# A STUDY ON IMPACT OF NON PERFORMING ASSETS ON SBI EQUITY VALUES FROM THE YEAR 2011 – 12 TO 2015 – 16

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**ABSTRACT:** *In the developing economy Banking Sector plays a vital role. Country like India, Banking Sector is having huge scope to grow because majority of the citizens doesn't have Bank accounts. Banking Sector is having a big threat for its growth that is Non - Performing Asset. In present scenario, NPAs are at the core of financial problem of the banks. Concrete efforts have to be made to improve recovery performance. My study has been emphasized from the period of 2011-12 to 2015-16. Bivariate Correlation results indicate that SBI NPA and Stock Price were having Negative Correlation. This analysis is useful to the investors of the banking sector of equity, regulators of banking, bankers and investment bankers.*

**KEYWORDS:** *NPA, Equity Price, State Bank of India*

## 1.  INTRODUCTION:

For any country, banking system plays a crucial role in the development of its vibrant economy. Banking is an important segment of the all sectors and acts as a back bone of economic progress. Banks are supposed to be more directly and positively related to the performance of the economy. Banks act as a development agency and are the source of hope and aspirations of the masses. Commercial banks are the major player to develop the economy. A major threat to banking sector is occurrence of Non - Performing Assets (NPAs). NPAs reflect the performance of banks. A high level of NPAs leads to high probability of a large number of credit defaults that affect the profitability and net - worth of banks and also reduce the value of the asset. The NPA growth involves the necessity of provisions, which reduces the overall profits and shareholders value.The main reasons of increasing NPAs are the target - oriented approach, which declines the qualitative aspect of lending by banks and willful defaults, ineffective supervision of loan accounts, lack of technical and managerial expertise on the part of borrowers.

## 2.  REVIEW OF LITERATURE:

1) Zahoor Ahmad (Aug - 2013): This analysis is to examine the individual banks got ranks as per their performance in management of NPA's. And also tested there is significant difference in the level of NPA's of nationalised banks which reflect their varied efficiency in the management of nonperforming assets. Whereas my research is not relevant to this study, my analysis is to test the impact of NPA and Stock Price of the banks.

2) Balraj Singh (Dec - 2011): This analysis is the study of 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. My analysis and his analysis are different and my complete analysis is to check the impact of NPA of select Banking Equity.

3) C. S. Balasubramaniam (2012): This analysis investigates the Indian banking system financial sector to bring down Non - Performing Assets (NPA), to improve the profitability and overall financial health in the banks, in general. My analysis is useful to the investors of the banking sector of equity.

4) Kajal Chaudhary and Monika Sharma (2011): This analysis is done based on the functioning of Banks in India only after liberalization, globalisation and privatisation. It has become very mandatory to study and to make a comparative analysis of services of Public sector Banks and Private Sector banks. But whereas my analysis concentrating on the impact of the banking sector NPA levels so that it can measure its accurate impact on the stock prices.

5) Gaurav Sharda, Namratha Swamy ,Charan Singh (2014): Their analysis examines the impact of foreign banks on Indian economy. Further, it discusses the various opinions towards the foreign bank operations in the host country, with India as the example. Whereas my analysis is not relevant to this study.

6) Krishna Chaitanya.V (2012): This research says that 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. My research is based on high Market prices from National Stock Exchange of the SBI equity.

7) Shipra Saxena (2013): This study is the concept of Non - performing Asset (NPA) can be understood in simple terms as an Asset, which ceases to yield income to the Bank. The present study is aimed at understanding the concept of non - performing assets and the efforts on behalf of the banks and financial institutions in harnessing the NPA's. The growth in NPA's can be checked considerably if banks and financial institutions take suitable internal measures. My analysis has been done on the only SBI Stock returns were not caused by the NPA levels.

8) Aamir Azeem, Amara (2014): This analysis uses the issue of non - performing loans (NPLs) is vital for banking system since its evolution. It is well - known debate among bankers to mitigate problem of NPLs by different policies and methods. Impact of NPLs has been quantified in this research article with data of sixteen major banks irrespective of size, ownership and functionality from 2006 - 2012 by using panel fixed effect model. It has been revealed that impact of NPLs on profitability is negative. But I have considered SBI equity to find out how this bank got impacted by the NPA's from 2011 - 12 to 2015 - 16 by using NSE stock prices.

9) Dr Tanmaya Kumar Pradhan (2012): This analysis examined to find higher level of NPA forced the banks to charge higher PLR and PLR related interest rates. This will attract high – risk borrowers which, in turn, may result in higher level of non - performing advances in future. Large borrowers are found to be the principal defaulters. Mismanagement or diversion of fund is also one of the main causes of NPA. But my analysis is the considered of NPA's impact on Banking equity and stock prices are influenced by the NPA levels of during the time period.

## 3. NEED:

Banking system in any economy will be considered as back bone for its growth. In India majority of the banking system are controlled by the PSU's, which are highly leveraged by the non – performing assets on its balance sheet. In this study I had observed various research papers which were focused on how assets are getting affected by the higher NPA levels. By observing the various research papers I found a gap where no research has been done to measure the share holders wealth affected by the NPA's of the banking system in India.

## 4. OBJECTIVES:
1. To find the correlation between NPA and Stock price of SBI.
2. To measure the NPA impact on stock price movement.

## 5. SCOPE:
This analysis has been emphasized to measure the NPA's impact on SBI equity prices for the period of 2011-12 – 2015-16 i.e., 5 years data has been considered. Based on the volume weighted average price (VWAP), the equity price of SBI 3 days prior to declaration of quarterly result and 3 days after the day of declaration of quarterly result has been taken. Stock Prices of SBI were considered from NSE India.

## 6. RESEARCH METHEDOLOGY:

**Bivariate Correlation:**
This test involves the analysis of two variables (often denoted as X, Y), for the purpose of determining the relationship between (X, Y). In order to see if the variables are related to one another, or not.

$$r = \frac{\sum fuv - \frac{(\sum fu)(\sum fv)}{n}}{\sqrt{\sum fu^2 - \frac{(\sum fu)^2}{n}} \times \sqrt{\sum fv^2 - \frac{(\sum fv)^2}{n}}}$$

## 7. LIMITATIONS:
**1.** Equity value of SBI has been considered from NSE.
**2.** Consolidated balance sheet has been considered for the net NPA of the SBI.

**DATA ANALYSIS:**
1. To find the correlation between NPA and Stock price of SBI

| Sr. No. | Quarter | Date of Result | % change in Prices | % change in Net NPA |
|---------|---------|----------------|--------------------|--------------------|
| 1 | Jun '11 | 13/08/2011 | -8.26 | |
| 2 | Sep '11 | 9/11/2011 | -12.11 | 29.64 |
| 3 | Dec '11 | 13/02/2012 | 3.22 | 16.64 |
| 4 | Mar '12 | 18/05/2012 | 7.24 | -15.87 |
| 5 | Jun '12 | 10/8/2012 | -8.06 | 28.48 |
| 6 | Sep '12 | 9/12/2012 | 1.50 | 11.27 |
| 7 | Dec '12 | 14/02/2013 | -1.66 | 12.19 |
| 8 | Mar '13 | 23/05/2013 | -10.37 | -13.46 |
| 9 | Jun '13 | 12/8/2013 | -3.91 | 36.59 |
| 10 | Sep '13 | 13/11/2013 | 1.62 | 7.21 |
| 11 | Dec '13 | 14/02/2014 | -1.51 | 15.60 |
| 12 | Mar '14 | 23/05/2014 | 4.17 | -16.33 |
| 13 | Jun '14 | 8/8/2014 | -1.79 | 2.53 |
| 14 | Sep '14 | 14/11/2014 | 8.20 | 3.49 |
| 15 | Dec '14 | 13/02/2015 | 8.42 | 4.46 |
| 16 | Mar '15 | 22/05/2015 | -3.47 | -19.95 |
| 17 | Jun '15 | 11/8/2015 | -9.09 | 3.91 |
| 18 | Sep '15 | 6/11/2015 | 2.53 | -0.27 |
| 19 | Dec '15 | 11/2/2016 | -4.62 | 40.77 |
| 20 | Mar '16 | 26/05/2016 | 17.16 | 38.65 |

Correlation between percentage change in equity share price of SBI and net NPA of SBI is    -0.057.
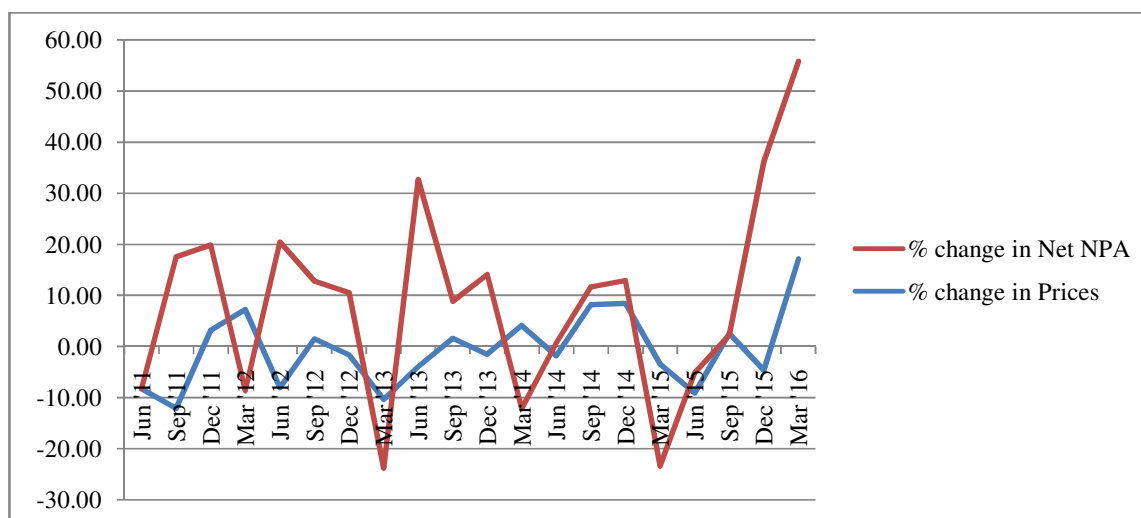


**7.   INTERPRETATION:**
The above analysis of Bivariate Correlation has been applied between NPA and Equity Stocks. SBI Stock is having negative correlation with NPA, which determines there is inverse relation between the two but the degree of negative correlation is not that effective.

## 8. RECOMMENDATIONS FOR MANAGEMENT OF NPA's:

Although in above study there is inverse relation between the NPA and equity prices of SBI still NPA is point of concern for every bank. RBI controls and regulates the banking system in India so it is important for the central bank to take the measures either to reduce or to permit banks on their own to take strict action against loan defaulters. According to researcher, the following recommendations should be followed in future.

➢ RBI should revise existing credit appraisals and monitoring systems. As well as method of loan recovery should be improved and strengthen.

➢ Credit appraisal and post – loan monitoring are crucial steps which need to concentrate by SBI.

➢ To ensure that the amount of loan should not be diversified, the banker should take regular follow up.

➢ Periodically there should be regular visits at the customers place to check the financial conditions of the company.

➢ SBI managers should get full liberty to manage & take decision for loan recovery.

➢ Shareholders should get the full information about the steps taken by Bank to recover the loan on quarterly basis.

## 9. CONCLUSION:

The Non - Performing Assets have always created a big problem for the banks in India. It is just not only problem for the banks but for the economy too. The money locked up in NPAs has a direct impact on shareholders investment, profitability and market capitalization of the bank as Indian banks are highly dependent on income from interest on funds lent. This analysis has been emphasized for the period of 2011-2016. In this period the NPA of SBI was keeps on rising and as well as the stock prices were skyrocketing and sinking as well. Not necessary NPA is the only factor that determines the position of bulls and bears but this may be one of the reasons.

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