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Classification and Management of NPA in Commercial Banks with reference to SBI-A Case study of Odisha

Manoj Kumar Sahoo.[1]* and Muralidhar Majhi.[2]

Dept. of Economics, Sambalpur University, Jyoti Vihar, Burla, Odisha, Pin-768004.
E Mail:mksahoomba@gmail.com
Asst. Professor in Economics,School of Economics , G. M. University, Sambalpur,
Odisha, Pin-768004,E mail: muralisbp1974@gmail.com

ABSTRACT

Non-performing assets is one of the main concerns for Commercial banks in India as the three letters Strike terror in banking sector and business circle today. NPA reflects the performance of the commercial banks. A rising NPA level implies a greater percentage of credit defaults that affect the profitability and capital adequacy of banks and at the same time reduce the value of assets. This study analyzes the NPA levels of State Bank of India in Odisha province, India. In addition, this study addresses the classification of NPA-like standard assets, sub-standard assets, doubtful assets and loss assets, which are very important for this analysis. The current research has been analyzed with the help of various statistical tools such as correlation, regression and Anova taking the twelve-year data of the State Bank of India in Odisha. Finally, some suggestions have been made to reduce the level of NPA for the bank.

KEY WORDS: Advances, Non-Performing Asset, Commercial Banks, Profitability

*Corresponding author

Manoj Kumar Sahoo

Research Scholar,

Dept. of Economics, Sambalpur University,

JyotiVihar, Burla, Odisha, Pin-768004.

E Mail:mksahoomba@gmail.com

INTRODUCTION:

The banking business has developed from Independence, especially after the implementation of LPG policy. The industry is currently estimated at Rs 115 million and it is expected to be more than Rs 288 billion in 2020. Besides this 70% business is made by PSU banks. The interesting fact is that the SBI market share from each bank's business is 22%. Usually, NPA is any asset of a bank which is not producing any income. The NPA must be checked before the problem strikes. The rise in the NPAs has often been targeted at the economic slowdown of the country. It is believed that with slow economic growth and sharp increase in interest rate, companies have found it difficult to repay the loan, and which add to the rising NPAs. Higher level of NPA forced the banks to charge higher PLR and PLR related interest rates. This will attract high- risk borrowers which, in turn, may result in higher level of non- performing advances in future. Large borrowers are found to be the principal defaulters. Hence, Indian banking sector is facing a serious problem of NPA. The extent of NPA is comparatively higher in public sectors banks. To improve the efficiency and profitability, the NPA has to be scheduled. Various steps have been taken by government to reduce the NPA. It is highly impossible to have zero percentage NPA. But at least Indian banks can try competing with foreign banks to maintain international standard.

CLASSIFICATION OF LOAN ASSETS:

For the evaluation of bank performance, it is important to identify the quality of assets of the bank. In the light of Narasimham Committee recommendations, the Reserve Bank of India has redefined the non-performing assets and advised all commercial banks in public sector, old and new private sector banks, development banks and the co- operative banks, to classify their advances into four broad categories i.e. Standard, Sub- standard, Doubtful and Loss assets. The standard assets are treated as performing assets and the remaining three categories are treated as non-performing assets. Banks loan assets have been classified into four categories. These are -

I. Standard assets

II. Sub-standard assets

III. Doubtful assets; and

IV. Loss assets

I. Standard Assets: are those, which do not disclose any problem and do not carry more than normal risk attached to the business. Such assets are considered to be performing asset. A general provision of 0.25% has to be provided on global loan portfolio basis.

II. Sub-Standard Assets: With effect from 31 March 2005, a substandard asset would be one, which has remained NPA for a period less than or equal to 12 months. Such an asset will have well defined credit weaknesses that jeopardize liquidation of the debt and are characterized by distinct possibility

that bank will sustain some loss. Accordingly a general provision of 10 % on outstanding has to be provided on substandard assets.

III. Doubtful Assets- These are the assets which have remained NPAs for a period exceeding 12 months and which are not considered as a loss advance. Banks have to provide 100 percent of the unsecured portion of the outstanding advance after netting realized amount in respect of DICGC scheme (Deposit Insurance and Credit Guarantee Corporation) and realized/realizable amount of guarantee cover under ECGC (Export Credit Guarantee Corporation) schemes.

IV. Loss Assets – Loss assets are those where loss has been identified by the bank or internal /external auditors or RBI inspectors but the amount has not been written off, wholly or partially. Any NPAs would get classified as loss assets if they were irrecoverable or marginally collectible and cannot be classified as bankable asset. Companies have to provide 100% of these outstanding advances.

LITERATURE REVIEW:

Kaveri[1] studied the non- performing assets of various banks and suggested various strategies to reduce the extent of NPAs. Das Abhiman[2]the major conclusion of this study was that NPA, poor management and congestion of labour are the main cause of poor performance in PSBs. — Nagananthini T[3] attempted to study the trends in profitability, efficiency and NPA of SBI and its associate banks considering interest, working funds, interest expense, gross profits, net profits, spread, etc. that the profitability is on an increasing trend. "Per employee" and "per branch" indicators were worked out and they showed that the efficiency of the firms has increased all the banks during the study period and declined in gross and net NPA. Kanika Goyal[4] on her article sheanalysed the trend of gross NPAs, Net NPAs, Asset quality of asset, health of diverse categories of loan assets, sector wise NPA etc. The data has been analysed using percentage method and statistical tools such as descriptive statistics, correlation and regression analysis, adjusted co-efficient of determination, one way ANOVA and post hoc – Tukey HSD procedure. Kaur H and Saddy NK[5]attempted to know about NPA, the factors responsible for the contribution towards NPAs, the magnitude and reasons for high NPAs and their impact on Indian banking operations. K. Veerakumar[6]analysed to gain insights into the position of NPAs in priority sector advances by scheduled commercial Banks (SCBs) i.c. public, old and new private and foreign banks have been considered. To analyze ratio analysis, Average, percentage, polynomial Trend analysis co- efficient correlation and multiple linear regression analysis and 't' test have been used. According to Ganesan and Santhanakrishnan[7] the bank's profitability can be reduced only by effective management of NPAs. The NPAs of SBI has been continuously increasing for over a decade but as the operations are more for SBI it is able to manage the profits. But still the remedial measures are to be specified to

control NPAs. Das and Dutta[8]studied the NPA of Public Sector Banks in India using ANNOVA and SPSS software. Secondary Data collected from RBI website of 6 years (2008-13). It was found that there is no significant difference. Arora N and OstwalN[9]investigated the classification and comparison of loan assets of public and private sector banks. The study concluded that NPAs are still a threat for the banks and financial institutions and public sector banks have higher level of NPAs in comparison to Private sector banks. Ibrahim MS and ThangaveluR[10] examined the concept of NPAs, components of loan assets in public sector, private sector and other foreign banks, by an exploratory and diagnostic approach with the help of secondary data.

OBJECTIVE OF THE STUDY:

1. To find out the degree of impact of advance on NPA.
2. To find out the mean difference in various categories of assets.

HYPOTHESIS OF THE STUDY:

➢ H0: There is no mean difference in different categories of assets.
➢ H1: There is mean difference in different categories of assets.

RESEARCH METHODOLOGY:

This research paper is based on secondary sources of data and information. The study period is confined to a period of twelve years from 2005 to 2017. The study has taken State bank of India of Odisha state as the sample bank and the required secondary data for the study has been collected from different research articles, reports, books, journals, websites, annual reports of SBI, SLBC Odisha agenda data, RBI reports and different banking journals. For the purpose of data analysis and interpretation statistical packages and tools like SPSS, Anova and Regression have been applied.

DATA ANALYSIS, RESULTS AND DISCUSSION:

Table No. 1: "NPA Portfolio of SBI"(Amount in Crores)

Year	TOTAL ADVANCE	STANDARD ASSETS	%	SUB STANDARD ASSET	%	DOUBTFUL ASSET	%	LOSS ASSET	%	NPA	%
2005	574392	523751	91.18	13449.1	2.34	30594.5	5.33	6596.72	1.15	50640.4	8.82
2006	760654	716863	94.24	15994.1	2.1	21405.4	2.81	6391.36	0.84	43790.8	5.76
2007	919547	882931	96.02	10600.7	1.15	19464.1	2.12	6550.59	0.71	36615.4	3.98
2008	1082695	1042498	96.29	14229.7	1.31	19708.9	1.82	6258.42	0.58	40197	3.71
2009	1251889	1211850	96.8	17884.7	1.43	15840.8	1.27	6313.08	0.5	40038.6	3.2
2010	1455602	1410230	96.88	23119.9	1.59	11877.7	0.82	10373.8	0.71	45371.4	3.12
2011	1566248	1488710	95.05	51681.4	3.3	10370.3	0.66	15486.2	0.99	77537.8	4.95
2012	1598163	1426785	89.28	126466	7.91	36640.6	2.29	8271.54	0.52	171378	10.7
2013	1622811	1388250	85.55	109083	6.72	118343	7.29	7135.64	0.44	234561	14.5
2014	1557435	1381490	88.7	60683.9	3.9	106482	6.84	8779.4	0.56	175945	11.3
2015	1706996	1581765	92.66	40366.2	2.36	76495.1	4.48	8369.36	0.49	125231	7.34
2016	1881290	1795305	95.43	35867.1	1.91	42154.7	2.24	7963.22	0.42	85985	4.57
2017	2031706	1967583	96.84	31925.2	1.57	29545.6	1.45	2651.93	0.13	64122.7	3.16

Source: Dept. of NPA Management, SBI- Local Head Office, Bhubaneswar, Odisha

Table No. 2: " Total Advance on NPA"   (Amt in Crores)

Year	TOTAL ADVANCE	NPA
2005	574391.6	50640
2006	760653.96	43791
2007	919546.78	36615
2008	1082695.4	40197
2009	1251888.85	40039
2010	1455601.61	45371
2011	1566248.11	77538
2012	1598162.83	171378
2013	1622811.4	234561
2014	1557434.81	175945
2015	1706995.67	125231
2016	1881289.61	85985
2017	2031705.6	64123

Source: Dept. of NPA Management, SBI- Local Head Office, Bhubaneswar, Odisha

Table No. 3:   "Summary Output of Impact Study"

Regression Statistics								
Multiple R	0.471703406							
R Square	0.222504103							
Adjusted R Square	0.151822658							
Standard Error	59718.78403							
Observations	13							
ANOVA								
	Df	*SS*	*MS*	*F*	*Significance F*			
Regression	1	11226761981	1.123E+10	3.1479846	0.1036664			
Residual	11	39229664829	3.566E+09					
Total	12	50456426810						
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-4921.90059	56892.31085	-0.0865126	0.9326137	-130141.03	120297.2	-130141	120297
X Variable 1	0.06970786	0.0392885	1.7742561	0.1036664	-0.0167655	0.156181	-0.01677	0.15618

From the above table it can be analyzed that 22% of data supports this particular model which reveals the degree of relationship between these variables. It can be further analyzed by taking p value into consideration which is more than 0.05 at 5% level of significance. In this study tabulated value (0.103) is less than calculated value (3.147), so null hypothesis is accepted which means no significance impact of advance on NPA.

Table No. 4: "Classifications of Assets"   (Amount in Crores)

Year	STANDARD ASSETS	SUB STANDARD ASSET	DOUBTFUL ASSET	LOSS ASSET
2005	523751.25	13449.1	30594.52	6596.72
2006	716863.14	15994.09	21405.37	6391.36
2007	882931.38	10600.72	19464.08	6550.59
2008	1042498.37	14229.72	19708.89	6258.42
2009	1211850.22	17884.73	15840.82	6313.08
2010	1410230.18	23119.88	11877.74	10373.81
2011	1488710.29	51681.36	10370.27	15486.19
2012	1426785.21	126465.52	36640.55	8271.54
2013	1388249.97	109083.08	118342.72	7135.64
2014	1381489.78	60683.85	106481.78	8779.4
2015	1581765.04	40366.19	76495.08	8369.36
2016	1795304.61	35867.09	42154.69	7963.22
2017	1967582.92	31925.19	29545.55	2651.93

Source: Dept. of NPA Management, SBI- Local Head Office, Bhubaneswar, Odisha

Table No. 5: "Summary Statistics"

Anova: Single Factor				
Groups	*Count*	*Sum*	*Average*	*Variance*
STANDARD ASSETS	13	16818012.36	1293693.258	1.69897E+11
S S ASSET	13	551350.52	42411.57846	1366960824
DOUBTFUL ASSET	13	538922.06	41455.54308	1292258901
LOSS ASSET	13	101141.26	7780.096923	8646152.041
ANOVA				

Source of Variation	*SS*	*Df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	1.55666E+13	3	5.18885E+12	120.2758155	2.5E-22	2.798061
Within Groups	2.07078E+12	48	43141297679			
Total	1.76373E+13	51				

From the above table it is being inferred that there is significant difference in mean of different categories of assets as p value that is 2.5E-22, which is less than 0.05. It is also being observed that f calculated value that is 120.27 is more than the critical value which shows significant difference among these classes of assets. In this study percentage of doubtful asset is highest among sub-standard and loss asset which indicates that there is a drawback in recovery channel system of this concerned bank.

As there is significant difference found in different categories of assets, so paired test is applied in order to find out significance difference that exist among the selected variables. Paired test is conducted with the help of SPSS tools in order to draw a confined conclusion.

Table No. 6: "Paired Test"

		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum	Between-Component Variance
						Lower Bound	Upper Bound			
Descriptive										
ASSETS										
S.S. ASSETS		13	42411.5785	36972.433	10254.308	20069.3606	64753.7963	10600.72	126465.52	
DOUBTFUL ASSETS		13	41455.5431	35948.003	9970.18209	19732.3824	63178.7037	10370.27	118342.72	
LOSS ASSETS		13	7780.0969	2940.434	815.52966	6003.2104	9556.9834	2651.93	15486.19	
Total		39	30549.0728	33296.769	5331.75017	19755.5089	41342.6367	2651.93	126465.52	
Model	Fixed Effects			29820.943	4775.17251	20864.5741	40233.5715			
	Random Effects				11387.8327	18448.8165	79546.9621			320641381

Table No. 7:"ANOVA Test"

ASSETS

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	10115253160.419	2	5057626580.210	5.687	.007
Within Groups	32014390533.413	36	889288625.928		
Total	42129643693.833	38			

Table No. 8:"Post Hoc Tests"
Multiple Comparisons

Dependent Variable: ASSETS

LSD

(I) GROUP	(J) GROUP	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
S.S. ASSETS	DOUBTFUL ASSETS	956.03538	11696.73607	.935	-22766.0449	24678.1156
	LOSS ASSETS	34631.48154*	11696.73607	.005	10909.4013	58353.5618
DOUBTFUL ASSETS	S.S. ASSETS	-956.03538	11696.73607	.935	-24678.1156	22766.0449
	LOSS ASSETS	33675.44615*	11696.73607	.007	9953.3659	57397.5264
LOSS ASSETS	S.S. ASSETS	-34631.48154*	11696.73607	.005	-58353.5618	-10909.4013
	DOUBTFUL ASSETS	-33675.44615*	11696.73607	.007	-57397.5264	-9953.3659

*. The mean difference is significant at the 0.05 level.

From the aforesaid table, it is revealed that that there is significant difference between Sub-Standard assets and loss assets as the value that is .005 is lower than 0.05. Further, significant difference exist between loss assets and doubtful assets since the undersigned value that is .007 is lower than 0.05. It is being further examined that, there is no significance difference between doubtful assets and substandard assets as the value that is .935 is more than 0.05. In the former two cases null hypothesis is rejected where as accepted in later case

CONCLUSION:

This study provides useful insights to understand the impact of total advance on NPA and classification of NPAs. From the above study, it is being concluded that, there is no impact of total advance on NPA. Further, the percentage of NPA decreases in a declining manner form 2005 to 2010 as against 2011 to 2014. However, there is significant decrease in percentage of NPA from 2015 till 2017. There was substantial decrease in percentage of NPA from 2005 as doubtful asset was efficiently managed which can be revealed from the aforesaid table no 1. The percentage of doubtful asset decreases from 2005 to 2010 which increases thereafter from 2011 to 2014. The composition of doubtful asset in total NPA is highest during this particular study. So, doubtful asset is more imperative for SBI. Hence, SBI should resort to different NPA management measures to reduce the level of doubtful assets in particular.

POLICY IMPLICATIONS:

The Study on classification and management of NPAhypothesis are very crucial to analyze the banks performance. Better management of NPA can be ascertained on the basis of different kinds of loan assets of commercial banks. The study can be used by the bank officials to analyse the financial performance and profitability of banks so that they can take proper steps to manage the doubtful and other types of assets to reduce the level of NPA.

LIMITATIONS OF THE STUDY AND SCOPE FOR FURTHER RESEARCH:

The time frame of this study is limited to 12 years only. Hence, very long term trends of NPA were not identified. Further, the study is restricted to only one state that is Odisha, ignoring other states of India. The study does not taken into consideration of private sector banks, Co-operative banks and RRBs which also contributes to the growth of NPAs. However, not much is revealed with regard to the contribution of particular asset to the growth of NPA is more than other categories of assets. The study lacks sector wise analysis of NPA. In this regard, further studies can examine the sector wise classification of NPA like priority sector, non priority sector and public sector and contribution of specific sector to the growth of NPAs.

SUGGESTIONS:

- Tighten the recovery of debts and reduce NPA or bad loans substantially.
- Limit slippages and also give early warning on stressed assets.
- The mindset of the borrowers needs to change so that a culture of proper utilization of credit facilities and timely repayment is developed.
- The bank should give priority to reduce the amount of doubtful assets which gives pressure on increase in the percentage amount of NPA.
- The banks should go for web based assets tracking n monitoring and regular calls to stressed accounts in retail segment and real estate sector to prevent slippages.
- The banks should set up asset tracking centers at all circles and should form various committees to review stressed assets periodically and suggest resolutions and turn around strategies.
- The banks should make provision against sub standard assets, doubtful assets, and loss assets in a differential manner. Therefore, full provisioning towards already impaired assets, needs to be a priority.
- The SBI need to design dove-tailed mechanism based on situational analysis in order to minimize risks and over exposures.

- Recovery action generally starts with a reminder letter to the borrower. The process of sending reminder letters continuously until recovery is made. But care is not taken to write the contents of the letter for proper pursuit of the borrower for repayment.

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