

## ANALYSIS OF PRIORITY SECTOR NPAs WITH SPECIAL REFERENCE TO SBI MUMBAI CIRCLE AND SBI BANGALORE CIRCLE

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### **ABSTRACT**

*The Indian banking sector is facing a serious problem of Non Performing Assets. Non-performing assets are one of the major concerns for banks in India as they reflect the performance of banks and have affected the whole economy. The financial health of the banking sector can be assessed by the level of NPAs in the banks. NPAs affect the asset quality, credit risk and efficiency in the allocation of resources to productive sectors. The management is seriously concerned about the growing NPA menace. The earning capacity and profitability of many banks and financial institutions had been adversely affected by the high level of NPAs. The Govt. of India and Reserve Bank of India has initiated various measures to control the growing level of NPAs. The study analyzed the advances and Non Performing Assets in Priority sector and Non Priority sector in State Bank of India Mumbai circle and State Bank of India Bangalore circle along with the trend in Priority sector. We could find out the relation between Non Performing Assets and priority sector lending of banks. Here bank wise and sector-wise data has been gathered mainly from banks official sources and then analyzed with different parameters.*

**KEYWORDS:** Agriculture Advances, Banking, Non-Performing Assets, Non-Priority Sector Priority Sector, Total NPA

### **INTRODUCTION**

There requires stable and sound health of banking system for the overall economic development and financial stability in the country. The Non-performing asset (NPA) is an important indicator to assess the financial health of the banking sector. The Non-performing asset is defined as an asset which ceased to generate any interest income for the banks where payment of interest or repayment of installment of principal or both remains unpaid for a period of 90 days. The presence of high level of Non-performing would result in the reduction in interest income, high level of provisioning, reduction in profitability, increase in maintenance cost, reduced competitiveness and great difficulty in augmenting the capital resources. The level of NPAs is high in India as compared to other countries. And the RBI has initiated many measures for the recovery of NPAs.

### **LITERATURE REVIEW**

#### **RAJANI SALUJA AND DR. ROSHAN LAL (2010)**

The authors in their article “Comparative analysis on non-performing assets (NPAs) of Public sector, Private sector and Foreign Banks in India” tried to compare the presence of NPAs in Public, Private and Foreign Banks. The study

is based on secondary data sourced from Reserve Bank of India (RBI) publications. Statistical tools like averages and percentages are made use of. Analysis and comparison are done for the study period 2003-04 to 2007-08. Finally, authors came out with the result that NPAs are not confined to Public Sector Banks (PSBs) alone but, are present in Private Banks and Foreign Banks as well. The figures for Gross and Net NPAs of PSBs have improved over the years because of the initiatives and enforcement of various legal measures.

#### **DR. M. JAYASHREE AND R RADHIKA (2011)**

The authors in their paper “Non-Performing Assets: A study of Scheduled Commercial Banks in India” have made an attempt, to understand the NPAs sector-wise, to make a comparative study of NPA’s of public sector banks, old private sector banks, new private sector banks and foreign banks and to understand the relationship between NPAs, net profit, and advances. The study is aimed at analyzing the NPAs of Indian banks. The secondary data has been collected from RBI reports and bulletins. The study covers 5 years from 2004-05 to 2008-09. The data collected is tabulated and analyzed using correlation and regression methods. At the end of the study, the auditors came out with the conclusion that there is a negative relationship between net profit and NPAs and positive correlation between NPAs and total advances.

#### **K. VEERAKUMAR (2012)**

The author in this paper “Non-Performing Assets in Priority Sector: A Threat to Indian Scheduled Commercial Banks” has made an attempt to study the priority sector advances by the public, private and foreign bank group-wise, target achieved by them and a comparative study on priority and non-priority sector NPAs over the period of 10 years between 2001-02 and 2010-11. The study is based on secondary data. RBI publications are the main sources and the author also collected supplement data from annual reports of the various public, private and foreign commercial banks, journals, websites and textbooks. The collected data has been processed by the author by using tools like Ratio Analysis, Averages, Percentage, Polynomial Trend analysis, Coefficient Correlations and Multiple Linear Regression Analysis, and ‘t’ tests is used to analyze the data. The author finally came to the conclusion that non-recovery of credit in time and lower recovery of NPAs is the major reasons for mounting NPAs of SCBs.

#### **ROSY KALRA (2012)**

An author in this paper “Non-Performing Assets of Commercial Bank: A case study” has made an attempt to find out the various factors responsible for the accumulation of huge NPAs. For this purpose, author has collected primary data through questionnaire and direct personal interviews and discussions with the officers of various commercial banks. And the secondary data was obtained from various RBI publications. Author-focused the study on two dimensions: 1) Industry wise segmentation and 2) Geographical segmentation. After analysis of the data, author found that technological gap, production below Minimum Efficiency Scale (MES), changing Govt policy to render the industry open to global competition, lack of original research in developing product etc are the main reasons for the higher incidence of NPA. Finally, author concluded with a note that quality appraisal, supervision and proper follow-up by bank undoubtedly will assist in solving the problem of NPA.

## **NEED/IMPORTANCE OF THE STUDY**

NPAs have an impact on the performance of the bank which results in the reduction in interest income, net worth and productivity and efficiency leading to erosion of profits. In the present paper, analysis is made on Priority sector NPAs of SBI Mumbai circle and Bangalore circle for the period 2003-04 to 2010-11. Under the policy of Directed Lending to Priority sector, banks have been lending to Agriculture, SSI, Weaker section and Others with a view to attaining balanced development of the economy. So it is necessary to find out whether lending to this sector is safe as compared to other sectors? In view of this in this study an attempt has been made to ascertain the level of NPAs in Priority sector and Non Priority sector NPAs in SBI Mumbai circle and Bangalore circle and study the quantum of NPAs present in components of Priority sector NPAs of SBI Bangalore circle.

## **STATEMENT OF THE PROBLEM**

Credit risk is associated with lending. The nature and extent of credit risk depend on the quality of loans. Banks are worried about NPAs as they adversely affect Bank's financial health, goodwill, and image. NPAs also affect the psychology of bank managers in taking new projects for credit expansion. Banks are working hard to maintain the NPAs at lower levels. There are many reasons for the occurrence of NPAs and major among are an improper selection of borrower, improper appraisal of assets, lack of supervision and follow up, wilful defaulters, diversion of funds Govt policies etc. Thus NPA is considered a strategic affair in Indian banking sector and it is felt necessary to carry out the study entitled "Analysis of Priority sector NPAs with special reference to SBI Mumbai circle and SBI Bangalore circle".

## **OBJECTIVES**

- To examine whether the level of NPAs in Priority sector is higher compared to Non Priority sector NPAs of State Bank of India (SBI) Mumbai circle
- To compare the level of NPAs in Priority sector in SBI Mumbai circle and SBI Bangalore circle.
- To examine whether the level of NPAs in Priority sector is higher compared to Non Priority sector NPAs of SBI Bangalore circle
- To examine whether the Agriculture NPAs in Priority sector NPAs of SBI Bangalore circle are higher compared to other components of Priority sector NPAs

## **HYPOTHESIS**

- The levels of NPAs are more in Non-Priority Sector as compared to the Public sector in SBI Mumbai.
- The NPAs are higher in Priority Sector as compared to Non-Priority Sector of SBI Bangalore Circle.
- The NPAs of Agriculture is high as compared to other sub-sectors of Priority Sector

## RESEARCH METHODOLOGY

The study is based on secondary data only. Data has been collected from SBI Mumbai circle and SBI Bangalore circle official sources and literature has been compiled from various Journals and Publications.

## RESULTS AND DISCUSSIONS

**Table 1: Analysis of Loan and NPAs of SBI-Mumbai in Priority Sector (Amt in crores)**

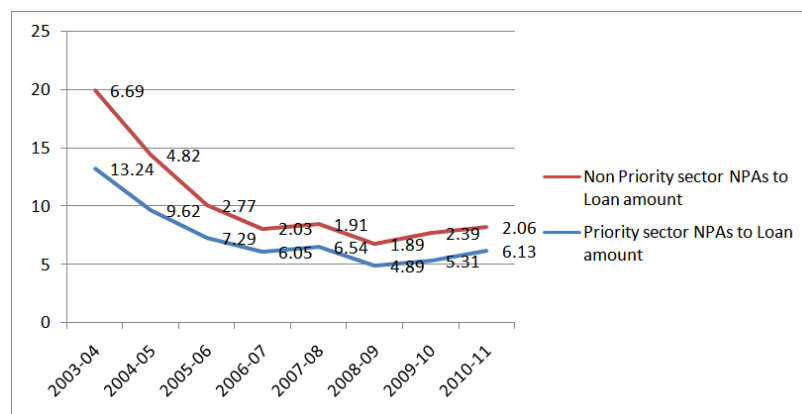
Years	Priority Sector Advances	Total NPA	Priority Sector NPAs	% to Total	% to Loan
1	2	3	4	5	6
2003-04	42705.87	11712.54	5656.05	48.29	13.24
2004-05	57864.82	11571.71	5570.70	48.14	9.62
2005-06	80012.88	10290.29	5835.14	56.70	7.29
2006-07	102015.85	10495.10	6178.82	58.87	6.05
2007-08	119230.51	13160.17	7804.30	59.30	6.54
2008-09	143637.56	15675.27	7033.51	44.87	4.89
2009-10	170568.21	19263.14	9073.04	47.10	5.31
2010-11	231597.87	24067.74	14203.15	59.01	6.13

Source: Corporate center, SBI Mumbai

**Table 2: Analysis of Loan and NPAs of SBI-Mumbai in Non Priority Sector (Amt in Crores)**

Years	Non Priority Sector Advances	Total NPA	Non Priority Sector NPAs	% to Total	% to Loan
1	2	3	4	5	6
2003-04	89352.72	11712.54	5978.65	51.04	6.69
2004-05	120088.79	11571.71	5793.37	50.06	4.82
2005-06	158891.06	10290.29	4408.43	42.84	2.77
2006-07	208155.72	10495.10	4234.02	40.34	2.03
2007-08	274512.67	13160.17	5261.24	39.97	1.91
2008-09	362624.1	15675.27	6878.95	43.88	1.89
2009-10	412390.02	19263.14	9859.68	51.18	2.39
2010-11	476197.16	24067.74	9856.04	40.95	2.06

Source: Corporate center, SBI Mumbai



**Figure 1: A Comparative Analysis of NPAs Percentage to Loan Amount of SBI Mumbai in Priority and Non Priority Sectors**

**H1: The levels of NPAs are more in Priority Sector as compared to Non Priority sector in SBI Mumbai circle.**

From the Figure 1 given above it can be seen that the percentage of NPAs in loan amount in Priority sector is high as compared to the percentage of NPAs in loan amount in Non Priority sector.

The percentage of NPAs in loan amount in Priority sector NPAs highly fluctuating. It was 13.24% in the year 2003-04. During the study period, it witnessed ups and downs and decreased to 6.13% in the year 2010-11. At the same time, the percentage of NPAs in loan amount in Non Priority sector is 6.69% during the year 2003-04 and decreased to 1.89% in the year 2008-09. During the year 2009-10 and 2010-11, it stood at 2.39% and 2.06%.

**Table 3: Analysis of Loan and NPAs of SBI-Bangalore Circle in Priority Sector (Amt in Crores)**

Years	Priority Sector Advances	Total NPA	Priority Sector NPAs	% to Total NPA	% to Priority Sector Advances
1	2	3	4	5	6
2010-11	12435.56	<b>727.339</b>	549.77	75.58	4.42
2011-12	15293.04	1492.436	1027.51	68.84	6.71
2012-13	13863.98	2072.216	1279.94	61.76	9.23
2013-14	14014.38	1833.269	1413.12	77.08	10.08
2014-15	14632.32	1622.642	1256.09	77.41	8.58

Source: Local Head Office, Bangalore

**Table 4: Analysis of Loan and NPAs of SBI-Bangalore Circle in Agriculture Sector (Amt in Crores)**

Years	Loans to Agriculture	Total NPA	NPAs of Agriculture	% to Total	% to Loan
1	2	3	4	5	6
2010-11	<b>3935.41</b>	727.339	257.81	35.44	6.55
2011-12	4231.51	1492.436	617.47	41.37	14.59
2012-13	5192.92	2072.216	876.33	42.28	16.87
2013-14	5550.79	1833.269	1081.50	58.99	19.48
2014-15	5675.61	1622.642	1004.33	61.89	17.69

Source: Local Head Office, Bangalore

**Table 5: Analysis of Loan and NPAs of SBI-Bangalore Circle in SSI Sector (Amt in crores)**

Years	Loans to SSI	Total NPA	NPAs of SSI	% to Total	% to Loan
1	2	3	4	5	6
2010-11	<b>1110.67</b>	<b>727.339</b>	65.04	8.94	5.85
2011-12	1256.50	1492.436	97.44	6.52	7.75
2012-13	1209.63	2072.216	135.39	6.53	11.19
2013-14	1225.12	1833.269	91.39	4.98	7.45
2014-15	1208.38	1622.642	107.01	6.59	8.85

Source: Local Head Office, Bangalore

**Table 6: Analysis of Loan and NPAs of SBI-Bangalore Circle in Retail Trade Sector (Amt in Crores)**

Years	Loans to Retail Trade	Total NPA	NPAs of Retail Trade	% to Total	% to Loan
1	2	3	4	5	6
2010-11	524.36	727.339	59.88	8.23	11.41
2011-12	581.87	1492.436	71.26	4.77	12.24
2012-13	568.12	2072.216	77.96	3.76	13.72
2013-14	592.98	1833.269	65.37	3.56	11.02
2014-15	611.17	1622.642	52.97	3.26	8.66

Source: Local Head Office, Bangalore

**Table 7: Analysis of Loan and NPAs of SBI-Bangalore Circle in Micro Credit Sector (Amt in Crores)**

Years	Loans to Micro Credit	Total NPA	NPAs of Micro Credit	% to Total	% to Loan
1	2	3		5	6
2010-11	510.67	727.339	44.22	6.07	8.65
2011-12	377.23	1492.436	27.85	1.86	7.38
2012-13	408.86	2072.216	62.70	3.02	15.33
2013-14	346.49	1833.269	30.22	1.64	8.72
2014-15	331.65	1622.642	20.80	1.28	6.27

Source: Local Head Office, Bangalore

**Table 8: Analysis of Loan and NPAs of SBI-Bangalore Circle in State Sponsored Organization for SC/ST Sector (Amt in Crores)**

Years	Loans to State Sponsored Organization for SC/ST	Total NPA	NPAs of State Sponsored Organization for SC/ST	% to Total	% to Loan
1	2	3		5	6
2010-11	0.61	727.339	0.18	0.02	29.50
2011-12	1.81	1492.436	0.64	0.04	35.35
2012-13	1.49	2072.216	0.69	0.03	46.30
2013-14	1.35	1833.269	0.47	0.02	34.81
2014-15	0.80	1622.642	0.21	0.01	26.25

Source: Local Head Office, Bangalore

**Table 9: Analysis of Loan and NPAs of SBI-Bangalore Circle in Education Loan Sector (Amt in Crores)**

Years	Loans to Education	Total NPA	NPAs of Education Loan	% to Total	% to Loan
1	2	3		5	6
2010-11	461.69	727.339	16.04	2.20	3.47
2011-12	538.02	1492.436	18.34	1.22	3.40
2012-13	482.65	2072.216	32.78	1.58	6.79
2013-14	490.18	1833.269	33.74	1.84	6.88
2014-15	454.65	1622.642	25.74	1.58	5.66

Source: Local Head Office, Bangalore

**Table 10: Analysis of Loan and NPAs of SBI-Bangalore circle in Housing Loan Sector (Amt in Crores)**

Years	Loans to Housing	Total NPA	NPAs of Housing Loan	% to Total	% to Loan
1	2	3		5	6
2010-11	3857.25	727.339	86.05	11.83	2.23
2011-12	4039.77	1492.436	79.27	5.31	1.96
2012-13	4629.04	2072.216	80.36	3.87	1.73
2013-14	4754.60	1833.269	58.92	3.21	1.23
2014-15	5389.67	1622.642	36.05	2.22	0.66

Source: Local Head Office, Bangalore

**Table 11: Analysis of Loan and NPAs of SBI-Bangalore Circle in others Sector (Amt in Crores)**

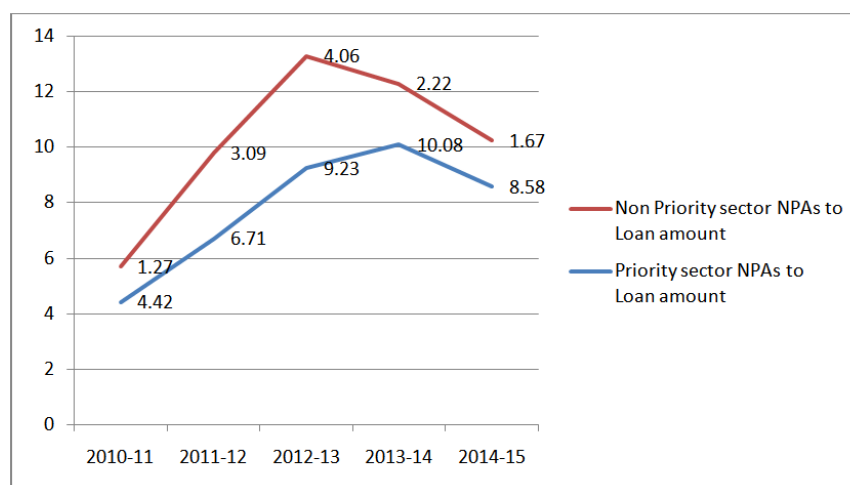
Years	Loans to Others	Total NPA	NPAs of Others	% to Total	% to Loan
1	2	3		5	6
2010-11	2034.90	727.339	20.55	2.82	1.00
2011-12	4266.32	1492.436	115.24	7.72	2.70
2012-13	1371.27	2072.216	13.73	0.66	1.00
2013-14	1052.87	1833.269	51.47	2.80	4.88
2014-15	960.39	1622.642	8.98	0.55	0.93

Source: Local Head Office, Bangalore

**Table 12: Analysis of Loan and NPAs of SBI-Bangalore Circle in Non-Priority Sector (Amt in Crores)**

Years	Non Priority Sector Advances	Total NPA	Non Priority Sector NPAs	% to Total	% to Loan
1	2	3	4	5	6
2010-11	13857.50	727.339	177.15	24.35	1.27
2011-12	15033.22	1492.436	464.92	31.15	3.09
2012-13	19467.25	2072.216	792.27	38.23	4.06
2013-14	18905.38	1833.269	420.14	22.91	2.22
2014-15	21923.35	1622.642	366.54	22.58	1.67

Source: Local Head Office, Bangalore



**Figure 2: A Comparative Analysis of NPAs Percentage to Loan Amount of SBI Bangalore in Priority and Non Priority Sectors**

## H2: The NPAs are higher in Priority Sector as Compared to Non-Priority Sector of SBI Bangalore Circle.

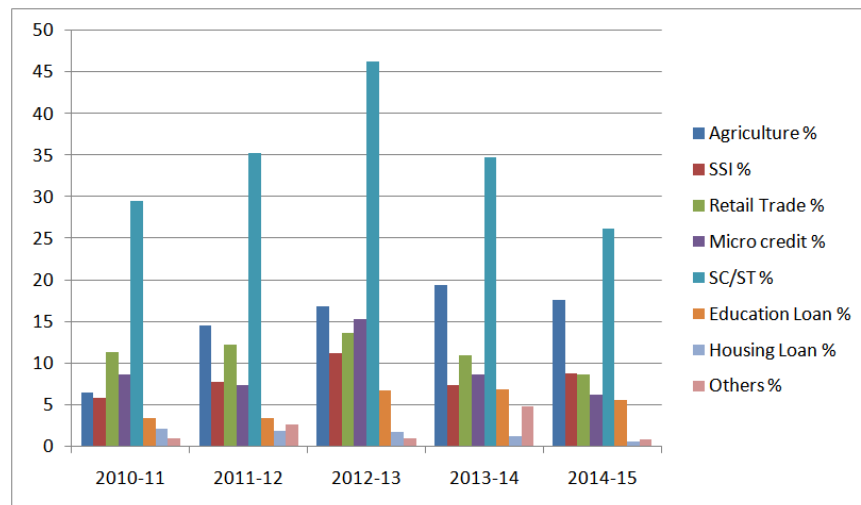
It can be seen from the Table -3 and 12 and Figure -2 given above that, the percentage of NPAs in loan amount in Priority sector is high as compared to the percentage of NPAs in loan amount in Non-Priority sector.

The percentage of NPAs in loan amount in Priority sector NPAs has shown an increasing trend from the year 2010-11 to 2013-14. It increased from 4.42% to 10.08% during this period. It has come down to 8.58% in the year 2014-15. The percentage of NPAs in loan amount in Non Priority sector is increased from 1.27% in the year 2010-11 to 4.06% in the year 2012-13. But it decreased from 2.22% to 1.67% in the year 2013-14 to 2014-15.

**Table 13: Analysis of Sector-Wise Percentage of NPAs to Loan Amount of SBI Bangalore (Amt in Crores)**

Year	Agriculture %	SSI %	Retail Trade %	Micro Credit %	SC/ST %	Education Loan %	Housing loan %	Others %
2010-11	6.55	5.85	11.41	8.65	29.50	3.47	2.23	1.00
2011-12	14.59	7.75	12.24	7.38	35.35	3.40	1.96	2.70
2012-13	16.87	11.19	13.72	15.33	46.30	6.79	1.73	1.00
2013-14	19.48	7.45	11.02	8.72	34.81	6.88	1.23	4.88
2014-15	17.69	8.85	8.66	6.27	26.25	5.66	0.66	0.93
<b>Average</b>	15.036	8.218	11.41	9.27	34.442	5.24	1.562	2.102

Source: Local Head Office, Bangalore



**Figure 3: Percentage of NPAs to Advances in Various Sub-Sectors of Priority Sector of SBI Bangalore**

**Note:** % represent the percentage of particular sector NPAs to loan amount of that particular sector.

### H3: The NPAs of Agriculture is high as compared to other sub-sectors of Priority Sector of SBI Bangalore circle

The different sub-sectors of the Priority sector advances are divided into eight categories namely Agriculture, Small Scale Industries (SSI), Retail Trade, Microcredit, Advances to SC/ST, Education loan, Housing loan and others.

In the Agriculture sector the percentage of the loan amount is 6.55 % in the year 2010-11 and increased to 19.48% in the year 2013-14, after this, it decreased to 17.69% in the year 2014-15.

In SSI Sector the NPA percentage has increased very sharply from 5.85% to 11.19% during the year 2010-11 to 2012-13, whereas it decreased to 7.45% and increased to 8.85% in the year 2013-14 and 2014-15 respectively.

The percentage of Retail Trade NPAs to loan amount of Retail Trade has shown a steady increase in the year 2010-11 to 2012-13, where it increased from 11.41% to 13.72%. After this during the years 2013-14 and 2014-15 it decreased from 11.02% to 8.66.

It is found in the percentage of NPAs of Microcredit to the loan amount of Microcredit a highly fluctuating trend. In the initial two years, it decreased from 8.65% to 7.38% and increased remarkably to 15.33% in the year 2012-13. In the last two years, it decreased sharply from 8.72% to 6.27%.

The percentage of SC/ST NPAs to loan amount of SC/ST is very high standing at 46.30 % in the year 2012-13 and thereafter declined to 34.81% and 26.25% percentage in the last two years 2013-14 and 2014-15 respectively.

In percentage of Education loan NPAs to loan amount of Education a steady increasing trend can be observed during the beginning four years where it increased from 3.47% to 6.88%. After this, it decreased to 0.66% in the last year.

The percentage of Housing loan NPAs to a loan amount of Housing sector has shown the steady decline during the study period of 5 years. It decreased from 2.23% to 0.66% in the year 2010-11 to 2014-15.

The trend of the percentage of others sector NPAs to loan amount of others sector is highly fluctuating. It stood at a high



level of 4.88% in the year 2013-14 and decreased to 0.93% in the year 2014-15.

## **FINDINGS**

- The percentage of NPAs in loan amount in Priority sector is high as compared to the percentage of NPAs in loan amount in Non Priority sector in Mumbai circle.
- The percentage of NPAs in loan amount in Priority sector is high as compared to the percentage of NPAs in loan amount in Non Priority sector Bangalore circle.
- The NPAs in SC/ST Sub sector are high as compared to other sub-sectors NPAs in Priority sector of SBI Bangalore circle.

## **RECOMMENDATIONS/SUGGESTIONS**

Finally, it can be concluded the level of NPAs in Priority sectors of both Mumbai circle and Bangalore circle are high as compared to Non Priority sector NPAs in respective banks. This is due to failure of banks in managing the advances of Priority sectors. Therefore banks should go for various steps suggested by RBI from time to time. Banks should take most care while sanctioning loans to borrowers. The banker should get both the formal and informal information about the customers. Banks should follow this rules and regulation or circulars that have been provided by the RBI.

## **CONCLUSIONS**

The NPAs have always been a cause of worry for banks because it destroys financial health condition of banks. Various steps have been taken by the government to reduce the NPAs. The NPAs level of our banks is still high as compared to the international standards. The Indian banks should take care to ensure that they give loans to creditworthy customers as prevention is always better than cure. The RBI and the Government of India had taken necessary actions to reduce NPAs. Finally, it can be concluded that the level of NPAs has been increased year by year due to mismanagement of the banking sector. There is still a need to improve the NPA percentage by better assessment of loan applications and follow up. Banks will be motivated to give more loans to priority sectors only if NPAs of priority sector is brought down further.

## **LIMITATIONS**

The study is restricted to the analysis of Priority and Non Priority sector NPAs of SBI Mumbai circle and Bangalore circles. The results of the study may not be applicable to SBI branches of other states in India. The percentage and averages as tools of analysis lack absolute accuracy as they are adjusted to the nearest decimal points.

## **SCOPE FOR FURTHER RESEARCH**

The present study was based on a comparative analysis of Priority sector advances and NPAs in SBI Mumbai circle and SBI Bangalore circle. Present research can be extended as mentioned below:

- Study of Non-Performing Assets in Non Priority sector and Public sectors of SBI Mumbai and SBI Bangalore circles.

- Sectoral analysis of NPAs of SBI all branches.
- The time period for the study can be increased.

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