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A COMPARATIVE ANALYSIS OF NPAs IN INDIAN BANK AND STATE BANK OF INDIA

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Abstract
Non-performing asset is an obligation where the borrower has not paid some previously agreed upon interest and principal amount for an extended period of time. The non-performing asset is therefore not yielding any income to lender in the form of principal and interest payment. The study was conducted to analyze the preferred loan portfolios of the selected banks for which the secondary data was used. The study was carried out using five years data collected from annual reports of the selected banks, Reserve Bank of India annual report, monthly bulletins of RBI, articles and research papers, books, articles published in newspaper, Reports on Trend and Progress of Banking in India, various journals and magazines, CMIE Reports and browsed information from related websites. The study highlighted that agricultural sector had the maximum NPAs in Indian Bank and there was a significance difference in NPAs of different sectors of this bank. The non-priority sector had the maximum NPAs in case of State Bank of India and there was a significance difference in NPAs of different sectors of this bank. To find the factors responsible for the growth of NPAs for which the primary data was used. Primary data was used in the study where the respondents were interviewed personally after telling them about the objective of the study. The respondents were asked about the factors responsible for the growth of NPAs in their respective banks. A sample size of 10 people from each bank was taken to meet the objective of the research. The study highlighted that both internal and external factors were the reasons for the growth of NPAs and necessary steps should be taken to than to face the hazardous results.

Keywords: Non-Performing Asset, Gross NPA, Net NPA, Priority Sector and Non-Priority Sector.

Introduction
The term Non-Performing Assets figured in the Indian banking sector after introduction of financial sector reforms in 1992. The prudential norms on income recognition, assets classification and provisioning thereon are implemented from the financial year 1992- 93, as per the recommendation of the committee on the Financial System (Narsimham Committee). These norms have brought in quantification and objectivity into the assessment and provisioning for NPAs. Reserve Bank of India constantly endeavors to ensure that prescriptions in this regard are closed to international norms. The only problem that hampers the possible financial performance of the Public Sector Banks is the increasing results of the non-performing assets. The non-performing assets impact drastically to the working of the banks. The efficiency of a bank is not always reflected only by the size of its balance sheet but by the level of return on its assets. NPAs do not generate interest income for the banks, but at the same time banks are required to make provision for such NPAs from the current profits.

Objectives Study
1. To ascertain the preferred loan portfolios of Indian Bank and State Bank of India so as to determine the relative weights of NPAs of different sectors.
2. To identify and compare the factors responsible for the growth of NPAs.

Review of Literature
Aravanan and Vijayakumar (2007) captured the non-performing asset scenario of a hypothetical ban in his article about non-performing asset-unavoidable but not unmanageable. The study included various ratios and tools and combined them to construct a benchmark system for NPA management of banks.

Rajender and Suresh (2007) examined on management of NPAs in Indian banking: A case of State bank of Hyderabad where they examined the performance highlights of the bank exposed that it had achieved the tasks

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and targets from time to time. Undoubtedly the size of NPAs has come down with strict rules of its recognition. But the quality of loan assets of Indian Banking is still declining and they suggested some of the practical strategies to make Indian banks more viable by managing the level of NPAs. An assessment on the cause and consequences of NPAs of the commercial banks was done.

Rajeev and Mahesh (2010) researched on Banking Sector Reforms and NPA: A study of Indian Commercial bank. The NPA is the root cause of the global financial crisis that we observed recently. The world is still trying to recover from the after-effects of the crisis. It remains true that NPA in the priority sector is still higher than that of the non-priority sector. The paper examines the trends of NPAs in India from various dimensions and explains how mere recognition of the problem and self-monitoring has been able to reduce it to a great extent. It also shows that public sector banks in India, which function to some extent with welfare motives, have as good a record in reducing NPAs as their counterparts in the private sector. The paper also discusses the role of joint liability groups (JLGs) or self-help groups (SHGs) in enhancing the loan recovery rate.

Choudhary and Tondon (2011) analyzed the performance of commercial banks in India during post-liberalization. The result showed that all the banks have shown decline in NPAs where increase has been depicted in capital adequacy ratio. Public sector banks have already sacrificed a lot of their profits for the achievement of social objectives.

Hosmani and Hudagi (2011) conducted a study on the topic unearthing the epidemic of Non-performing assets with reference to public sector in India and found that there is a slight improvement in asset quality reflected by decline in the diverse NPA percentage. But even then the quantum of NPAs is alarming with public sector in India, since NPA being as an important parameter for assessing financial performance of banks the mounting volume of NPAs will deter the financial health in terms of profitability, liquidity and economies of scale in operation. The bank has to take timely action against degradation of non-performing assets.

Research Methodology

It is imperative to decide upon the research methodology well in advance to carry out the research in a most effective and systematic way. This section describes the research methodology adopted to serve the objective of the study in an effective manner.

Population and sample selection

The population of the study comprises of two banks, namely, Indian Bank and State Bank of India. The sample size of 20 was included in the study, 10 from Indian Bank and 10 from State Bank of India. The data was collected from the loan department of both the banks. The staff members who handle the cases of NPAs were also included in the sample.

Collection of data

To meet the objective of the study, both primary data and secondary information was collected. Primary data was collected through a predesigned, structured questionnaire.

The respondents were asked about the percentage of NPAs in their banks. Also, the respondents were asked about which sector whether priority or non-priority sector takes loans frequently from them. Both open ended and close ended questions were asked. Respondents were asked multiple choice and scale based questions. For scale based questions, respondents were given a scale of 1 to 5, where ‘1’ showed strongly agree, ‘2’ as agree , ‘3’ as neither agree nor disagree, ‘4’ as disagree and ‘5’ as strongly disagree.

Apart from questionnaire, observation and discussion method were used for collection of primary data. Secondary data had been used from published material of the subject from various sources of publication, *i.e.* Reserve Bank of India annual report, monthly bulletins of RBI, articles and research papers published, books articles published in newspaper, Reports on Trend and Progress of Banking in India, various Journals and magazines, CMIE Reports and browsed information from related websites.

Tools for analysis of data

After collecting the data tables were constructed and data was analyzed using the following statistical tools.
• Mean, Standard deviation, Standard Error, T-test, ANOVA.

Limitations of the study

Any study based on survey through questionnaire suffers from the basic limitation of possibility of difference between what is recorded and what is the truth, no matter how carefully the questionnaire has been designed ad field investigation has been conducted. This is because respondents may not deliberately report their true perceptions and even if they want to do so, there are bound to be differences owing to problems in filters of communication process. The error has been tried to be minimized by conducting interviews personally, yet there is no way of obviating the possibility of error creeping in. In addition to this:
1. The banking sector is so wide it is difficult to gather all the data.
2. The study is fixed for five years only since 2011-12 to 2016-17.

Results and Discussion

This chapter includes the analysis of primary data collected from Indian Bank and State Bank of India. The data was collected to know about the factors responsible for the growth of NPAs. The secondary data was collected to ascertain the preferred loan portfolios of Indian Bank and State Bank of India.
To ascertain the preferred loan portfolios of Indian Bank and State Bank of India.
Ho: There is no significant difference in preferred loan portfolios of Indian Bank and State Bank of India.

Table-1 Gross Npas Ratio (Per Cent) In India Bank And State Bank Of India

Years	Indian Bank	State Bank of India
2012	2.84	3.14
2013	1.70	2.94
2014	1.81	4.6
2015	1.89	3.38
2016	3.03	4.54

The ratio of Gross NPAs of Indian Bank rose from 2.84 per cent to 3.03 per cent and on the other hand Gross NPAs of State Bank of India rose from 3.14 per cent to 4.54 per cent. This indicates that there was significant increase in the Gross NPAs of both the banks. The Gross NPA of Indian Bank was 2.84 per cent in 2012 which fell to 1.70 percent in 2013 but rose to 1.81 per cent in 2014 and further rose to 1.89 per cent in 2015. It was 3.03 per cent in 2016 which was the maximum.

Table 2 Net NPAs Ratio (per cent) in Indian Bank and State Bank of India

Year	Indian Bank	State Bank of India
2012	0.74	1.88
2013	0.27	1.86
2014	0.63	1.82
2015	0.95	1.73
2016	1.62	1.92

From the above table it is inferred that can be seen that the Net NPAs of Indian Bank 0.74 per cent in 2012 which declined to 0.27 per cent in 2013. The Net NPAs then rose to 0.63 per cent in 2014, which again rose to 0.95 per cent in 2015 and further rose to 1.62 per cent in 2016. The Net NPAs in case of Indian Bank were maximum in

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2016 *i.e.* 1.62 per cent. In case of State Bank of India the Net NPAs in 2012 were 1.88 per cent, which fell to 1.86 per cent in 2013 and further fell to 1.82 per cent and 1.73 per cent in 2014 and 2015 respectively. The Net NPAs were maximum in 2016 *i.e.* 1.82 per cent.

Table 3 Analysis of Mean, Standard Deviation and coefficient of variation of Gross NPAs

Bank	Mean	SD	Coefficient of Variation of Gross Profit
Indian Bank	2.25	0.73	0.39119
SBI	3.72	0.89	0.3187

t- test p = 0.04582
*Significant at 5% level of significance

Table 3 shows the bank wise Mean, Standard Deviation and Coefficient of Variation of Gross NPAs. The mean of Indian Bank was 2.25 and that of State Bank of India was 3.72. The standard deviation of Indian Bank was 0.73 and that of State Bank of India was 0.89. State Bank of India had the higher mean value in both the cases. Standard deviation of State bank of India was more as compared to Indian Bank. When the t-test was applied to the table 1 we get the p value of 0.04582 per cent which means that there was a significant difference in the Gross NPAs and Net NPAs of Indian Bank and State Bank of India.

Table 4 Analysis of Mean, Standard Deviation and coefficient of variation of Net NPAs

Bank	Mean	SD	Coefficient of Variation of Gross Profit
Indian Bank	0.84	0.59	0.77
SBI	1.84	0.08	0.05

t- test p = 0.0104
*Significant at 5% level of significance

The mean value of Indian Bank was 0.84 and that of State Bank of India was 1.84. The standard deviation of Indian Bank was 0.59 and that of State Bank of India was 0.08. The State Bank of India had the higher mean value. Standard deviation of Indian Bank was more in case of Net NPAs. When the t-test was applied on the Net NPAs of the Indian Bank and State Bank of India, the p value came out to be 0.0104 per cent which means that there was significant difference in the Net NPAs of the two banks.

Table 5: Non-Performing Assets of Indian Bank- Sector-Wise (in Rs. Crores)

Years	Agricultural Sector	Micro and Small Enterprises	Others	Non-priority sector
2012	1012.61	911.51	840.47	505.87
2013	537	1001	900	332
2014	978	1166	329	740
2015	1172	1350	223	1638
2016	1350	1121	349	717

The above table signifies that the non-performing assets of Indian Bank, sector wise for the 5 years. As per the table the agricultural sector had the maximum NPAs in the year 2012 as compared to other sectors. In 2012 and 2013, the micro and small enterprises had the maximum NPAs. In 2015, non-priority sector had the maximum NPAs as compared to other sectors and in 2016, again the agricultural sector had maximum NPAs. The NPAs in agricultural sector had been showing an increasing trend they rose from 1012.61 crores in 2012 to 1350 crores in 2016. Micro and small enterprises had also shown an increasing trend in case of NPAs as they increased from

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911.51 crores in 2012 to 1122 crores in 2016. The other sectors had shown a decreasing trend as NPAs declined from 840.47 crores in 2012 to 349 crores in 2016. The non-priority sector showed an increasing trend as NPAs rose from 505.87 crores in 2012 to 717crores in 2016. All the sectors had somehow, increased in case of NPAs but agricultural sector raised the maximum out of all the sectors.

Table 6: ANOVA Table for different sectors of Indian Bank

Sources of variation	Sum of squares	Degree of freedom	Mean square
Between	1002046.81	3	334016.027
Within	1895546.620	16	118472.601
Total	2897591.701	19	
F value	2.919		
Table value	0.072 at 5% level of Significance		

The above table tells about the analysis of variance analysis of Indian Bank.
The above table infers that there was a significant difference in the NPAs of different sectors in the bank. The F value of the above table was 2.919 and the p value was 0.072 per cent which was less than 5 percent, which means that there was significant difference in NPAs agricultural sector, micro and small scale sector, other sectors and nonpriority of Indian Bank.

Table 7 Non-Performing Assets of State Bank of India- Sector-Wise (in Rs. crores)

Years	Agricultural Sector	Micro and small Enterprises	Others	Non-Priority sector
2012	2916.12	1261.11	3387.05	4924.64
2013	1713	1713	3509	7933
2014	2323	2169	4539	8530
2015	4520	3140	5619	9800
2016	5633	3969	5977	10057

The above table signifies the non-performing assets of State Bank of India, sector wise for the 5 years. As per the table the non-priority sector had the maximum NPAs in the year 2012-2016 as compared to other sectors. The NPAs in agricultural sector had been showing an increasing trend they rose from 2916.12 crores in 2012 to 5633 crores in 2016. Micro and small enterprises had also shown an increasing trend in case of NPAs as they increased from 1261.11 crores in 2012 to 3969 crores in 2016. The other sectors had shown an increasing trend as NPAs declined from 3386.05 crores in 2012 to 5977 crores in 2016. The non-priority sector showed an increasing trend as NPAs rose from 4922.64 crores in 2012 to 10057 crores in 2016. All the sectors have somehow, increased in case of NPAs but nonpriority sector raised the maximum out of all the sectors.

Table 8: Mean, standard deviation and standard error of State Bank of India

Sectors	Mean	Standard Deviation	Standard error
Agricultural	3420.82	1619.35	724.75
Micro and small enterprises	2450.22	1098.45	491.79
Others	4606.41	1183.93	530.02
Non-priority sector	8248.92	2056.76	920.36

The above table shows the mean, standard deviation and standard error of State Bank of India. The mean in agricultural sector was 3420.82 and the standard deviation was 1619.35. In case of micro and small enterprises the mean was 2450.22 and standard deviation was 1098.45, the other sectors accounts to the mean value of 4606.41 and standard deviation of 1183.93. The non-priority sector had a mean of 8248.97 and the standard deviation of 2056.76.

H_0: There is no significant difference in NPA's of different sectors of State Bank of India

Table 9: ANOVA Table for different sectors of State Bank of India

Sources of variation	Sum of squares	Degree of freedom	Mean square
Between	96500243.155	3	32166748.385
Within	37795704.150	16	2362232.447
Total	134295946.305	19	
F value	13.617		

Table value 0.00 at 5% level of significance
The above table infers that there was a significant difference in the NPAs of different sectors in the bank. The F value of the above table was 13.617 and the p value was 0.063 per cent which was less than 5 percent, which means that there was significant difference in NPAs agricultural sector, micro and small scale sector, other sectors and nonpriority of State Bank of India.

To identify and compare the factors responsible for the growth of NPAs.
As per the data collected from the primary source it was found that there were various internal and external factors that were affecting the growth of NPAs in both the selected banks.
The various internal factors were:
• Diversification of funds for expansion, taking up new projects, etc.
• Inefficiency in management
• Problem of bad credit appraisal
• Managerial deficiencies
• Lack of knowledge of the area of handling
The various external factors are:
• Recession
• Exchange rate fluctuation
• Accidents and natural calamities
• Sluggish legal system
• Long legal tangles
• Willful defaults
• Industrial sickness
• Change in government policies

Findings
• The NPAs have been showing an increasing trend in both the banks.
• Indian Bank has been showing an increasing trend in case of the Gross NPAs, the NPAs increased from 2.84 per cent in 2012 to 3.03 per cent in 2016. In between these years, NPA decreased slightly *i.e.* it came down to 1.80 per cent in 2013 and then again showed an increasing trend.
• In case of Net NPAs, Indian Bank again showed an increasing trend as it increased from 0.74 per cent in 2012 to 1.62 per cent in 2016.
• The Gross NPA of State Bank of India also increased from 3.14 per cent in 2012 to 4.54 per cent in 2016.
• The Net NPA of State Bank of India also increased from 1.88 per cent in 2012 to 1.92 per cent in 2016.
• The maximum NPAs in Indian Bank were in Agricultural sector and in State bank of India were in non-priority sector.

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• There was a significance difference in NPAs of different sectors in Indian Bank.
• There was no significance difference in NPAs of different sectors in State Bank of India.
• Agricultural sector out of all the sectors had the maximum NPAs in Indian Bank from 2012-2016.
• Non-priority sector out of all the sectors had maximum NPAs in State Bank of India from 2012-2016.
• Both internal and external factors were responsible for the growth of NPAs.
• The common major reason for growth of NPAs in both the banks was willful default of the borrower.
• The main focus of Indian Bank was to reduce the NPAs. Account-specific resolutions were implemented and progress was monitored regularly in NPAs. Thrust was also given to up gradation of NPAs of performing category.
• In case of State Bank of India, adequate importance was being given to restructuring of standard assets under stress, as well as viable non-performing assets. 48 cases with the banks' aggregate exposure of Rs. 9,132 crores were referred to CDR mechanism during 2015-16, out of which 25 cases aggregating Rs. 5347 crores are under progress. In these cases, timely intervention had been given the Corporate an opportunity to recover from the stress.
• To give thrust to recovery efforts and to prevent slippages, various measures were undertaken, which included timely identification of SMAs.
• Tightened of appraisal norms/ loan eligibility criteria (*e.g*. the minimum income criteria for Auto Loans have been raised from 1 lac to 2.5 lac p.a.).

Suggestions
Various steps had been taken by the government and RBI to recover and reduce NPAs. These strategies necessary to control NPAs.
A. Preventive management and
B. Curative management

A. Preventive Management
Preventive measures were to prevent the asset from becoming a non performing asset. Banks has to concentrate on the following to minimize the level of NPAs.

1. Early Warning Signals
The origin of the flourishing NPAs lies in the quality of managing credit assessment, risk management by the banks concerned. Banks should have adequate preventive measures, fixing pre-sanctioning appraisal responsibility and having an effective post-disbursement supervision. Banks should continuously monitor loans to identify accounts that have potential.

to become non-performing. It is important in any early warning system, to be sensitive to signals of credit deterioration. A host of early warning signals are used by different banks for identification of potential NPAs. Most banks in India have laid down a series of operational, financial, transactional indicators that could serve to identify emerging problems in credit exposures at an early stage. Further, it was revealed that the indicators which may trigger early warning system depend not only on default in payment of installment and interest but also other factors such as deterioration in operating and financial performance of the borrower, weakening industry characteristics, regulatory changes, and general economic conditions.

Early warning signals can be classified into five broad categories *viz*.
(a) Financial
(b) Operational
(c) Banking
(d) Management and
(e) External factors.
Financial related warning signals generally emanate from the borrowers' balance sheet, income expenditure statement, statement of cash flows, statement of receivables *etc*.

2. Financial warning signals
• Persistent irregularity in the account
• Default in repayment obligation
• Devolvement of LC/invocation of guarantees
• Deterioration in liquidity/working capital position
• Substantial increase in long term debts in relation to equity
• Declining sales
• Operating losses/net losses
• Rising sales and falling profits
• Disproportionate increase in overheads relative to sales
• Rising level of bad debt losses operational warning signals
• Low activity level in plant
• Disorderly diversification/frequent changes in plan
• Non payment of wages/power bills
• Loss of critical customers
• Frequent labor problems
• Evidence of aged inventory/large level of inventory

3. Management related warning signals
• Lack of co-operation from key personnel
• Change in management, ownership, or key personnel
• Desire to take undue risks
• Family disputes
• Poor financial controls
• Fudging of financial statements
• Diversion of funds

4. Banking related signals
• Declining bank balances/declining operations in the account
• Opening of account with other bank
• Return of outward bills/dishonored cheques
• Sales transactions not routed through the account
• Frequent requests for loan
• Frequent delays in submitting stock statements, financial data, *etc*. Signals relating to external factors
• Economic recession
• Emergence of new competition
• Emergence of new technology
• Changes in government policies.

5. Willful Defaulters
RBI has issued revised guidelines in respect of detection of willful default and diversion and siphoning of funds. As per these guidelines a willful default occurs when a borrower defaults in meeting its obligations to the lender when it has capacity to honor the obligations or when funds have been utilized for purposes other than those for which finance was granted. The list of willful defaulters is required to be submitted to SEBI and RBI to prevent their access to capital markets. Sharing of information of this nature helps banks in their due diligence exercise and helps in avoiding financing unscrupulous elements. RBI had advised lenders to initiate legal measures including criminal actions, wherever required, and undertake a proactive approach in change in management, where appropriate.

B. Curative Management

The curative measures were designed to maximize recoveries so that banks funds locked up in NPAs are released for recycling. The Central government and RBI had taken steps for controlling incidence of fresh NPAs and creating legal and regulatory environment to facilitate the recovery of existing NPAs of banks. They are:

1. One Time Settlement Schemes

This scheme covers all sectors sub – standard assets, doubtful or loss assets as on 31st March 2016. All cases on which the banks had initiated action under the SARFAESI Act and also cases pending before Courts/DRTs/BIFR, subject to consent decree being obtained from the Courts/DRTs/BIFR are covered. However cases of willful default, fraud and malfeasance are not covered. As per the OTS scheme, for NPAs up to Rs. 10 crores, the minimum amount that should be recovered should be 100 per cent of the outstanding balance in the account.

2. Lok Adalats

Lok Adalat institutions help banks to settle disputes involving account in “doubtful” and “loss” category, with outstanding balance of Rs. 5 lakh for compromise settlement under Lok Adalat. Debt recovery tribunals had empowered to organize Lok Adalat to decide on cases of NPAs of Rs. 10 lakh and above. This mechanism had proved to be quite effective for speedy justice and recovery of small loans. The progress through this channel was expected to pick up in the coming years.

3. Debt Recovery Tribunals (DRTs)

The Debt Recovery Tribunals had been established by the Government of India under an Act of Parliament (Act 51 of 1993) for expeditious adjudication and recovery of debts due to banks and financial institutions. The Debt Recovery Tribunal is also the appellate authority for appeals filed against the proceedings initiated by secured creditors under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act. The recovery of debts due to banks and financial institution passed in March 2000 has helped in strengthening the function of DRTs. Provision for placement of more than one recovery officer, power to attach defendant’s property/assets before judgment, penal provision for disobedience of tribunal’s order or for breach of any terms of order and appointment of receiver with power of realization, management, protection and preservation of property are expected to provide necessary teeth to the DRTs and speed up the recovery of NPAs in the times to come. DRTs which have been set up by the Government to facilitate speedy recovery by banks/DFIs, have not been able make much impact on loan recovery due to variety of reasons like inadequate number, lack of infrastructure, under staffing and frequent adjournment of cases. It is essential that DRT mechanism is strengthened and vested with a proper enforcement mechanism to enforce their orders. Non observation of any order passed by the tribunal should amount to contempt of court, the DRT should have right to initiate contempt proceedings. The DRT should empowered to sell asset of the debtor companies and forward the proceed to the winding – up court for distribution among the lenders.

4. Securitization and SARFAESI Act

The SARFAESI Act intends to promote Securitization, pool together NPAs of banks to realize them and make enforcement of Security Interest Transfer. The SARFAESI Act-2002 is seen as a booster, initially, for banks in tackling the menace of NPAs without having to approach the courts. With certain loopholes still remaining in the act, the experiences of banks were that the Act in its present form would not serve the envisaged objective of optimum recovery of NPAs, particularly with the hard-core NPA borrowers dragging the banks into endless litigation to delay the recovery process. The Supreme Court decision in regard to certain proviso of the SARFAESI Act also vindicated this view. With the steady sophistication of the Indian Financial Services Sector, the structured finance market is also growing significantly, of which Securitization occupies a prominent place. Securitization, therefore, is seen to be an effective and vibrant tool for capital formation for banks in future.

Conclusion

The problem of NPAs was a live danger for the banks, because it destroys the healthy financial condition of the banks. If the situation remains same and the profitability was affected as it was being affected now, the people

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would not keep faith on the banks any more. So, the problem of NPAs should be dealt in such a manner that would not ruin the financial conditions and affect the image of the bank. The RBI and the Government of India had taken necessary steps to reduce NPAs. The RBI had given target to these to bring down their NPAs rather than only increasing the profits and total business of the bank.

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