubtful or loss asset, in accordance 'Nonperforming assets: Issues, Causes and remedial solution' they provide remedies about the performance of NPAs and reasons of having troubles because of NPAs (Management Research, Volume 2, Issue 1, 2011, Page 123).

So with the help of these past researches we have a clear path and guidance about the NPAs and there remedies and causes and a way to complete the research to study NPA of SBI, Meerut and to be able to achieve all the objectives regarding the research and gives suggestions and findings.

4. Objectives

- To analyze the quantum of NPA in banks
- To study the impact of NPA on profitability of both banks
- To study the impact of NPA on proficiency of both banks
- To evaluate and made comparison of NPAs (Gross and Net) in between Bank of Baroda and Bank of India.
- To study the past trends of NPA
- To learn Preventive Measures

5. Significance

- Concept of Non Performing Asset
- Guidelines
- Impact of NPAs
- Reasons for NPAs
- Preventive Measures

6. Research Methodology

6.1 Type of Research

The research methodology adopted for carrying out the study:

1. Descriptive Research Methodology.
2. First Phase: Theoretical Study is attempted.
3. Second Phase: Historical Study is attempted.
4. Third Phase: Comparative Study of NPA is undertaken.

6.2 Type of Data

The research data adopted for carrying out the study was secondary data.

6.3 Source of Data Collection

Websites, research articles, direct interaction with banking officials.

7. Limitations

Procuring the financial data of all the SBI was critical because the Indian banking sector is wide, so the better evaluations of the performance of the banks were not possible.

8. Questionnaire with Data Analysis

- 1) Total NPA of different years? (Data⁵)

9. Findings

This shows that 2010 is having the highest NPA whereas 2012 is having the least.

- 2) Position of SBF, SSI's, Personal loans, Agricultural sectors NPA in SBI ? (Data)

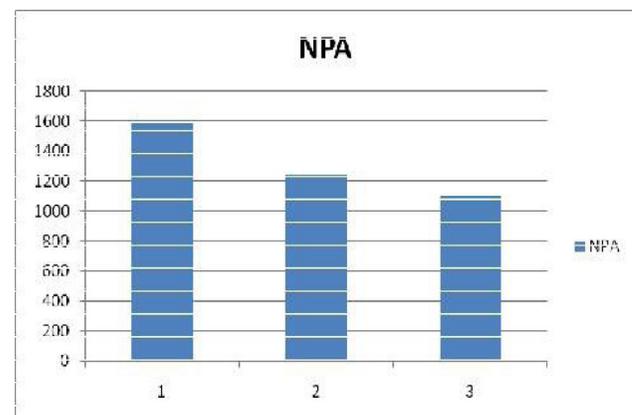


Figure 1. NPA

Year	2010	2011	2012
Amount	1591.87	1246.26	1101.99

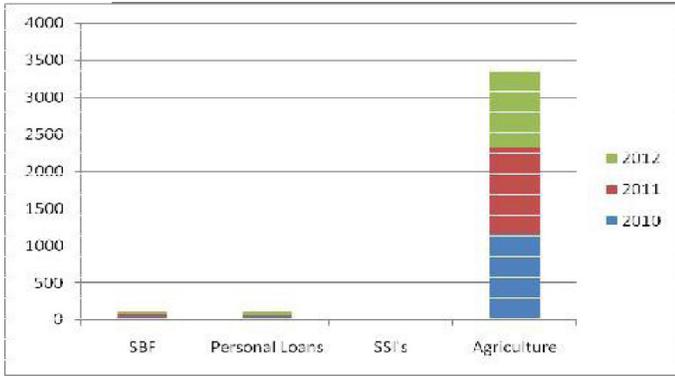


Figure 1. Comparative View of 2010, 2011 and 2012

Year	SBF	Personal Loans	SSIs	Agriculture
2010	34.3	35.08	1.09	1150.89
2011	52.12	28.99	1.10	1162.61
2012	18.99	41.85	1.00	1038.52

9.1 Discussion

Bank is having highest NPA in agricultural sector as SBI, Sonipat is near by rural places and lot of agricultural transactions is conducted. Banking sector plays an indispensable role in economic development of a country through mobilization of savings and deployment of funds to the productive sectors. Currently the Indian banking sector is not in a good health. The symptoms of the disease are vastly apparent viz. rising NPAs, high labor costs, competition from mutual funds, bureaucratic hurdle etc.

10. Conclusion

From the above analysis and interpretation we can say that the paper stresses on the sound understanding of the macro economic variables. The gross NPA and net NPAs directly affected all the flows of every bank of the country, NPAs direct affect the profitability of the banks. Above tables shows the gross NPA situation and loss situation. Form the given data and information we can analyse the effects of NPAs in banking sector and it also shows the different acts given by Indian banking association and Indian government. NPA means booking of money in terms of bad asset, which occurred due to wrong choice of client. Because of the money getting blocked the prodigality of bank decreases not only by the amount of NPA but NPA lead to opportunity cost also as that much of profit invested in some return earning project/asset. So NPA doesn't affect current profit but also future stream of profit, which may lead to loss of some long-term beneficial opportunity. Another impact of reduction in profitability is low ROI (Return On Investment), which adversely affect current earning of bank.

11. References

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