A STUDY ON NON-PERFORMING ASSETS MANAGEMENT AT STATE BANK OF INDIA, ANANTHAPURA GATE, BANGALOREKARNATAKA

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I. Abstract

Non-performing assets (NPAs) are advances that are not repaid or serviced by the borrowers, posing a risk to the financial stability and profitability of banks. This research aims to inspect the management of NPAs at 'State Bank of India' (SBI), one of the largest public segment banks in India. The study has four objectives: to study the gross and net NPAs position at SBI, to analyse the sector-wise and segment-wise NPAs position at SBI, to ascertain the extent of provisions made for NPAs, and to determine the impact of NPAs and provisions on the profitability of SBI. The learning uses secondary data from the annual reports of SBI for the period from 2019 to 2023. The study employs descriptive statistics, correlation analysis, and hypothesis testing to analyse the data. The study discoveries that SBI has improved its asset quality and credit risk management over the five-year period, as evidenced by the declining trend of gross and net NPAs, the of NPAs in high-risk sectors, and the increase in provisions and profitability. The study also finds that there is a significant relationship between gross and net NPAs, and that there is a difference between provisions and net profit. The study suggests that SBI should focus on reducing the NPA ratio of the industries with high exposure and default rates, diversifying its loan portfolio, and strengthening its credit assessment, monitoring, and recovery systems. The study concludes that SBI has successfully managed its NPAs and enhanced its financial performance, which is beneficial for the country's growth andeconomic growth.

Key words: Non-performing assets, Gross NPA, Net NPA, Sector wise Performance, Provisions, Profitability

II. Introduction

Banks & extra financial organizations may offer credits or advances that are referred to as non performing assets (NPAs) because the borrower has missed at least 90 days of principal and interest payments. Non-Performing Asset (NPA) Types depending on how long they are classified as non-performing assets (NPAs), different categories of NPAs exist. Substandard

Assets -If an asset stays an NPA for fewer than/equal to 12 months, it is categorized as a sub standard asset. Doubtful Assets- If an asset continues to be a non-performing asset (NPA) for extra than a year, it is measured a doubtful asset. Loss Assets -When an asset is "uncollectible" or has such little value that maintaining it as a bankable asset is not recommended, it is referred to as a damage asset. However, since the asset hasn't been completely or partially written off, some recovery value may still be present.

Provision for Non-performing assets

The sum of money that banks & financial establishments set aside from their profits to cover anticipated losses resulting from NPAs is called as a provisions for non-performing assets (NPA).. Making ensuring financial organisations have sufficient cash put to one side to handle the effects of poor loans on their balance sheets is a good accounting practise.

If a credit is listed as an NPA, it is dangerous and there is a chance that the borrower could fully or partially default on the loan. Banks make provisions by setting aside a share of their profits to establish a reserve specifically designated for potential NPA losses in demand to account for this risk.

The NPA provision has a lot of uses:

1. Loss Absorption

It serves as a stopgap to absorb any possible losses brought on by loans going bad. Banks safeguard their capital base and ensure that NPAs do not materially damage their financial health by making provisions.

2. Prudent Accounting

NPA provisions are made in accordance with accounting principles and legal regulations. According to how NPAs are categorised and age, as determined by regulatory organisations, financial institutions are required to make suitable arrangements.

3. Risk Management

By recognising the potential losses linked to NPAs, it aids banks in managing credit risk effectively. A healthy loan portfolio may be maintained and the effects of defaults can be minimised with adequate provisioning.

Causes for the increase in NPA in India

The occurrence of non-performing assets (NPAs) has a negative influence on the profit margins of banks, creating stress within the lending sector and limiting the availability of funds for other projects. In the case of public sector banks, NPAs lead to poor returns for the government, subsequently reducing funding for social & infrastructural development initiatives in the country. The pressure to generate business often results in the fabrication of documents with inflated asset values. Consequently, loans are sanctioned based on manipulated data, leading to higher loan amounts. This practice allows even ineligible individuals to obtain substantial loans, which eventually pay to the rise in NPAs. The negligence of bankers, whether intentional or due to a lack of credit knowledge, can also contribute to accounts turning into NPAs.

Check list for NPA reduction

1. Loan restructuring
2. Asset reconstruction companies (ARCs)
3. Recovery mechanisms
4. Write-offs
5. Early identification

Recovery mechanisms Debt recovery tribunals

1. Lok Adalats
2. Compromise settlement
3. Credit information bureau
4. Saefaesi act

III. Literature review

1. Name: Mr. Kartik Ramaswamy

Title: Impact of NPA on Profitability of Banks

Year: May 2020

The banks serve as the main driver of economic growth in India. Everyone has diverse demands, such as those who need a loan to purchase a home or farm equipment, etc. The financial Credit demands. The development & extension of the economy have been badly hampered by NPA(Non-Performing Assets), a significant cause. The consequence of Non- Performing Loans on bank income is covered in this study. This learning offers suggestions for the efficient management of NPAs while analysing the effects of a few significant financial heads on bank NPAs. Five banks (public and private) with the greatest NPAs were selected forthe survey based on RBI data for the years 2014–2015 to 2018–2019.

2. **Name:** Thangam, K. Seethal

Title: Perception of Non-Performing Assets (NPA) in State Bank Of India

Year: November 2019

The objective of this examination is to observe how (SBI) perceives non- performing assets (NPAs), specifically defaulting borrowers. Madurai is the study location. Twenty-two variables were revealed by the researcher. The study has employed a convenience sample technique to the respondents to the current study should be identified. Primary bases for data occupied from researchers. The information was gathered from the delinquent debtors via surveys. 175 debtors who are in default provided answers. The researcher has utilised weighted average techniques, percentages, furthermore chi-square testing. Seven of the top 10 causes, stated by analysis, are connected to the demographic variables of educational attainment and monthly income. Thereare seven causes the borrowers unable to refund the loan.

3. **Name:** Sharma S Rathore D.S & Prasad J.

Title: Analysis of npa's in banking sector

Year:2019

Their findings reveal that in both Public & Private sector banks, the primary cause of Non- Performing Assets (NPAs) is the improper utilization of bank loans coupled with inadequate recovery management. The incidence of NPAs is on the rise within the agricultural and industrial sectors. Their recommendations center on enhancing corporate governance practices to facilitate improved operational efficiency and more informed credit-related choices.

4. **Name:** Rana C.

Title: NPA management within the framework of the Indian banking system

Year:2019

The study on Non-Performing Asset (NPA) management within the framework of the Indian Banking System reached the verdict that NPAs exert a negative influence on profitability, liquidity, and lead to credit losses. Within the realm of NPAs, two categories exist: gross NPA and net NPA. Furthermore, NPAs also contribute to a decreased yield on advances and produce an adverse effect on capital adequacy. In terms of preventative actions, the researcher proposed discontinuing multiple financing practices and advocating for the prompt identification of issues at an early stage.

5. **Name:** Santosh Kumar Das & Khushboo Uppal

Title: NPAs &profitability in Indian banks: an empirical analysis

Year:2021

Commercial banks, as financial intermediaries, rely heavily on the success of their lending as a key source of revenue. The percentage of non-performing advances has significantly grown in recent years as a result of an increase in loan defaults, which has had a negative effect on their profitability. By evaluating the profitability factors for 39 public and private banks for the years 2005 to 2019, the article has looked at the link between NPAs and profitability. We discovered that NPA has a detrimental effect on the rate of profitability of Indian banks using a set of bank-specific and macroeconomic variables of profitability. According to the survey, banks must cut operational expenses and NPAs to increase profitability.

Research gap

The findings of this study recommend that NPAs have a detrimental outcome on the profitability of both private and public sector banks in India. Public sector banks face a greater challenge in managing NPAs, highlighting the need for effective measures to improve their asset quality. The study emphasizes the importance of proactive NPA management to maintain profitability and financial stability in the banking sector. Future research can explore specific strategies and policies that can help reduce NPAs and enhance the profitability of banks in India A more thorough understanding of the NPA position, provisions, and their impact on profitability at the State Bank of India can be attained by addressing these potential research gaps.

Objectives of the study

- To Study the Gross non-performing assets and Net non-performing assets position atstate bank of India
- To analyse the sector wise segment wise non performing position at State bank of India.
- To ascertain the extent to which provisions has been made on the various sectors
- To Determine the extent to which provisions and quality of assets is affecting the profitability @ State bank of India.

IV. Research design:

- Secondary data based analytical analysis
- Data is taken from the company's balance sheet, financial statement
- Analysis of 5 years data
- A sample of 28 industries has been taken for the study .

Data collection

To obtain information, source secondary data are utilised. The following is a more detailed listof them:

Secondary data

In this study, secondary data is gathered from a variety of sources, including State bank of Bank annual reports and accounts, news announcements from the RBI, journals on banking, economics and finance, interest, etc.

Tools for analysis

The data collected is analysed through the following tools:

1. Charts
2. Tables

Sampling

A sample of 28 industries has been taken for the study.

Types of hypothesis

1. Null Hypothesis
2. Alternative Hypothesis

For this study we requires these hypothesis,

H1: There is a significance relationship between Gross non-performing assets and netnonperforming assets

H0: There is no significance relationship between Gross non-performing assets with net non-performing assets

H1: There is a difference between provisions & Net profit

H0: There is no difference provisions and & Net profit

V. Analysis

Data analysis & interpretation were done using SPSS software.

STATISTICAL TEST (T- Test)

Statistical Test on Gross Non-Performing Assets with Net non-performing assets from the yearof 2019 to 2023

TABLE DISPLAYING THE TOTAL GROSS NON-PERFORMING ASSETS (NPAS)AND NET NPAS FOR THE LAST 5 YEARS

Year	Gross NPA	Net NPA
2019	172750	65895
2020	149092	51871
2021	126389	36810
2022	112023	27966
2023	90928	21467

Paired Samples Correlations

		N	Correlation	Significance	
				One- Sided p	Two-Sidedp
Pair 1	Gross non performing assets & Net non performing assets	5	.993	<.001	<.001

Paired Samples Test

		Paired Differences					t	df	Significance	
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference					
					Lower	Upper			One- Sided p	Two-Sided p
Pair 1	Gross non-performing assets - Net non-performing assets	89434.60000	14071.09174	6292.7 353	71963.03197	106906 1680	14.2 2	4	<.001	<.001

Interpretation

The paired samples correlation between gross non-performing assets and net non-performing assets is very high (.993) and statistically significant (<.001). This means that there is a strong Positive linear relationship between the two variables, and that this relationship is unlikely to be due to chance. The Paired samples test reveals that the standard difference between gross non-performing assets and net non-performing assets is 89434.60000, with a standard deviation of 14071.09174 and a standard error of 6292.78353. The 95% confidence interval of the change is (71963.03197, 106906.16803), which means that we are 95% confident that the truemean difference lies within this range

The paired samples test also displays that the t-statistic is 14.212, with 4 degrees of freedom and a p-value of <.001 (both one-sided and two-sided). This means that the mean difference between gross non-performing assets and net non-performing assets is very large and statistically significant, and that this difference is unlikely to be due to chance. Therefore, based on your hypotheses, reject the null hypothesis (H0) and receive the alternative hypothesis (H1). There is a significant relationship between gross non-performing assets and net nonperformingassets.

STATISTICAL TEST ON PROVISIONS WITH PROFIT FROM THE YEAR OF 2019TO 2023

TABLE DISPLAYING THE TOTAL PROVISIONS AND NET PROFIT FOR THE LAST 5 YEARS

Years	Provisions	Net Profit
2019	54529	862
2020	42776	14488
2021	27244	20410
2022	14087	31676
2023	9144	50232

Paired Samples Correlations

		N	Correlation	Significance One-Sided p	Significance Two-Sided p
Pair 1	provisions & Net profit	5	-.949	.007	.014

Paired Samples Test

		Paired Differences					t	df	Significance	
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference Lower	95% Confidence Interval of the Difference Upper			One-Sided p	Two-Sided p
Pair 1	provisions - Net profit	6022.40000	37226.70931	16648.29052	-40200.66473	52245.46473	.362	4	.368	.736

Interpretation

The Paired samples correlations indicate that there is a strong negative correlation of approximately -0.949 between provisions and net profit. This correlation suggests that, in general, as provisions increase, net profit tends to decrease. The significance values for both one-sided and two-sided tests are relatively low (0.007 and 0.014, respectively), which recommends that this correlation is statistically significant. This means that the observed correlation is unlikely to have occurred by random chance. Moving on to the paired samples test, we have compared the differences between provisions and net profit for each pair. The mean difference is 6022.4, indicating that, on average, provisions are higher than net profit by this amount. The standard deviation of the differences is quite large (37226.70931), indicating variability in the differences. The calculated t-value is 0.362, and the degrees of freedom (df) are 4. The significance levels (one-sided p and two-sided p) are 0.368 and 0.736, respectively. These p-values represent the probability of observing the given t-value or more extreme values under the null hypothesis. In this case, the null hypothesis (H0) states that there is no difference between provisions and net profit.

VI. Limitations:

- The investigation pertains to NPAs within SBI, with no inclusion of NPAs in otherbanks.
- This examination exclusively relies on data from the past 5 years, which might impose constraints.
- Time constraint.

VII. Findings

- From 2019 to 2023, gross NPAs showed a falling trend, pointing to an development in the bank's asset quality.
- The Bank has been successful in recovering or providing for a sizable amount of its NPAs, demonstrated by the reality that, net NPAs have also reduced over time.
- It is important to mention that the "Infrastructure" sector routinely makes up a substantial portion of the overall NPAs draws consideration to the difficulties in managing loans for large infrastructure projects.
- Electricity had the lowest NPA ratio in 2023, with a GNPA ratio of only 0.03% and a NNPA ratio of 0%. this signifies that in 2023, the SBI loans to the electrical sector practically never defaulted or were late. One possible rationale for this could be that the government provided subsidies to the electricity industry, there was regulatory assistance, or there was a rise in demand for electricity during the pandemic.
- Over the years, the bank's net profit has steadily increased. This implies that the bank's efforts to control its NPAs and provisioning procedures have had a favorable impact onits earnings.

VIII. Suggestions:

- The bank would concentrate on lowering the NPA ratio of the industries with high exposure and default rates, such as infrastructure, iron and steel, other industries, NBFCs and trading, and residual advances, in direction to improve the asset quality and credit risk management of SBI. to lessen the risk of concentration.
- The Bank must enhance the PCR of the industries with low provision coverage and high NPA ratios, such as infrastructure, petroleum, gems and jewellery, and construction, in instruction to increase provision coverage and protect against possibleNPA losses.

➢ Strengthen real-time risk monitoring for industries with varying NPAs, such as "Automobiles & Trucks" and "Petroleum." Proactive intervention can be facilitated by early detection of indicators of financial problems.

➢ The bank should also focus on the bank's capacities for recovering non-performing assets, such as

- The Lak Adalat
- Debt Recovery Tribunals (DRT)
- Sarfaesi Act
- Banks should concentrate primarily on OTS facilities.

IX. CONCLUSION:

The study conducted on non-performing assets at SBI Bank allowed researcher to understand the importance of NPAs in today's competitive landscape, where numerous banks are functioning and contending for advancement in the worldwide economy.

As per the research, there has been a notable reduction in the volume of NPAs, leading to the Bank's enhanced profitability and efficiency. The results obtained demonstrate that over the five-year period from 2019 to 2023, the industry sectors' financial performance and asset quality underwent an unexpected reversal. They have efficiently overseen their credit risk, increased provisions, increased profitability, and decreased NPAs. This is encouraging for the nation's development and economic progress. There has remained a significant improvement in the asset quality and financial performance of the industries, as demonstrated by the observation that the total NPA (non-performing assets) of the industry sectors has reduced from 221,938.54 crores in 2019 to 105,775.27 crores in 2023.The industries' net profit climbed from 862 crores in 2019 to 50,232 crores in 2023, indicating a significant improvement in their profitability and operational effectiveness. Researcher also made some advices for addressing the causes of the rising NPAs, which might also assist bank officials in putting existing and potential new NPAs in the bank under control.

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