

## A Study of Impact of the IBC on Non-Performing Assets of the State Bank of India

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### Abstract

Balance sheets of the Indian public sector banks are laden with piling NPAs. The State Bank of India (SBI) is the largest public sector bank. The bank is not only the modus operandi of ensuring smooth financial system of the country but also the promoter of the welfare schemes of the government. Unfortunately, the SBI is the leading public sector bank in case of levels of NPAs. NPAs are a major source of concern in the Indian banking system. Even after many legal and financial reforms, the problem of NPAs seems to be far away from a proper solution. The Insolvency and Bankruptcy Code (IBC) 2016 was enacted with the objective of solving the NPA problem in an effective time bound manner. The present study focused on analyzing the trend of NPAs of the SBI in the pre and post- IBC era and factors leading to the NPAs in bank. It also attempts to study the mechanism adopted by the bank to solve the NPA problem. For the purpose of achieving the objective of the study, secondary data has been used and analysis is done using graphs, tables and percentages.

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### Introduction

Banks are the key drivers of the development and growth of an economy. They mobilize savings of the people into more economic and productive activities. Lend loans and advances for expansion of manufacturing; service other industrial sector of the economy. They fund the welfare and developmental schemes of the government. Keeping this in point, it is clear that the banks are the life and blood of the economy and it is very important to have a strong banking sector, which supports sustained growth and development of the economy. The government of India adopted a mixed economic sector, after the independence, for a balanced and inclusive growth of the economy so that even the last person reaps the benefits of the economic growth. For this purpose, the government promoted priority sector lending among the lenders of the country. In the wake of financial reforms of the 1991 and to achieve the objectives of the New Industrial Policy of the 1991, the banks started lending to small businesses, new businesses at lower rates of interest. This was promoted by the government to encourage domestic businesses and protect

them from their foreign counter parts. Banks started lending at relaxed terms and conditions. Big business houses were given huge amount of loans at lower and concessional terms, due to their power, market share and political connections.

Later on, when the world was hit by the financial recession in 2008, Indian banks got alarmed with the unprecedented levels of NPAs, on their balance sheets. As per the prudential norms of the RBI, the banks can't book interest on NPA on accrual basis (Tripathi, Parashar and Mishra, 2014). Not only arrears of interest on NPAs but also the provisioning required for the NPAs negatively affects the profitability, creditability, liquidity and capital adequacy ratio of the banks.

### State Bank of India

State Bank of India came into existence after the Imperial Bank of India was renamed as the State Bank of India in 1955. It is a public sector bank established as a statutory body, which provides financial and banking services. It is the largest public sector bank of the country, having branches inside and outside of the country. It has large shares in

providing services like retail banking, corporate banking, investment banking, mortgage loans, private banking, wealth management, credit cards and finance and insurance to different industries.

### Importance of the State Bank of India

- It is the largest bank of the country. It is ranked 60th in the world;
- Provides a wide range of financial and banking services;
- It is the largest lender to individuals and households;
- It provides services like home loans, car loans and education loans to the people of the country;
- It is the largest credit card issuer of the country.

### Literature Review

1. Singh (2013) <sup>[4]</sup> in his study that the priority sector lending is major factor behind growing NPAs of the banks. He analysed the data about recovery of NPAs by various recovery channels and didn't find performance satisfactory.
2. Tripathi, Parashar and Mishra (2014) analysed the impact of advances made by the SBI group and other banks to three sectors namely, priority sector, sensitive sector and advances made as unsecured advances on the NPAs level of the banks. They found only unsecured loans significantly affected the levels of NPAs of the SBI taking GNPA as dependent variable. They considered only GNPA for the study. The study is limited to 2014.
3. Vallabh, Singh, Prasoon and Singh (2016) <sup>[8]</sup> in their study on the methodology to predict NPAs in banks, focused on devising a model to predict NPAs of Indian banking system in 2020, on the basis of past 11 years data (2004-2015), They used Multiple Linear Regression model of forecasting and 4 quantitative variable (GDP, repo rate, loans and advances and inflation) to devise the best fitting model of forecasting. They devised models based on MLR by using linear, stepwise and logarithm regression equations. They made use of Mean Absolute Percentage Error (MAPE) to choose the best forecasting model. They found the proposed model predicted 7.07% (147921) of the average loans and advances of the SBI will fall in the NPA bracket in the year 2020, whereas for Indian banking sector it was 4.94% (7808 billion). They suggested various remedial measures including the sector wise planning and standardization of third party vendors and concluded that the results are directing towards a devastating state of banking sector and it is the need of the hour to control NPAs.
4. Roy (2017) <sup>[1]</sup> analysed data of 5 years to see the impact of GNPA on the net profits of banks. She found that changes in GNPs of one bank affect the level of GNPs of other banks and there is a negative relationship between GNPs and the net profits of the banks.
5. Kumar and Vasanthi (2017) <sup>[7]</sup> studied the situation of NPAs in PSBs and foreign banks, for a period of 5 years 2011-16. They used percentages to show the situation of NPAs in relation with advances by the banks. They found a positive correlation between NPAs and advances made by the banks. The NPA situation of the PSBs and scheduled commercial banks is worse than that of the foreign banks. The NPAs of the PSBs and scheduled commercial banks saw an increase of 441% and 438% respectively, whereas it is just 96% for foreign banks. They concluded that the profitability and efficiency of

banks is majorly dependent in NPA and suggested that the PSBs should adopt the measures adopted by the foreign banks to check NPAs as the PSBs are in severely risky situation.

6. Ojha and Jha (2017) <sup>[10]</sup> in their study on impact of the NPA on the working of the SBI analysed secondary data to see the impact of the NPA on working of the SBI and analyse the profitability of the bank. They used various performance indicators the SBI and the public sector banks to show the impact of NPA on banks and the SBI. They concluded that due to various organizational and policy changes like introduction of core banking solutions and technological up gradation, the performance of the banks can be considered satisfactory.
7. Muthumeena and Iylin (2019) <sup>[5]</sup> evaluated the effectiveness of different recovery channels in reducing the NPAs menace using ANOVA analysis. They found that the various channels, namely SARFAESI, DRTs and Lokadalats are not performing up to the mark. They found that the no. of cases went under Lokadalats is highest in comparison to SARFAESI and DRTs during 2013-18, but the recovery is lowest from Lokadalats in comparison to SARFAESI and DRTs. They also saw that the IBC has made a huge success in recovering the NPAs as per RBI, in just two year of its implementation.
8. Karunanithi (2020) <sup>[9]</sup> studied the impact of NPA on performance of private and public sector banks, using performance indicators of the CAMEL model and multiple regression analysis. They found that the GNPs of the PSBs affect the liquidity of the banks at the highest rate followed by asset quality and profitability. Whereas, the NNPs of the PSBs affect the capital adequacy of the banks at the highest rate followed by management soundness and profitability of the banks. NNPs affect the asset quality least.
9. Shankar (2021) <sup>[3]</sup> analysed data on sectoral disbursement of loans of banks to 13 different sectors and found that there 99% correlation between the amount of loan given to a sector and NPA from that sector. Therefore, banks should try the policy of loan diversification to avoid the creation of new NPAs.
10. Bansal, Kumar and Purohit (2021) <sup>[6]</sup> studied the relationship between the net profit and NPAs of the two banks, the BOB and the SBI. They found that the net profits and NPA of banks are negatively highly correlated and using coefficient of variance found that the ratio of GNPs of the advances of the SBI is more consistent than that of the BOB. They analysed the trends of NPA of the banks but didn't give any reason for a sudden increase in the year 2017-18 and then the sudden fall in the NPAs in 2018-19.

### Research GAP

The above studies have studied mostly about the impact of the NPAs on the performance of the SBI and other banks. There is lack of studies specifically done on the NPA problem of the largest lender of the country, the SBI. Present study aims to address the gaps found in the current literature to make the SBI a game changer in the reduction of NPAs.

### Objectives of the Study

- To study the impact of the IBC 2016 on the NPAs of SBI.
- To see the level of recovery of NPAs of the SBI through various recovery channels.

## Research Methodology

The study is based mainly on the secondary data obtained from various online resources like news articles, blogs, publications of the Reserve Bank of India and the State Bank of India. Graphs and tables have been used to see the trends of the growth in GNPAs and NNPs of the bank and test the effectiveness of IBC in recovery of NPAs and covering NPAs by provisions.

## Analysis and Interpretation of Data

An analysis of trend of GNPAs and NNPs of the bank has been done in the current section, on the basis of secondary data.

**Table 1:** Trend in Annual Growth Rate of GNPAs and NNPs of SBI

Year	Gnpa annual growth	Nnpa annual growth
2011-2012	56.66	28.12
2012-2013	29.02	38.79
2013-2014	20.02	41.63
2014-2015	-7.92	-11.27
2015-2016	73.07	102.27
2016-2017	14.43	4.4
2017-2018	98.88	90.21
2018-2019	-22.68	494.433
2019-2020	-13.7	-92.13
2020-2021	-15.233	-29.04

Source: SBI Report



Source: Author Generated

**Fig 1:** Graphical Representation of GNPAs and NPAs of the Bank

## Interpretation

As far as the GNPAs of the bank are concerned, the GNPAs have been increasing at a decreasing rate from 2011-12 to 2013-14 and then at a negative rate in 2014-15, which implies a decrease in absolute value of the GNPAs. After that, they increased at an increasing rate of 73.07% and after this at a decreasing rate in 2016-17. They again increased at a rate of 98.88% and then followed a downward slope of growth rate from 2018-19 to 2020-21. From this, it can be seen that immediately after the introduction of the IBC, 2016, the GNPAs of the bank did show an increase at an increasing rate but after that they have reduced.

Again, if we look at the growth rate of NNPs of the bank, they somewhat have followed the same path of growth as that of the GNPAs. They first show a growth in absolute terms at an increasing rate. After this, they decreased at a negative rate in the year 2014-15. Then, in 2015-16 they grew at an increasing rate and again fell down. Then, they followed an upward slope reaching the highest growth rate in the year 2018-19. After this they decreased at a negative rate. This again implies that somewhere, the IBC has been effective in addressing the NPA problem of the bank.

Thus, it can be seen that after the enactment of the IBC, the NPAs of the bank have come down and this is a good indicator for the bank.

## Provision Coverage Ratio (PCR)

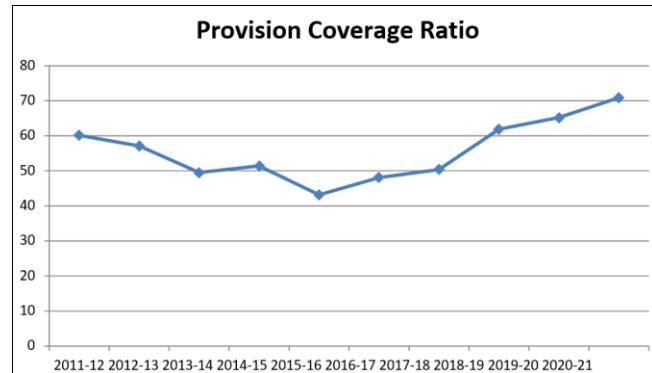
Provisioning coverage ratio shows the financial health of a bank which is calculated by showing the total provisions as a percentage of the total GNPAs. It shows if the provisions made for the NPAs are enough to recover the NPAs in case the assets are downgraded to the lost assets category. Higher the ratio means, the provisions are enough to cover the NPA loss and a lower ratio shows the bank has not maintained enough provisions to cover the NPAs and this might result into a bad name of the bank. Customers will lose faith in the bank and may withdraw from bank.

$$\text{PCR} = \frac{\text{Total Provisions}}{\text{Total GNPAs}} \times 100$$

**Table 2:** Provision Coverage Ratio-Year on Year Basis

Year	Total GNPAs (cr.)	Total provisions (cr.)	PCR (%)
2011-2012	39676.46	23857.61	60.13
2012-2013	51189.39	29232.91	57.11
2013-2014	61605.35	30509.28	49.52
2014-2015	56725.34	29134.76	51.36
2015-2016	98172.80	42365.78	43.16
2016-2017	112342.99	54065.61	48.12
2017-2018	223427.46	112572.76	50.38
2018-2019	172753.60	486193.8	61.86
2019-2020	149091.85	97220.55	65.21

Source: SBI Annual Report



Source: Author Generated

**Fig 2:** Graphical Representation on PCR During the Period

## Interpretation

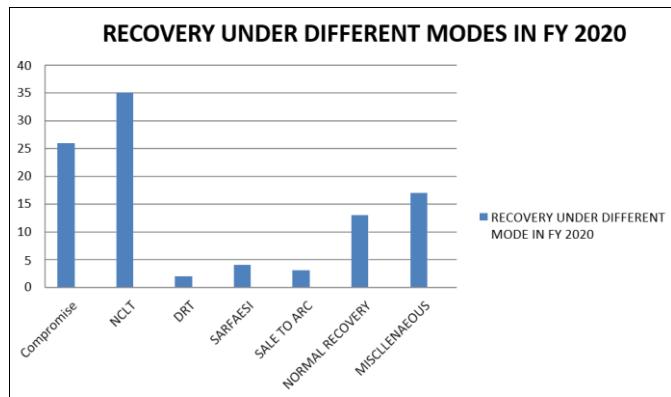
The above graph shows the trend of provision coverage ratio. Before 2015-16, the PCR has followed a roller coaster ride. After the implementation of the IBC 2016, the PCR has been increasing and in 2020-21 it was 70.88%. This implies that the IBC has been able to contain the NPAs and also, ensured proper provisioning for bad assets is done at the same time.

## NPA Recoveries of State Bank of India

In the above section, we analyzed the trend of the NPAs before and after IBC and to access the impact of the code on the NPAs. In the current section, an account of various modes of recoveries of NPAs is given. To reduce, manage and recover NPAs, the bank has taken various measures including changes in lending process to forming committees and expert groups. The bank has also followed the guidelines, issued by the Reserve Bank of India as well as BASEL-III norms.

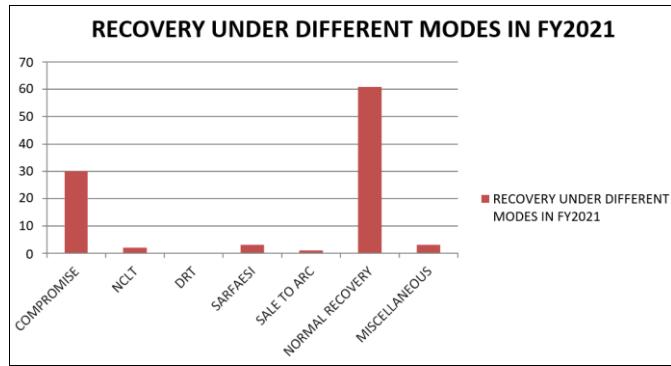
## Interpretation

From the diagrams below, we can see that for the financial year 2020, the amount of recovery done by NCLT under the IBC route is the highest. But, in the year 2021, the recovery under the NCLT was among the lowest. One of the major reasons for this could be the COVID pandemic due to which the economic activities of the businesses had got hampered and many of the provisions of the IBC were suspended. Even, the threshold limit for the commencement of the corporate insolvency resolution process (CIRP) was extended to protect the small businesses from liquidation. There might be some other bank specific reasons for this.



Source: Author Generated

**Fig 3:** Recovery of NPAs Through Various Modes in 2020



Source: Author Generated

**Fig 4:** Recovery of NPAs through Different Modes in 2021

## Findings

- The IBC has given an edge to the stressed asset resolution mechanism of the bank.
- The profitability, liquidity of SBI has improved after the law came into force.
- The growth in NPAs of the bank has come down after the enactment of the IBC.
- The provisioning for NPAs for has improved after the enactment of the IBC.
- The bank has recovered a good portion of its NPAs through IBC before the Covid-19 hit the economy.

## Conclusion

Public sector banks are the tools through which governments ensure balanced and inclusive growth of the economy. Problem of NPAs in the banking sector is affecting the performance and financial health of the banks. The IBC has all the potential to control the bank's NPAs. As from the study it is clear that that the problem of NPAs is persistent, but after the enactment of the code the problem is manageable. If we exclude the impact of COVID like

situations, it will not be an exaggeration to say that in coming a few years, the banking sector will surely come out of the tangles of the NPAs. Some provisions of the code may be required to be brought into the code or amended to make it more effective and achieve the objectives it was brought for.

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