CHAPTER – VII

CONCLUSION

In the first half of the 19th century the East India Company established three banks; the Bank of Bengal in 1809, the Bank of Bombay in 1840 and the Bank of Madras in 1843. These three banks also known as Presidency Banks were independent units and functioned well.

These three banks were amalgamated in 1920 and a new bank, the Imperial Bank of India was established on 27th January 1921. With the passing of the State Bank of India Act in 1955, the undertaking of the Imperial Bank of India was taken over by the newly constituted State Bank of India.

The Reserve Bank which is the Central Bank was created in 1935 by passing Reserve Bank of India Act 1934. In the wake of the Swadeshi Movement, a number of banks with Indian management were established in the country namely, Punjab National Bank Ltd, Bank of India Ltd, Canara Bank Ltd, Indian Bank Ltd, the Bank of Baroda Ltd, the Central Bank of India Ltd.

On July 19, 1969, 14 major banks of the country were nationalized and in 15th April 1980 six more commercial private sector banks were also taken over by the government.

The two watershed events in the post independence phase are the nationalization of banks (1969) and the initiation of the economic reforms (1991).
The objectives of the banking sector reforms had focused to improve the macroeconomic policy framework within which banks operate, to introduce prudential norms, to improve the financial health and competitive position of banks, to build the financial infrastructure relating to supervision, audit technology and legal framework; and to improve the level of managerial competence and quality of human resources.

With the initiation of banking-sector reforms, a more competitive environment has been ushered in. Now banks are not only competing within themselves, but also with non-banks, such as financial services companies and mutual funds.

While existing banks have been allowed greater flexibility in expanding their operations, new private sector banks have also been allowed entry. Over the last decade nine new private sector banks have established operations in the country.

Although the Public Sector Banks will remain major players in the banking industry, they are likely to face tough competition, from both private sector banks and foreign banks.

A strong banking sector is important for flourishing economy. The failure of the banking sector may have an adverse impact on other sectors. Non-performing assets are one of the major concerns for banks in India.

NPAs reflect the performance of banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-
worth of banks and also erodes the value of the asset. The NPA growth involves the necessity of provisions, which reduces the overall profits and shareholders value.

Despite various correctional steps administered to solve and end this problem, concrete results are eluding. It is a sweeping and all pervasive virus confronted universally on banking and financial institutions. The main problem of the Public Sector Banks at the beginning of 2000 was the increasing level of the Non Performing Assets. The Non Performing Assets of the Public Sector Banks have been increasing regularly year by year. In 1997, the Non Performing Assets were 47,300 crore and it reached 80,246 crore in 2002.

The high level of NPAs in banks is a matter of grave concern to the public as well as to government since the bank credit is a catalyst to the economic development of the country and any bottleneck in the smooth flow of credit due to the mounting NPAs is bound to create an adverse repercussion for the economy of the country.

An often quoted reason for the decline in profitability of public sector banks is the stock of NPAs which has become a drag on the bank’s profitability. It is to be noted that the stock of NPAs does not add to the income of the bank while at the same time, additional cost is incurred for keeping them on the books.

The present research work entitled “NPA MANAGEMENT IN STATE BANK GROUP” presents the following findings as summary.
7.1 PROFILE

The evolution of State Bank of India can be traced back to the first decade of the 19th century. It began with the establishment of the Bank of Calcutta in Calcutta, on 2 June 1806.

The bank was re-designated as the Bank of Bengal on January 2nd 1809. It was the first ever joint-stock bank of the British India, established under the sponsorship of the Government of Bengal.

Subsequently, the Bank of Bombay (established on 15 April 1840) and the Bank of Madras (established on 1 July 1843) followed the Bank of Bengal. These three banks dominated the modern banking scenario in India, until when they were amalgamated to form the Imperial Bank of India, on 27 January 1921 which was the immediate precursor to the State Bank of India.

When India attained freedom, the Imperial Bank had a capital base (including reserves) of Rs.11.85 crores, deposits and advances of Rs.275.14 crores and Rs.72.94 crores respectively and a network of 172 branches and more than 200 sub offices extending all over the country.

An important turning point in the history of State Bank of India is the launch of the first Five Year Plan of independent India, in 1951. The All India Rural Credit Survey Committee proposed the take-over of the Imperial Bank of India, and integrating with it, the former state-owned or state-associate banks. Subsequently, an
Act was passed in the Parliament of India in May 1955. As a result, the State Bank of India (SBI) was established on 1 July 1955.

The State Bank of India was thus born with a new sense of social purpose aided by the 480 offices comprising branches, sub offices and three Local Head Offices inherited from the Imperial Bank.

The corporate center of SBI is located in Mumbai. In order to cater to different functions, there are several other establishments in and outside Mumbai, apart from the corporate center. As on 31st March 2009, the bank boasts of having as many as 14 local head offices and 57 Zonal Offices, located at major cities throughout India. The SBI Group has about 16000 branches, well networked to cater to its customers throughout India.

As on 31st March 2009, SBI provides easy access to money to its customers through more than 12000 ATMs in India. The Bank also facilitates the free transaction of money at the ATMs of State Bank of India as well as the Associate Banks. The customers may also transact money through SBI Commercial and International Bank Ltd by using the State Bank ATM-cum-Debit (Cash Plus) card.

There are seven associate banks that fall under SBI, and together these seven banks constitute the State Bank Group. All use the same logo of a blue keyhole and all the associates use the "State Bank of" name followed by the regional headquarters' name.
There has been a proposal to merge all the associate banks into SBI to create a "mega bank" and streamline operations. The first step along these lines occurred on 13 August 2008 when State Bank of Saurashtra merged with State Bank of India, which reduced the number of state banks from seven to six.

State Bank of India has the following six Associate Banks (ABs) with controlling interest ranging from 75% to 100%.

1. State Bank of Bikaner and Jaipur (SBBJ)
2. State Bank of Hyderabad (SBH)
3. State Bank of Indore (SBIr)
4. State Bank of Mysore (SBM)
5. State Bank of Patiala (SBP)
6. State Bank of Travancore (SBT)

Furthermore, on 19th June 2009 the SBI board approved the merger of its subsidiary, State Bank of Indore, with itself.

The six Associate Banks have a combined network of 4502 branches in India which are fully computerized and 2410 ATMs networked with SBI ATMs, providing value added services to clientele.

State Bank of India offers a wide range of services in the Personal Banking Segment such as Term Deposits, Recurring Deposits, Home Loans, SBI EZEE Car Loan, Advantage Car Loan, Education Loan, and SBI Saral Personal Loan.
Bank offers Real Time Gross Settlement System (RTGS) & National Electronic Fund Transfer system (NEFT) which enables an efficient, secure, economical and reliable system of transfer of funds from bank to bank as well as from remitter’s account in a particular bank to the beneficiary’s account in another bank across the country.

As on 31st March 2009, State Bank offers its customers the convenience of over 12,000 ATMs in India.

The Internet banking portal of State Bank group enables its retail banking customers to operate their accounts from anywhere at anytime, removing the restrictions imposed by geography and time. It's a platform that enables the customers to carry out their banking activities from their desktop, aided by the power and convenience of the Internet.

E-Pay will let the customers to pay their Telephone, Mobile, Electricity, Insurance and Credit Card bills electronically over the Online SBI website http://www.onlinesbi.com.

The facility has been launched w.e.f. 1st September 2003 in association with IRCTC. The scheme facilitates Booking of Railways Ticket Online.

The SBI’s powerful corporate banking formation deploys multiple channels to deliver integrated solutions for all financial challenges faced by the corporate universe. The Corporate Banking Group and the National Banking Group are the primary delivery channels for corporate banking products.
Spreading its arms around the world, the SBI’s International Banking Group delivers the full range of cross-border finance solutions through its four wings – the Domestic division, the Foreign Offices division, the Foreign Department and the International Services division.

The State Bank has a network of 131 offices/branches in 32 countries spanning all time zones. The SBI’s international presence is supplemented by a group of Overseas and NRI branches in India and correspondent links with over 522 leading banks of the world. SBI’s offshore joint ventures and subsidiaries enhance its global stature.

The State Bank has carved a niche for itself in Euro land with branches strategically located in Paris, Frankfurt and Antwerp. Indian banks and corporate are able to avail themselves single-window Euro services from SBI Frankfurt.

These strengths are reinforced by a dedicated and highly skilled team of professionals deployed by the bank in each specific segment.

7.2 NON PERFORMING ASSETS – THE BASICS

Banking businesses is mainly that of borrowing from the public and lending it to the needy persons and business at a premium. Lending of money involves a credit risk. When the loans and advances made by banks or financial institutions turnout as non-productive, non-rewarding and non-remunerative then they will become Non-Performing Assets.
Non - Performing Asset means an asset or account of borrower, which has been classified by bank or financial institution as sub –standard, doubtful or loss asset, in accordance with the guidelines relating to assets classification issued by Reserve Bank of India.

With a view to move towards internationally accepted norms for asset classification and income recognition, RBI has been “tightening” the definition of NPAs in a phased manner. Thus, from the norm of classifying only those assets as non-performing which are four quarters past due, which was applicable until 1993, RBI moved to the norm of three quarters past due in 1994 and then to two quarters (180 days) past due in 1995.

Due to the improvement in the payment and settlement system, recovery climate, up gradation of technology in the banking system etc, it was decided to dispense with “past due “concept, with effect from 31st March 2001. Accordingly as from that date, a Non - Performing Asset shall be an advance where

1. Interest and/or instalment of principal remain overdue for a period of more than 180 days in respect of a term loan,

2. The account remains ‘out of order ‘ for a period of more than 180 days in respect of an overdraft/cash credit (OD/CC)

3. The bill remains overdue for a period of more than 180 days in case of bill purchased or discounted.
4. Interest and/or principal remains overdue for two harvest season but for a period not exceeding two half years in case of an advance granted for agricultural purpose.

5. Any amount to be received remains overdue for a period of more than 180 days in respect of other accounts.

Again, it was decided to adopt ‘90 days overdue’ norms for identification of NPAs. This change is done in order to move towards international best practices and to ensure greater transparency.

The Narasimham committee recommendations suggested that loans and advances in banks should be classified into performing and non performing on the basis of the health of the loan assets and the record of adherence to repayment of installments and interest on due dates. The committee also recommended that the banks be allowed to book income by way of interest debited to an account only when it was found realizable within a given time frame.

One of the main causes of NPAs in the banking sector is the directed loans system under which commercial banks are required to supply a prescribed percentage of their credit (40 percent) to priority sectors.

Loans to weaker sections of society under State subsidy schemes have led borrowers to expect that like a nonrefundable State subsidy, bank loans need not be repaid. Directed loans supplied to the “micro sector” are problematic of recoveries especially when some of its units become sick or weak.
The RBI considers NPAs in the Indian banking sector as a historic legacy due to lacunae in credit recovery, largely and arising from inadequate legal provisions on foreclosure and bankruptcy, long drawn legal procedures and difficulties in execution of the decrees awarded by the court. At the end of March 1998, about 46 per cent of NPAs were in respect of suit filed accounts (Filed by 27 public sector and 6 private sector banks) where the recovery was as low as 4.3 per cent and significant portion of suits have been pending for more than a decade.

Risk management practices can be effective only when financial statements present accurate picture of the level of risk. The income recognition norms being followed by banks prior to 1992-93 involved recognition of income earned on bad debts in their books on accrual basis. Thus, these financial statements did not reflect the level of bad debts and presented a misleading rosy picture of their health. This allowed the situation to degenerate considerably before it was detected.

Promoters were often optimistic in setting up large projects and in some cases were not fully above board in their intentions. Screening procedures did not always highlight these issues. Often, projects were set up with the expectation that part of the funding would be arranged from the capital markets, which were booming at the time of the project appraisal. When the capital markets subsequently crashed, the requisite funds could never be raised, promoters often lost interest and lenders were left stranded with incomplete/unviable projects.
There are a number of borrowers who have strategically defaulted on their debt service obligations realizing that the legal recourse available to creditors is slow in achieving results.

Banks are required to classify Non-Performing Assets further into the following three categories based on the period for which the asset has remained Non-Performing:

With effect from 31st March 2005, a sub-standard asset would be one, which has remained NPA for a period less than or equal to 12 months. With effect from 31st March 2005, an asset would be classified as doubtful if it remained in the sub-standard category for 12 months.

A loss asset is one which is considered uncollectible and of such little value that its continuance as bankable asset is not warranted, although there may be some salvage or recovery value. Also, these assets would have been identified as ‘loss assets’ by the bank or internal or external auditors or the RBI inspection but the amount would not have been written-off wholly.

In conformity with prudential norms, provisions should be made on the Non-Performing Assets on the basis of classification of assets into prescribed categories.

Provisions are made for NPAs as per the extant guidelines prescribed by the regulatory authorities, subject to minimum provisions as prescribed below by the RBI:
Substandard Assets

i. A general provision of 10%

ii. Additional provision of 10% for exposures which are unsecured ab-initio (where realisable value of security is not more than 10 percent ab-initio)

Doubtful Assets

– Secured portion

i. Upto one year – 20%

ii. One to three years – 30%

iii. More than three years – 100%

– Unsecured portion 100%

Loss Assets : 100%

In accordance with the Reserve Bank of India guidelines, the bank has an approved policy for creation and utilization of floating provisions separately for advances, investments and general purpose.

7.3 NPA RECOVERY MECHANISMS

Lok Adalats have proved an effective institution for settlement of dues in respect of smaller loans. The Reserve Bank has issued guidelines to commercial banks and Financial Institutions to enable them to make increasing use of Lok Adalats. They have been advised to participate in the Lok Adalats convened by various DRTs /
Debt Recovery Appellate Tribunals (DRATs) for resolving cases involving Rs. 10 lakh and above to reduce the stock of NPAs. As on 30th June, 2003, the number of cases filed by banks in Lok Adalats stood at 272793 involving an amount of Rs.1193.3 crore and amount recovered in 87907 cases was Rs. 190.5 crore.

The Reserve Bank has issued guidelines to commercial banks and FIs advising them to make increasing use of Lok Adalats. Government has recently revised the monetary ceiling of cases to be referred to Lok Adalats organised by Civil Courts from Rs.5 lakh to Rs.20 lakh.

The number of cases filed by commercial banks with Lok Adalats stood at 485046 involving an amount of Rs.2433 crore. The number of cases decided was 205032 involving an amount of Rs.974 crore, and the recoveries effected in 159316 cases stood at Rs.328 crore as on 31st March, 2004.

As on 30th June, 2005, Scheduled Commercial Banks had recovered an amount of Rs.113 crore out of the outstanding amount of Rs.801 crore through Lok Adalats.

As on 30th June, 2006, Scheduled Commercial Banks had recovered an amount of Rs.265 crore out of the outstanding amount of Rs.2144 crore through Lok Adalats.

As on 30th June, 2007, Scheduled Commercial Banks had recovered an amount of Rs.106 crore out of the outstanding amount of Rs.758 crore through Lok Adalats.
As on 30th June, 2008, Scheduled Commercial Banks had recovered an amount of Rs. 176 crore out of the outstanding amount of Rs.2142 crore through Lok Adalats.

As on 30th June, 2009, Scheduled Commercial Banks had recovered an amount of Rs. 96 crore out of the outstanding amount of Rs.4023 crore through Lok Adalats.

Debt Recovery Tribunals (DRTs) aid the recovery of NPAs. In respect of public and private sector banks, the number of cases disposed by the DRTs increased from 8625 (involving recovery of Rs.1657 crore) as on 31st March, 2001 to 13520 (involving recovery of Rs.2864 crore) as on 31st March, 2002.

As on 30th June, 2003, out of 57915 cases (involving Rs.82266 crore) filed by banks to the DRTs, 22163 cases (involving Rs.19633 crore) have been adjudicated and the amount recovered so far stood at Rs. 5787 crore.

As on 30th June, 2004, out of 63600 cases (involving Rs.91926 crore) filed with DRTs by the banks, 27956 cases (involving Rs.25358 crore) have been adjudicated by them. The amount recovered so far through the adjudicated cases is placed at Rs.7845 crore.

As on 30th June, 2005, Scheduled Commercial Banks had recovered an amount of Rs.3348 crore out of the outstanding amount of Rs.4130 crore through Debt Recovery Tribunals.
As on 30th June, 2006, Scheduled Commercial Banks had recovered an amount of Rs.3020 crore out of the outstanding amount of Rs.5819 crore through Debt Recovery Tribunals.

As on 30th June, 2007, Scheduled Commercial Banks had recovered an amount of Rs.3463 crore out of the outstanding amount of Rs.9156 crore through Debt Recovery Tribunals.

As on 30th June, 2008, Scheduled Commercial Banks had recovered an amount of Rs. 4735 crore out of the outstanding amount of Rs.6273 crore through Debt Recovery Tribunals.

As on 30th June, 2009, Scheduled Commercial Banks had recovered an amount of Rs.2688 crore out of the outstanding amount of Rs.14317 crore through Debt Recovery Tribunals.

The Government issued the SARFAESI Act, 2002 which, inter alia, provides, for enforcement of security interest for realization of dues without the intervention of courts or tribunals.

The Act provides for sale of financial assets by banks / financial institutions to Securitization Companies (SCs) / Reconstruction Companies (RCs). Guidelines have been issued to ensure that the process of asset reconstruction proceeds on sound lines.

Since the commencement / enforcement of the SARFAESI Act till end-June 2003, Public Sector Banks have issued 33736 notices for an outstanding amount of Rs.12147 crore and have recovered Rs.499.20 crore from 9946 cases.
As on 30th June, 2004, 27 public sector banks had issued 61263 notices involving outstanding amount of Rs.19744 crore, and had recovered an amount of Rs.1748 crore from 24092 cases through SARFAESI Act.

As on 30th June, 2005, Scheduled Commercial Banks had recovered an amount of Rs.2391 crore out of the outstanding amount of Rs.13224 crore through SARFAESI Act.

As on 30th June, 2006, Scheduled Commercial Banks had recovered an amount of Rs.3363 crore out of the outstanding amount of Rs.8517 crore through SARFAESI Act.

As on 30th June, 2007, Scheduled Commercial Banks had recovered an amount of Rs.3749 crore out of the outstanding amount of Rs.9058 crore through SARFAESI Act.

As on 30th June, 2008, Scheduled Commercial Banks had recovered an amount of Rs. 4429 crore out of the outstanding amount of Rs.7263 crore through SARFAESI Act.

As on 30th June, 2009, Scheduled Commercial Banks had recovered an amount of Rs. 3982 crore out of the outstanding amount of Rs.12067 crore through SARFAESI Act.

The guidelines for compromise settlements of chronic NPAs up to Rs.5 crore were issued in July 2000. On a review and in consultation with the Government of
India, it was decided to give one more opportunity to the borrowers to come forward for settlement of their outstanding dues.

The one-time settlement scheme for recovery of NPAs below Rs.10 crore provides for a simplified, non-discretionary and non-discriminatory mechanism for one-time settlement of chronic NPAs in the Small and Medium Enterprises sector. The scheme, however, does not cover cases of wilful default, fraud and malfeasance.

As on 30th June, 2006, Scheduled Commercial Banks had recovered an amount of Rs.608 crore out of the outstanding amount of Rs.772 crore through one time settlement scheme.

A scheme of Corporate Debt Restructuring (CDR) was developed in India based on international experience and detailed guidelines on the same were issued for implementation by banks and financial institutions in 2001.

Based on the cross-country experience, the Corporate Debt Restructuring Mechanism was modified, and detailed guidelines were issued in August 2001 for implementation by banks. Subsequently, guidelines on CDRM were revised in February 2003.

To solve the problem of bad loans, several institutions have initiated steps towards establishment of ARCs, which takeover nonperforming loans of banks and financial institutions at a discounted rate, and manage and dispose such assets.

During 2005-06, ARCIL acquired 559 cases of NPAs from 31 banks/ financial institutions with total dues amounting to Rs.21126 crore.
At end-June 2007, the book value of total amount of assets acquired by SCs/RCs registered with the Reserve Bank stood at Rs.28544 crore. The security receipts subscribed to by banks amounted to Rs.6894 crore. The security receipts redeemed amounted to Rs.660 crore.

At end-June 2008, the book value of total amount of assets acquired by SCs/RCs registered with the Reserve Bank was at Rs.41414 crore, showing an increase of 45.1 per cent during the year (July 2007 to June 2008). While security receipts subscribed to by banks/financial institutions amounted to Rs.8319 crore, security receipts redeemed amounted to Rs.1299 crore.

As at end-June 2009, the book value of total amount of assets acquired by SCs/RCs registered with the Reserve Bank was Rs.51542 crore, showing an increase of 24.5 per cent during the year (July 2008 to June 2009). While security receipts subscribed to by banks/financial institutions amounted to Rs.9570 crore, security receipts redeemed amounted to Rs.2792 crore.

In October 2007, the Reserve Bank issued guidelines in terms of which banks should work out the net present value (NPV) of the estimated cash flow associated with the realizable value of the available securities net of the cost of realization, while selling NPAs. The sale price should generally not be lower than the NPV arrived at in the manner prescribed by the RBI.
7.4 FINANCIAL PERFORMANCE

The rate of growth of total deposits of the State Bank Group is below the rate of growth of total deposits of the banking industry in most of the years in the study period. In 2007-08, the rate of growth of total deposits of the State Bank Group (22.16%) is more or less equal to that of the banking industry (23.1 %). In fact, the rate of growth of total deposits of the State Bank Group (30.13%) is more than that of the banking industry (22.4 %).

The share of total deposits of the State Bank Group as compared to that of the public sector banks showed a mild but steady decline from 36.32% in 2000-01 to 31.54% in 2007-08. It marginally rose to 32.35% in 2008-09.

The total borrowings of the State Bank Group were around Rs.10000 Crore in 2002-03. The borrowings were Rs.64591 crore in 2008-09 registering an increase of about 6.5 times. The increase in the rate of borrowings had ranged between around 40%-56% during 2004-07. A comparatively lower increasing trend (30%-34%) was noted in respect of the total borrowings of the State Bank Group during the two years ending 31st March 2009.

The share of total borrowings of the State Bank Group out of the total borrowings of the public sector banks had remained in the range of about 49%-57% in the first five years of the study period ending 31st March 2005. In 2005-06, the share fell sharply to about 26%; this was evident from the fact that this year had seen nearly three-fold increase in the total borrowings of the public sector banks when
compared to that of the previous year while the borrowings of the State Bank Group had increased only by about 41%. There had been gradual increase in the share of total borrowings of the State Bank Group (ranging between about 32%-41%) in the last three years ending 31st March 2009.

The total advances of the State Bank Group had started growing from 2003-04. It increased by just 17% when the total advances of Scheduled Commercial Banks registered a robust growth of 33.2% during 2004-05. The total advances of State Bank Group had grown more or less in tune with the average growth of the total advances of the banking industry during the two years ending 31st March 2007. It is to be noted that the total advances of State Bank Group had grown more than the average growth of the total advances of the banking industry during the two years ending 31st March 2009.

The total assets of the State Bank Group had registered an annual growth of about 10%-14% over first seven years of the study period ending 31st March 2007.

A considerable growth in the total assets of the State Bank Group was noticed in 2007-08 (about 17%) and in 2008-09 (about 26%).

The increase in operating profit of the State Bank Group was at the top of nearly 52% in 2001-02. There was very low growth in operating profit in 2004-05 (6.24%) and in 2005-06 (0.46%). In fact, the operating profit decreased by 7% in 2006-07. However, increasing trend in operating profit was noticed in 2007-08 (22%) and in 2008-09 (34%).
The increase in net profit of the State Bank Group was at the top of nearly 55% in 2001-02. There was very low growth in net profit in 2004-05 (1.02%) and in 2005-06 (4.94%). In fact, the net profit increased by about 10% in 2006-07. However, a higher increasing trend in net profit was noticed in 2007-08 (37%) and in 2008-09 (32%).

The spread of the State Bank Group (about 8%-14%) was at an increasing rate for three years since 2001-02. It was at top (about 23%) in 2004-05. The growth in the spread sharply went down to around 11% in 2005-06 and it was very minimal during the next two years. Only in 2008-09, the State Bank Group had regained the increasing momentum and had maintained around 21% growth in its spread.

The total income of the State Bank Group had grown at about 14% in 2001-02. Thereafter, the growth had been at lower pace in most of the years in the study period. Only from 2007-08 onwards, the growth in the total income of the State Bank Group had been around 28% which had matched with the rate of growth in the total income for the banking industry as a whole.

The interest income had been the predominant source (about 80%-88%) of the total income in the case of public sector banks in general and in respect of State Bank Group in particular.

The total expenses of the State Bank Group had grown at about 11% in 2001-02. Thereafter, the growth had been at lower pace in most of the years in the study period. Only from 2007-08 onwards, the growth in the total expenses of the
State Bank Group had been around 27%-28% which had closely matched with the rate of growth in the total expenses for the banking industry as a whole.

The interest expended had been the predominant component (about 60%-69%) of the total expenses in the case of public sector banks in general and in respect of State Bank Group in particular.

The growth in operating expenses of the State Bank Group had either been far below the banking industry average in this respect or marginally higher than that of it in most part of the study period under view

The wage bill had been the predominant component of the operating expenses in the case of public sector banks in general and in respect of State Bank Group in particular. It is also observed that wage bill-operating expenses ratio had been gradually decreasing year by year over the study period.

7.5 AN ANALYSIS OF NPAs

The gross NPAs of the State Bank Group which stood at Rs.20593 crore at the end of March 2001 had dropped continuously year on year till the end of March 2006 and amounted to Rs.12541 crore as on that date, thus registering a commendable 39% reduction over this period. However, the gross NPAs of the State Bank Group started to grow since then and reached the level of Rs.18352 crore at the end of March 2009 registering a whopping 46% increase in gross NPAs when compared to the level at the end of 2006.
The total gross NPAs of the Public Sector Banks, the State Bank Group had a share of about 36% at the end of 31\textsuperscript{st} March 2001. The share had continued to be between 30%-35% till the end of 2006. The share was up in the next three years ending 31\textsuperscript{st} March 2009 and reached a level of around 41% which was more than its share (30%) in 2005-06.

The net NPAs of the State Bank Group which stood at Rs.9450 crore at the end of March 2001 had dropped continuously year on year till the end of March 2004 and amounted to Rs.5967 crore as on that date, thus registering a commendable 36.86% reduction over this period. However, the net NPAs of the State Bank Group started to grow since then and reached the level of Rs.10745 crore at the end of March 2009 registering a whopping about 80% increase in gross NPAs when compared to the level at the end of 2004.

The total net NPAs of the Public Sector Banks, the State Bank Group had a share of about 31% at the end of 31\textsuperscript{st} March 2001. The share had continued to be between 31%-32% till the end of 2004. The share was up in the next five years ending 31\textsuperscript{st} March 2009 and reached a level of around 51% which was considerably more than its share in 2000-01.

The ratio of gross NPAs to total assets of the State Bank Group was 5.11% in 2000-01. There was a perceptible decline in the ratio of gross NPAs to total assets throughout the study period. In fact, the gross NPA to total assets ratio of the State Bank Group has come down to 1.43% at the end of March 2009. It clearly shows the improvement of asset quality of the State Bank Group during the study period.
The ratio of net NPAs to total assets of the State Bank Group was 2.35% in 2000-01. It had steadily declined throughout the study period. In fact, the net NPA – total assets ratio of the State Bank Group was 0.84% at the end of March 2009. It would also imply good improvement of asset quality of the State Bank Group during the study period.

The ratio of gross NPAs to gross advances of the State Bank Group was about 13% in 2000-01. There was a perceptible decline in the ratio of gross NPAs to gross advances throughout the study period. In fact, the gross NPAs to gross advances ratio of the State Bank Group was 2.45% at the end of March 2009. It denotes the improvement of asset quality of the State Bank Group during the study period.

The ratio of net NPAs to net advances of the State Bank Group was about 6% in 2000-01. It had steadily declined throughout the study period. In fact, the net NPAs to net advances ratio of the State Bank Group was 1.50% at the end of March 2009. It indicates the improvement of asset quality of the State Bank Group during the study period.

It is observed that till the end of 2005 the NPAs were the highest from non priority sector loans, followed by priority sector loans and public sector loans in that order. During the next three years ending 31st March 2008, the NPAs were the highest from priority sector loans, followed by non priority sector loans and public sector loans in that order. Again in 2008-09, the NPAs were the highest from non priority sector loans.
The share of NPAs from agricultural advance out of total priority sector NPAs had ranged between 34%-37% till the end of 31\textsuperscript{st} March 2004. It was between 32%-33% during the next three years ending 31\textsuperscript{st} March 2007. Significantly, it was at the highest level of 37% in 2007-08. However, the share of NPAs from agricultural advance had drastically reduced to 24% of the priority sector NPAs in 2008-09.

There was a perceptible decline in the share of NPAs from total agricultural advances over the study period. In fact, the NPA from agricultural advance in relation to the total agricultural advances was about 15% in 2000-01 and it had considerably reduced to the level of 3.26% at the end of 31\textsuperscript{st} March 2009.

The share of NPAs from SSI advance out of total priority sector NPAs had ranged between 32%-43% till the end of 31\textsuperscript{st} March 2004. It was between 17%-26% during the next three years ending 31\textsuperscript{st} March 2008. Significantly, it was at the highest level of 43% in 2000-01. However, the share of NPAs from SSI advance had drastically decreased to 24% of the priority sector NPAs in 2008-09.

The share of NPAs from weaker section advance out of total priority sector NPAs had ranged between 24%-41% till the end of 31\textsuperscript{st} March 2005. It was between 15%-24% during the last four years ending 31\textsuperscript{st} March 2009. Significantly, it was at the highest level of 41% in 2004-05. However, the share of NPAs from weaker section advance had drastically decreased to 15% of the priority sector NPAs in 2008-09.
There was a perceptible decline in the share of NPAs from total weaker section advances over the study period. In fact, the NPA from weaker section advance in relation to the total weaker section advances was about 22% in 2000-01 and it had considerably reduced to the level of 2.10% at the end of 31st March 2009.

The NPAs from other priority sector advances had been around 22%-24% of the total priority sector NPAs during the three years ending 31st March 2008. It further went up to the highest level of 37% during 2008-09.

There was a decline in the share of NPAs from total SSI and other advances over the study period. In fact, the NPA from SSI and other advances in relation to the total SSI and other advances was about 19% in 2000-01 and it had considerably reduced to the level of 6.90% at the end of 31st March 2009.

The gross NPAs added each year during the last three years of the study period had shown an uptrend. The gross NPAs added during 2008-09 were Rs. 12879 crore which were twice the amount of gross NPAs added during 2006-07.

The proportion of gross NPAs added by the State Bank Group with respect to that of the Public Sector Banks had been around 28%-35% during the period between 2004-05 and 2006-07. It further went up to the level of 39%-41% during the period between 2007-08 and 2008-09.

The provisions for NPAs made each year during the last three years of the study period had shown a continuous uptrend. The provisions for NPAs made during
2008-09 were Rs. 4807 crore which were 2.66 times the amount of provisions for NPAs made during 2006-07.

The sub standard assets as a proportion of gross NPAs had increased from 27% in 2000-01 to about 37% in 2006-07, about 43% in 2007-08, and further increased to about 45% of gross NPAs at the end of 31st March 2009. The doubtful assets as a proportion of gross NPAs had decreased from 61% in 2000-01 to about 46% in 2008-09. The loss assets as a proportion of gross NPAs had decreased from 12% in 2000-01 to about 9% in 2008-09.

The data on total NPAs recovered by the State Bank Group were available only from 2004-05. It amounted to Rs. 5833 crore at the end of 31st March 2005. The recovery of total NPAs had improved to the level of Rs. 7915 crore registering an increase by about 36% during 2005-06.

There was a decline in the total NPA recovered in 2006-07 when compared to the previous year. In fact, the decrease was deep by about 23%. When compared to the recovery of total NPAs in 2006-07, the recovery of Rs.6675 crore in 2007-08 was a little higher by about 9%. When compared to the recovery of total NPAs in 2007-08, the recovery of Rs.9829 crore in 2008-09 was a little higher by about 47%.

Up gradation to standard assets was made to the tune of Rs. 1257 crore in 2007, Rs.1517 crore in 2008, and Rs.3402 crore in 2009.

Cash recovered from written off accounts was Rs.972 crore during 2006-07, Rs.839 crore during 2007-08, and Rs.888 crore during 2008-09.

In the last three years ending March 2009, restructuring of impaired standard assets as well as viable Non Performing Assets, both under CDR mechanism as well as under Bank’s own scheme, were given top priority by the State Bank Group for arresting new additions and reducing the existing level of NPAs.

116 cases were referred to CDR for restructuring till 31st March 2007 in which the Bank had an aggregate exposure of Rs. 7,678 crore. Out of these cases, 94 cases with an exposure of Rs. 6,726 crore were approved and two, with an exposure of Rs. 43 crore, were under process.

During 2007-08, out of 165 companies brought under CDR from the entire Banking System, SBI has an exposure in 61% cases. During 2008-09, the Bank referred 9 cases with aggregate exposure of Rs. 883 crores to CDR mechanism this year out of a total of 20 cases with aggregate exposure of Rs. 1235 crores referred to CDR by the whole Banking system. The share of the State Bank Group in the debt in the cases referred was 72% by value. In all cases, timely intervention enabled the accounts to retain their Standard Asset status.

110 Financial Assets including NPAs and AUCAs, involving principal outstanding of Rs. 123.45 crore had been sold to other banks /ARCIL during 2006-07.
Two Financial Assets involving principal outstanding of Rs.25.22 crore have been sold to other banks / ARCIL during 2007-08. Five financial assets involving principal outstanding of Rs. 289 crores have been sold to other banks/ARCIL during 2008-09.

7.6 SUGGESTIONS

In the light of the above findings, the following suggestions deserve to be mentioned for efficient management of NPAs in banks.

1. Banks should be very careful in considering settlement compromise proposals.

2. Banks should try to introduce a system of internal audit of sanction of loans before disbursements for large loans.

3. Each bank should have its own independent credit rating agency which should evaluate the financial capacity of the borrower before granting credit.

4. It is also wise for the banks to carryout special investigative audit of all financial and business transactions and books of accounts of the borrower company when there is suspicion over the diversion of the funds and mismanagement.

5. There should be proper monitoring of the restructured accounts because there is every possibility of the loans slipping into NPAs category again.

6. Proper training is important to the staff of the banks at the appropriate level with ongoing process. The training should impart how they should deal the problem of NPAs, and what continuous steps they should take to reduce the NPAs.
7. Willful default of bank loans should be made a criminal offence.

8. No loan is to be given to a group whose one or the other undertaking has become a defaulter.

9. The various mechanisms evolved for recovering NPAs should have adequate legal powers for the transfer of assets of the defaulters.

10. An effective strategy of NPA resolution would be treating the financially and operationally restructured unviable industrial borrowers as a separate category of NPAs.

To conclude, profitability and viability of banks are directly affected by quality and performance of advances. Hence, the basic element of sound NPA Management system is quick identification of Non-performing advances, their containment at minimum levels and ensuring that their impingement on the financials is minimal.