



## A Comparative Analysis of NPA Management Between SBI And CBI

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### ABSTRACT

*NPA involves the necessity of provisions, any increase in which bring down the overall profitability of banks. NPA is the indicators of banking health in a country. In this present research paper, an attempt to evaluate the operational performance of the selected two public sector bank i.e., State Bank of India and Central Bank of India, NPAs trends and issues through secondary data. In the paper, it has been try to analyze how efficiency public sector banks have been managing NPA with various financial tools and techniques. All the Indian banks are facing hard time managing their NPA. The paper has been also derived findings from the analysis which is help to selected bank for NPA management.*

**Keywords : NPA, Profitability, Trend, Financial tools**

### Introduction

A Non-performing asset (NPA) is defined as a credit facility in respect of which the interest and/or installment of principal has remained 'past due' for a specified period of time. A loan or lease that is not meeting its stated principal and interest payments. Banks usually classify as nonperforming assets any commercial loans which are more than 90 days overdue and any consumer loans which are more than 180 days overdue. More generally, an asset which is not producing income.

RBI norms stipulate that where there is threat of loss or the recoverability of the advances is in doubt, the asset should be treated as NPA. Banks are prohibited to book income on accrual basis in respect of any security where the interest/principal is in arrears for more than 90 days. In the present scenario, it has become all the more important for RBI's mandatory inspection to act as an effective deterrent for banks not to resort to non-adherence to applicable prudential norms and less provisioning for NPAs. The present research paper focuses on NPA management between SBI and CBI.

### Literature Reviews

Indian journal of commerce volume 65 No.1 January – March 2012. A comparative study of public and private LIC companies in Indian, an attempt is made to analysis the performance of public and private LIC companies in India.

Indian Financial System: A book has been written by Vasant Desai, Himalaya Publishing House year third updated edition 2009. This book has explained the Banking system in India, role of Banks, types of Banks and Banking & Non-Banking intermediaries and other information regarding the Bank's services.

An article on NPA Management by B.M. Nandwana the deputy General Manager of Recovery department of Central Bank of India impact of NPA on Indian Banks. It gives the information regarding the norms of RBI and other code of conduct which bank have to follow to manage its NPA.

### Objectives

1. To study the impact of NPA on overall performance of selected banks.
2. To evaluate the efficiency in managing NPA between selected banks.
3. To make suggestions for better NPA management in selected Banks.

### Hypotheses of study

According to above objectives, the researcher have been framed the following hypotheses.

$H_0$  = There is no significant difference of NPA on overall performance between selected banks.

$H_0$  = There is no significant difference on efficiency in managing NPA between selected banks.

### Research Design

#### 1. The Sample:-

The universe of the study consist all the public sector banks. Here, researcher has been selected two public sector banks i.e., SBI and CBI for this comparative study.

#### 2. The data collection and period of the study:-

The study has been carried out for a five year, i.e., during 2007 – 08 to 2011 – 12. The reason behind selecting this period was availability of data for both sample banks under study. The study is based on secondary data; the data has been collected from the published annual report of the sample banks.

#### 3. Tools and techniques:-

As per the nature of study following tools and techniques are used for testing the hypotheses:

- **Tool:- Ratio Analysis**
- Statistical Techniques: - Mean, Standard deviation and T – test.

**Table - 1**

NPA management ratios of SBI and CBI with T – valuation										
year	2008	2009	2010	2011	2012	Mean	S. D.	T - value	Table value	H0/H1
Gross NPA Ratio										

SBI	3.04	2.86	3.05	3.28	4.44	3.33	0.64	1.03	2.306	H0
CBI	2.67	1.82	2.28	1.82	4.83	2.68	1.25			
Net NPA Ratio										
SBI	1.78	1.79	1.72	1.63	1.82	1.75	0.08	1.02	2.306	H0
CBI	1.24	0.69	0.69	0.65	3.09	1.27	1.05			
Problem Asset Ratio										
SBI	1.78	1.65	1.85	2.06	2.97	2.06	0.53	0.91	2.306	H0
CBI	1.89	1.57	1.35	1.14	31.65	7.52	13.49			
Capital Adequacy Ratio										
SBI	13.47	14.25	13.39	11.98	13.86	13.39	0.86	2.42	2.306	H1
CBI	10.42	13.12	12.23	11.64	12.40	11.96	1.01			
Sub - Standard Assets Ratio										
SBI	42.31	49.96	45.32	44.74	45.70	45.61	2.77	3.85	2.306	H1
CBI	14.58	25.46	34.07	33.32	2.24	21.93	13.52			
Doubtful Assets Ratio										
SBI	47.38	40.16	42.74	44.52	46.26	44.21	2.88	0.78	2.306	H0
CBI	66.82	71.60	70.25	60.51	2.78	54.39	29.17			
Loss Assets Ratio										
SBI	10.33	9.88	11.94	10.74	8.04	10.19	1.42	3.78	2.306	H1
CBI	2.16	2.96	4.17	6.19	0.25	3.15	2.22			
Interest Income To Average Working Funds Ratio:										
SBI	7.32	7.29	6.80	6.96	8.04	7.28	0.48	2.72	2.306	H1
CBI	7.81	8.22	7.56	8.49	9.23	8.26	0.65			
Non-Interest Income To Average Working Funds Ratio										
SBI	1.30	1.45	1.43	1.35	1.08	1.32	0.15	5	2.306	H1
CBI	0.89	0.84	1.07	0.71	0.59	0.82	0.18			
Operating profit to average working fund ratio										
SBI	1.96	2.05	1.75	2.17	2.38	2.06	0.23	5.54	2.306	H1
CBI	1.26	1.13	1.29	1.45	1.55	1.34	0.17			

### Analysis and Interpretation

- The gross NPA Ratio of SBI reveals fluctuating trend. The Gross NPA Ratio of SBI was 3.04 in the year 2007 – 08 and then in the year 2008 – 09 declined up to 2.86. In the year 2009 – 10 ratio was increased up to 3.05 and after that increased up to 4.44 in the last year of the study period. In case of CBI gross NPA Ratio of SBI shows fluctuating trend. This Ratio shows 2.67 in the year 2007 – 08 and then in the year 2008 – 09 declined up to 1.82. In the year 2009 – 10 ratios was increased up to 2.28 and after that declined up to 1.82 in the year 2010 – 11 and in the last year ratio was increased up to 4.83. It is supported by t – value that both banks are same in this ratio.
- For SBI, Net NPA Ratio show fluctuating trend during the study period. In the year 2007 – 08 ratio was 1.78 and in the year 2008 – 09 ratio was increased by 0.01. And finally ratio was increased in the year 2011 – 12 i.e., 1.82. In the case of CBI, also mix trend with the average of 1.27 in the Net NPA Ratio during study period. It indicate that there is no significant difference in Net NPA Ratio of selected banks, calculated value of “t” – test is less than the critical value of “t” – test. Thus H0 accepted.
- For SBI, Problem Assets Ratio show fluctuating trend during the study period. In the year 2007 – 08 ratio was 1.78 and in the year 2008 – 09 ratio was declined up to 1.62. After then ratio increased in the last three year i.e., 1.85, 2.06, 2.97 respectively. On the other hand, in CBI Problem Assets Ratio was 1.89 in the year 2007 – 08 and then ratio was declined in the three year 2008 – 09, 2009 -10, 2010 – 11 i.e., 1.57, 1.35, 1.14 respectively. In the year 2011 – 12 ratio was highly increased up to 31.50. But T – value indicates that there was no significant difference in this ratio.
- Capital adequacy ratio if SBI shows increasing trend in first two years (2009 – 10 and 2010 – 11). During the 2009 – 10 ratio was 13.39 and in the year 2010 – 11 ratio was declined up to 11.98 and in the year 2011 – 12 ratio was increased by 1.88. In case of CBI, ratio was 10.42 in the year 2007 – 08 and three year i.e., 2008 – 09, 2009 – 10, 2010 – 11 ratio was declined up to 13.12, 12.33, and 11.64 respectively. In the last year ratio was increased up to 12.40. But T – value implies that there is no significant difference of capital adequacy ratio of selected banks.
- The Sub - Standard Assets Ratio of SBI reveals that fluctuating trend during the study period, ratio was highest in the year 2008 – 09 i.e., 49.96 and lowest in the year 2007 – 08 i.e., 42.31. In case of CBI, in the first three ratios was increased up to 14.58, 25.46, and 34.07 and then in the year 2010 – 11 rapidly declined up to 33.32 and after that declined up to 2.24 in the last year of study period. The result of t – test indicates that there is no significant difference in the Sub - Standard Assets Ratio.
- For SBI, this ratio shows that in the year 2007 - 08 ratio was 47.38 and then in the year 2008 – 09 ratio was declined up to 40.16. After that in the last three year ratio was increased i.e., 42.74, 44.52 and 46.26 respectively. The Doubtful Assets Ratio of CBI shows that the fluctuating trend. During the study period, ratio was in the year 2008 – 09 i.e., 71.60 and lowest last year i.e., 2.78. The result of t – test indicates that there is no significant difference in the Doubtful Assets Ratio.
- The Loss Assets Ratio of SBI shows fluctuating trend during the study period. In the year 2007 – 08 ratio was 10.33 and in the year 2008 – 09 ratio was declined by 0.45. in the last year ratio was decreased up to 8.04. For CBI, Loss Assets Ratio was first four year increasing trend and then after in the year 2011 – 12 ratio was up to 0.25. But T – value implies that there is significant difference of loss assets ratio of selected banks.
- The Interest Income To Average Working Funds Ratio of SBI fluctuating trend during the study period. Highest ratio was 8.04 in the year 2011– 12 and lowest in the year 2009 – 10 i.e., 6.80. In case of CBI, ratio was 7.81 in the year 2007 – 08 and then in the year 2008 – 09 ratio was increased up to 8.22. In the last three year shows increasing trend i.e., 7.56, 8.49 and 9.23. But T – value implies that there is significant difference of Interest Income to Average Working Funds Ratio of selected banks.
- In case of SBI, ratio was 1.30 in the year 2007 – 08 and then in the year 2008 – 09 ratio was increased up to 1.45.

In the last three year shows declining trend i.e., 1.43, 1.35 and 1.08. For CBI, first two years ratio was declined i.e., 0.89 and 0.84, then ratio was increased in the year 2009 – 10. In the last two year ratio was declined. The result of t – test indicates that there is significant difference in the Non - Interest Income to Average Working Funds Ratio.

- The Operating profit to Average Working Funds Ratio of SBI shows mix trend. In the year 2007 – 08 ratio was 1.96, then ratio was increased by 0.09 in the year 2008 – 09. Ratio declined in the year 2009 – 10 i.e., 1.75 then ratio increased in the last two years i.e., 2.17 and 2.38. In case of CBI, in the first ratio was 1.26 and then ratio decreased in the year 2008 – 09. In the last three years ratio was increased 1.29, 1.45 and 1.55 respectively. It is supported by t – value that both banks are same in this ratio.

#### Findings

- Gross NPA of SBI is higher than the CBI which shows its management efficiency.

- Net NPA of CBI is lower than the SBI which reveals its good position.
- Problem assets ratio of SBI is less in comparison to CBI.
- Both the Banks have complied the capital adequacy norms of RBI.
- Sub-Standard Assets ratio of SBI is higher than the CBI to a great extent.
- The ratio Doubtful Assets of SBI is very lower than CBI.
- Interest Income both the Banks are near about the same.
- Non-Interest Income of SBI is higher than CBI.
- Operating profit ratio of SBI is higher than CBI.

#### Suggestions

- The Gross NPA of SBI is higher so it requires reducing the gross NPA by efficient recovery management.
- SBI needs to improve Assets Ratio.

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