



## ORIGINAL RESEARCH PAPER

Commerce

### STUDY ON NPAS USING FINANCIAL RATIOS (WITH SPECIAL REFERENCE TO SBI)

KEY WORDS:

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#### ABSTRACT

NPA can be said to be a double-edged weapon. On the one hand, it does not generate any income for the bank, and on the other hand, the banks are required to make provisions for such NPAs out of the current profits. Due to the advances getting blocked, the credibility of the bank decreases, not only by the amount of NPA, but also due to the opportunity cost of profit forgone by doing some investment in other return earning project or asset. Apart from internal and external complexities, increase in NPAs directly affects the profitability, solvency and sometimes even the existence of the banks.

Objectives of the Study are to study the status of non-performing asset using financial ratios in SBI group. and suggest and conclude based on findings. An explorative and descriptive study is adopted to achieve the objectives of the study. Both primary and secondary data are used. Primary data is used through clarification from concerned officials. Majority of the data for the study is collected from the secondary source. This covers annual period of five years from 2012-2013 to 2016-2017. The data is suitably tabulated, graphically presented, statistically interpreted to draw the findings. Financial ratios and statistical tools like average, standard deviation, coefficient of variation and compound annual growth rate are used to analyze NPAs extensively. It is concluded that Non- Performing Assets have not only problem for banks and also problem for the economy. The money locked up in NPAs has a direct impact on profitability of the banks. Bank should ensure that the NPAs should not be further slipped and written off .It has to strategically plan for proper appraisal of credit application, stringent monitoring of potential NPAs strengthening of further recovery mechanism etc. keeping in view, the aggressive nature of making huge profits the bank should not overlook its liquidity position . Further, emerging of NPAs should be effectively tackled. New innovative steps have to be taken up to reduce NPAs and also to increase the depositors' safety money as well as shareholders. The government needs to reduce the mandatory lending to priority sector as it is one of the major contributors to bank's NPAs.

#### Introduction:

The banking sector in the recent past has witnessed a paramount change. RBI defined NPA as "An asset. Including a leased asset, becomes non-performing when it ceases to generate income for the bank. A NPA is a loan or an advance where, interest and/or installment of principal remain overdue for a period of more than 90 days in respect of a term loan; the account remains 'out of order' for a period of more than 90 days, in respect of an Overdraft/Cash Credit (OD/CC); the bill remains overdue for a period of more than 90days in the case of bills purchased and discounted; interest and/or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in case of an advance granted for agricultural purpose, and any amount to be received remains overdue for a period of more than 90 days in respect of other account."

A crucial issue which is engaging the constant attention of the banking industry is the alarmingly high level of non-performing assets (NPAs). Another major anxiety before the banking industry is the high transaction cost of carrying non-performing assets in their books. The resolution of the NPAs problem requires greater accountability on the part of the corporate, greater disclosure in the case of defaults, an efficient credit information sharing system and an appropriate legal frame work pertaining to the banking system so that court procedures can be stream lined and actual recoveries made within an acceptable time frame.

NPA can be said to be a double-edged weapon. On the one hand, it does not generate any income for the bank, and on the other hand, the banks are required to make provisions for such NPAs out of the current profits. Due to the advances getting blocked, the credibility of the bank decreases, not only by the amount of NPA,

but also due to the opportunity cost of profit forgone by doing some investment in other return earning project or asset. Apart from internal and external complexities, increase in NPAs directly affects the profitability, solvency and sometimes even the existence of the banks.

To come out of these, first we need to think is it possible to avoid NPAs, cannot be then left is to look after the factor responsible for it and managing those factors.

#### Objectives of the Study:

- To study the status of non-performing asset using financial ratios in SBI group.
- To suggest and conclude based on findings.

#### Research Methodology:

An explorative and descriptive study is adopted to achieve the objectives of the study and the study is conducted in SBI "non-performing assets". The general objective of the study is to analyse the NPAs level in SBI.

Both primary and secondary data are used. Primary data is used through clarification from concerned officials. Majority of the data for the study is collected from the secondary source. This covers annual period of five years from 2012-2013 to 2016-2017. The annual reports of SBI have been extensively used for the data collection in general and NPAs in particular. In addition to these journals, magazines, books, newspapers, publications and reports are used. The data is suitably tabulated, graphically presented, statistically interpreted to draw the findings. Financial ratios and statistical tools like average, standard deviation, coefficient of variation and compound annual growth rate are used to analyze NPAs extensively.

Financial Ratios	NPAs Ratios								
	2012-13	2013-14	2014-15	2015-16	2016-17	Average	S.D	C.V	CAGR
Gross NPAs to loans and Advances ratio	4.90	5.09	4.36	6.71	5.92	5.40	0.92	0.17	0.05
Gross NPAs to Total Assets ratio	3.27	3.44	2.77	4.35	3.26	3.42	0.58	0.17	0.00
total net NPAs to loans and advances	2.10	2.57	2.12	3.81	2.23	2.57	0.72	0.28	0.02
Net NPAs to Total Assets Ratio:	1.40	1.74	1.35	2.47	1.23	1.37	0.50	0.37	-0.03
Total provision ratio	27.68	30.72	35.13	28.53	31.90	30.79	2.95	0.10	0.04
Net NPA to Net Worth	22.20	26.29	21.48	38.68	22.50	26.23	7.21	0.27	0.00
Depositors safety ratio:	67.77	45.14	64.77	64.57	55.40	59.53	9.29	0.16	-0.05
Shareholders Risk Ratio	22.20	26.29	21.48	38.68	19.51	25.63	7.70	0.30	-0.03

Slippage Ratio:	3.22	3.59	2.37	4.70	2.19	3.21	1.01	0.32	-0.09
NPA Coverage Ratio	27.55	17.68	23.10	10.14	9.33	17.56	7.96	0.45	-0.24
Overseas NPAs ratio	5.49	6.15	4.62	7.93	6.05	6.05	1.22	0.20	0.02
Domestic NPAs	94.51	93.85	95.38	92.07	93.95	93.95	1.22	0.01	0.00
Up- gradation ratio:	19.77	16.53	6.66	2.65	3.06	9.73	7.92	0.81	-0.37
Write off ratio:	10.93	20.91	37.56	16.06	18.31	20.75	10.09	0.49	0.14
Overseas NPAs ratio	5.49	6.15	4.62	7.93	6.05	6.05	1.22	0.20	0.02
Domestic NPAs	94.51	93.85	95.38	92.07	93.95	93.95	1.22	0.01	0.00
Non- priority sector to Gross NPAs Ratio	NA	70.53	64.41	75.33	80.20	72.62	33.00	0.45	0.04
Total priority sector NPAs to Gross NPAs	NA	30.17	35.62	24.67	19.80	27.57	13.68	0.50	-0.13
Agriculture and allied priority sector NPAs to Total Priority sector NPAs	NA	55.57	50.56	40.62	33.07	44.95	21.91	0.49	-0.16
Industries priority sector NPAs to total priority sector NPAs	NA	22.46	35.07	47.90	51.87	39.32	21.04	0.53	0.32
service priority sector NPAs to total priority sector NPAs Ratio	NA	13.05	8.41	7.21	10.69	9.84	4.94	0.50	-0.06
Personal loans priority sector NPAs to total priority sector NPAs Ratio	NA	8.93	5.95	4.27	4.37	5.88	3.23	0.55	-0.21
Agriculture and allied activities non-priority sector NPAs to Total non- priority sector NPAs Ratio	NA	0.52	0.55	0.67	0.11	0.46	0.30	0.64	-0.40
Industries non-priority sector NPAs to total non- priority sector NPAs Ratio	NA	79.56	85.30	91.51	91.10	86.87	39.16	0.45	0.05
Service non-priority sector NPAs to Total non-priority sector NPAs Ratio	NA	16.06	11.00	5.89	7.44	10.10	5.97	0.59	-0.23
personal loans non- priority sector NPAs to Total non-priority sector NPAs	NA	3.87	3.15	1.92	1.34	2.57	1.52	0.59	-0.30

#### Findings:

- Average gross NPAs of SBI Bank is about 5% of the total Gross loans and Advances and compound annual growth rate is 5% during the study period.
- The quality of assets of SBI is not greater than 95.655% of the study period.
- Net NPAs of SBI Bank is an average 2.57% of total net loans and advances and CAGR of 2% during the study period.
- Net NPAs to total assets on an average, are not more than 1.37% of total assets.
- Total NPA provision is in the range of maximum 35.13% to minimum of 27.67% of total Gross NPAs. On an average 30.79% of total gross NPAs are covered by creation of NPA provision and CAGR of 4% during the study period.
- About an average of 1/4 of net worth of the SBI Bank is deteriorated due to Net NPAs over the study period.
- About 60% of depositors' money is safe during the study period; whereas, 40% of depositors Money is at stake during the study period.
- Average 1/4 of shareholders' funds are at risk of losing money due to Net NPAs during the study period.
- Not more than 4.70% of total standard assets are fresh NPAs during the study period.
- About 17.55% of gross NPAs on an average are net profits of SBI during the study period.
- NPAs are upgraded at the declining rate to 3.05% in 2016-17 as against 19.77% in 2012-13.
- An average of 20.75% of total Gross NPAs are written off during the study period with CAGR of 14%.
- Not more than 7.93% of Gross NPAs are overseas NPAs and CAGR of 2% during the study period.
- Lion's share of Gross NPAs is Domestic NPAs.
- More than 2/3 of the gross NPAs are non- priority sector NPAs during the study period.
- It is about 1/3 of the total gross NPAs are priority sector NPAs. It is on an average 27% of the gross NPAs during the study period.
- Nearly half of the total priority sector of NPAs is agriculture and allied priority sector of NPAs during the study period.
- Industries priority sector NPAs have been increasing from 22.45% of total priority sector NPAs in 2013-14 to 51.86% of total Gross NPAs in 2016-17.
- Service sector NPAs are on an average 10% of the total priority sector NPAs during the study period.
- Personal loans priority sector NPAs are gradually declining to 4.37% in 2016-17 as against 8.92% of total priority sector NPAs in 2013-14.

- Agriculture and allied non-priority sector NPAs are neglected percentage of total non-priority sector of NPAs.
- The lion's share of non-priority sector NPAs are industry sector. It is more than 85% of total non-priority sector NPAs.
- Service non-priority sector NPAs are on an average 1/10 of the total non-priority sector NPAs throughout the study period.
- The personal loans priority sector NPAs are not more than 3.87% of the total non-priority sector NPAs.

#### Suggestions:

- The SBI should undertake war-footing efforts to check agriculture and allied priority sector of NPAs. Similarly, priority sector NPAs should also be given prime importance in arresting the slippage of NPAs.
- Non-priority industries sector NPAs should also be given utmost importance for evaluating the credit application carefully.
- Keeping in mind safety of depositors' money and shareholders risk, Bank should concentrate more on liquidity than profitability.
- As domestic NPAs are greater than overseas NPAs, bank should strategically plan for recovery strategies.
- Bank should undertake stringent steps for up-gradation of NPAs.
- The bank should strengthen recovery mechanism to get rid of writing off NPAs.
- The bank should also develop warning signals of potential NPAs to eradicate fresh NPAs.
- The bank should form a special committee for recovering of NPAs.
- The bank should improve its debt restructuring mechanism. While appraising credit application to industries in particular, the bank should constitute expert committee for sanctioning authority.

#### Conclusion:

It is concluded that Non- Performing Assets have not only problem for banks and also problem for the economy. The money locked up in NPAs has a direct impact on profitability of the banks. Bank should ensure that the NPAs should not be further slipped and written off. It has to strategically plan for proper appraisal of credit application, stringent monitoring of potential NPAs strengthening of further recovery mechanism etc. Keeping in view, the aggressive nature of making huge profits the bank should not overlook its liquidity position. Further, emerging of NPAs should be effectively tackled. New innovative steps have to be taken up to reduce NPAs and also to increase the depositors' safety money as well as

shareholders. The government needs to reduce the mandatory lending to priority sector as it is one of the major contributor to bank's NPAs.

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