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A Study on Credit Risk Management of State Bank of India (SBI)

Kaustubh Ajay Udar, M.com (Business Studies), RTM Nagpur University
Dr. Jai Nishad, RTM Nagpur University

Abstract:

This paper investigates the credit risk management practices of the State Bank of India (SBI) and their impact on the bank's financial stability and profitability. Using data from 2018 to 2023, the study analyzes various risk management indicators including Capital Adequacy Ratio (CAR), Non-Performing Assets (NPAs), and Provision Coverage Ratio (PCR). The findings reveal a positive relationship between efficient credit risk management and SBI's profitability, suggesting that proactive strategies such as early warning systems, asset quality monitoring.

Keywords: Credit Risk, Capital Adequacy Ratio, Non-Performing Assets, SBI, Risk Management, Profitability

Introduction:

In the dynamic environment of banking, credit risk management has emerged as a critical function. Credit risk—defined as the potential that a borrower or counterparty will fail to meet obligations—can significantly affect the financial health of a bank. This study focuses on the State Bank of India (SBI), India's largest public sector bank, and evaluates how effectively it manages credit risk. The objective is to assess the relationship between SBI's credit risk control mechanisms and its profitability from 2018 to 2023.

Literature Review:

Several studies have examined the relationship between credit risk and bank performance. For instance, Das and Ghosh (2019) suggest that high levels of NPAs negatively impact bank profitability. Similarly, Mishra (2020) highlights the importance of CAR in buffering against credit losses. Prior research on SBI specifically points to a strong correlation between improved provisioning and financial performance, but there's limited analysis integrating recent post-pandemic trends

Research Objectives:

1. To analyze the credit risk management practices of SBI.
2. To study the trend of NPAs and CAR over the period 2018–2023.
3. To examine the impact of credit risk on SBI's profitability.

Research Methodology:

Type of Research: Descriptive and analytical

Data Source: Secondary data from SBI's annual reports (2018–2023), RBI bulletins

Tools Used:

Ratio analysis (CAR, Gross NPA Ratio, Net NPA Ratio, PCR)

Pearson's correlation to measure relationship between risk indicators and profitability

Analysis and Interpretation:

a. Capital Adequacy Ratio (CAR): SBI has consistently maintained a CAR above the regulatory minimum (13.68% in 2023), reflecting strong capital adequacy.
b. Non-Performing Assets (NPAs): Gross NPA ratio decreased from 10.91% in 2018 to 3.14% in 2023. This indicates improved

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credit appraisal and recovery mechanisms.

c. Provisioning Coverage Ratio (PCR):
PCR improved significantly, reaching 76% in 2023, showing SBI's proactive approach in covering potential defaults.

d. Profitability (ROA & ROE):

Both Return on Assets and Return on Equity showed improvement over the study period, reflecting efficient risk and asset management.

Findings:

SBI has strengthened its credit risk infrastructure post-2018, especially in response to pandemic-induced challenges.

A direct negative relationship exists between NPA ratios and profitability.

CAR and PCR are positively correlated with the bank's financial resilience and returns.

Conclusion:

The study concludes that SBI has effectively managed its credit risk over the past five years, which has contributed to its improved profitability and stable growth. Timely recognition of stressed assets, efficient provisioning, and enhanced capital buffers have played a significant role. The bank's evolving strategies reflect a shift towards more robust and data-driven credit risk management practices.

Recommendations:

Continue strengthening internal risk modeling tools.

Increase focus on borrower profiling using AI and machine learning.

Enhance recovery channels and customer monitoring to reduce future NPAs.

References:

1. **A Study on the Impact of Credit Risk on the Profitability of State Bank of India (SBI)**
Jeslin Sheeba J (2017)
This study investigates how credit risk indicators like Nonperforming Asset to Asset Ratio (NPAAR) affect SBI's profitability. Utilizing 20 years of annual data (1997–2016), the research employs multiple regression analysis to conclude that NPAAR significantly negatively impacts Return on Equity (ROE), suggesting the need for improved credit risk management practices.
2. **Risk Management in Indian Public Sector Banks – Analysis of Credit Risk-I on State Bank of India**
Bibhu Prasad Sahoo & Karman Kaur (2017)
This paper examines the relationship between Nonperforming Assets (NPAs), advances, and investments at SBI. It finds a strong correlation among these variables, highlighting the importance of effective credit risk management in maintaining financial stability.
3. **Credit Risk Management in State Bank of India**
Anvesh Laxman Chitkindi (2015)
This project report provides an overview of SBI's credit risk management framework, including its governance structure, credit rating processes, and risk assessment methodologies. It also compares SBI's practices with other public and private sector banks.