



Impact of NPA on SBI's Financial Performance and Customer Satisfaction

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ABSTRACT

This paper examines the relationship between the changes in Non-Performing Assets (NPAs), financial performance metrics, customer costs, and customer satisfaction levels of the State Bank of India (SBI) during the period 1.4.2020 to 31.03.2022. By analyzing data on NPA changes, financial indicators, investment scheme satisfaction, customer views on interest rates, and revenue generation, this research seeks to shed light on the potential impact of NPAs on customer costs and satisfaction. The results suggest complex dynamics between NPAs, financial performance, and customer perceptions, indicating that factors beyond NPAs might contribute to shifts in customer satisfaction and costs.

Keywords: Non-Performing Assets, SBI (State Bank of India), Depositors, Financial Analysis, Banking Sector, Asset Quality, Risk Management, April 2020 - March 2022, Indian Economy, Loan Default

Introduction

The Indian economy has played a pivotal role in the country's development process, with various sectors and institutions contributing to its growth. One significant player in this growth trajectory has been the banking sector, which has become increasingly vital due to the growing need for financial involvement in the economic activities. However, in recent times, the issue of Non-performing Assets (NPAs) has emerged as a significant challenge that demands attention.

Non-performing Assets (NPAs) refer to loans that borrowers have failed to repay for a specific period, usually 90 days or more. These NPAs can have far-reaching implications for both individual banks and the broader economy. In response to this concern, the Reserve Bank of India (RBI), which serves as the central banking institution, has introduced stricter guidelines aimed at addressing the issue. These guidelines encourage banks to classify stressed assets as NPAs and to make provisions for potential bad loans.

As banks implement these guidelines, their profitability has been affected, leading to a drop in profits across the banking spectrum. The creation of provisions for potential bad loans reduces the profits that banks can report, impacting their overall financial health. This scenario has raised concerns, particularly amid a backdrop of rising NPAs and fresh slippages across various sectors. These concerns have also been exacerbated by the global economic slowdown, leading to negative spillovers into the Indian economy.

State Bank of India (SBI), being a prominent government bank, holds a special place within the Indian banking sector. The bank's advances portfolio has exhibited robust growth over the years, contributing significantly to the country's economic development. However, like other banks, SBI is not immune to the challenges posed by rising NPAs.

In order to enhance the efficiency and profitability of banks, it becomes imperative to effectively manage and control NPAs. The reduction of NPAs requires a multi-pronged approach, including improved credit appraisal processes, early detection of potential stressed assets, and robust recovery mechanisms. Additionally, efforts to revive sectors facing NPAs, such as through policy interventions and sector-specific reforms, can also play a role in mitigating the issue.

Methodology

The research methodology combines quantitative analysis and interpretation of various data sets. First, changes in Gross NPA and Net NPA were computed by comparing fiscal years 2020-2021 and 2021-2022, revealing a decrease of -14,365.65 and -8,844.01 respectively. Additionally, investment scheme satisfaction and customer views on interest rates were analyzed, indicating a diverse distribution of responses. Financial performance metrics including Net Interest Income (NII), total interest income, fee income, net profit, operating profit, other income, and gross and net NPAs were scrutinized for changes.

H1: The customer satisfaction levels of SBI customers have decreased during the period 1.4.2020 to 31.03.2022 due to the NPA.

Calculate NPA Change: Calculate the change in Gross NPA and Net NPA between FY-2020-2021 and FY 2021-2022.

Gross NPA change: $112,023.37 - 126,389.02 = -14,365.65$

Net NPA change: $27,965.71 - 36,809.72 = -8,844.01$

Analyze Investment Schemes' Customer Satisfaction:

Calculate the percentages of responses:

Good: $24 / (24 + 32 + 8) = 24 / 64 \approx 37.5\%$

Average: $32 / 64 \approx 50\%$

Bad: $8 / 64 \approx 12.5\%$

Analyze Customer Views on Interest Rates:

Calculate the percentage of respondents who said "Yes" to favorable interest rates: $36 / (36 + 28) \approx 56.25\%$

Interpretation:

The Gross NPA and Net NPA have both decreased between FY-2020-2021 and FY 2021-2022, indicating potential improvement in the bank's asset quality. This suggests that NPAs might not be the sole factor contributing to any decline in customer satisfaction.

Investment Scheme Customer Satisfaction: The majority of respondents rated their experience as "Average," followed by "Good" and "Bad." This distribution doesn't necessarily show a significant decrease in customer satisfaction levels, as the percentage of "Good" responses is still considerable.

Customer Views on Interest Rates: A higher percentage of respondents indicated that they view SBI's interest rates favorably ("Yes"). This could indicate that customers are relatively satisfied with the interest rates provided by SBI.

H2: The increased NPA has resulted in higher costs to SBI customers during the period 1.4.2020 to 31.03.2022.

- 1. Net Interest Income (NII) Growth:** The Net Interest Income increased by 9.03% from 1,10,710.00 crore in FY2021 to 1,20,707.59 crore in FY2022. This increase indicates that the bank's interest income from its lending activities has grown over the specified period.
- 2. Total Interest Income Growth:** The total interest income increased from 2,65,150.63 crore in FY2021 to 2,75,457.29 crore in FY2022, showing a growth of 3.89%. This also indicates that the bank's earnings from interest on loans and investments have increased.
- 3. Fee Income Growth:** Fee income increased by 70.71% from 26.1 crore in FY2021 to 44.45 crore in FY2022. This suggests an increase in the non-interest revenue generated from various banking services.
- 4. Net Profit Increase:** The net profit of the bank increased by 55.19% from 20,410.47 crore in FY2021 to 31,675.98 crore in FY2022. This signifies improved profitability.
- 5. Operating Profit Growth:** The operating profit increased by 5.22% to 75,292.37 crore in FY2022 from 71,554.15 crore in FY2021. This indicates the bank's earnings from its core operations.
- 6. Other Income Change:** Other income (excluding exceptional item) decreased by 3.32% from 41,956.64 crore in FY2021 to 40,563.91 crore in FY2022.
- 7. Gross and Net NPAs:** Both gross and net NPAs decreased from FY2020-2021 to FY2021-2022, indicating an improvement in the bank's asset quality. Gross NPA decreased from 1,26,389.02 crore to 1,12,023.37 crore, and net NPA decreased from 36,809.72 crore to 27,965.71 crore.
- 8. Revenue Generation:** The revenue generation decreased from 9,918.98 crore in FY2020-2021 to 9,279.41 crore in FY2021-2022.

Based on that data the bank's NII, total interest income, fee income, net profit, and operating profit increased, the gross and net NPAs decreased over the mentioned period. The decrease in NPAs is generally considered positive for a bank as it indicates improved loan recovery and asset quality.

The decrease in revenue generation could potentially be attributed to various factors, such as changes in customer behavior, market conditions, or shifts in the bank's business strategy.

Result and Discussion

Based on the provided data, it's not immediately evident that customer satisfaction levels of SBI customers have significantly decreased due to NPAs or other factors during the specified period. The changes in NPA are not substantial enough to directly attribute a decrease in customer satisfaction. Other factors, such as the bank's services, customer support, and general economic conditions, might also play a role in influencing customer satisfaction levels.

Based on the provided data, there isn't a direct correlation between the increase in NPAs and higher costs to SBI customers during the specified period. In fact, the financial indicators suggest positive trends in terms of profitability and asset quality.

The analysis of NPAs reveals a decline in both Gross NPA and Net NPA during the fiscal years 2020-2021 and 2021-2022. This reduction indicates improvements in the bank's asset quality and a potential positive impact on customer costs. However, the purported decrease in customer satisfaction levels attributed to NPAs requires a nuanced interpretation. The distribution of investment scheme satisfaction responses reflects a diverse range of experiences, with the majority categorizing their experiences as 'Average.' The positive sentiment towards interest rates also suggests customer contentment in this aspect.

The financial performance metrics unveil a promising trajectory for SBI. The increase in Net Interest Income (NII), total interest income, fee income, net profit, and operating profit underscores the bank's resilience and adaptability to economic changes. Furthermore, the decline in both gross and net NPAs signifies a positive shift in the bank's asset quality.

Conclusion

The research indicates that the decrease in NPAs correlates with improved financial indicators and asset quality for SBI. However, the data does not provide conclusive evidence of a direct link between NPAs and decreased customer satisfaction levels or increased costs. Other factors, such as services, customer support, and market conditions, could influence customer satisfaction. Further research with a more comprehensive dataset and qualitative insights could provide a deeper understanding of the relationship between NPAs, customer satisfaction, and costs.

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