"Non-Performing Assets: An analytical study in the Indian Banking Sector with special reference to PNB"

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Abstract: Non Performing Assets are the trending concern for banks today. Non-Performing assets shows the bad impact on profitability and if there is high level of NPA that means there is high numbers of credit defaulters that is very danger sign for the banks for its performance and for its Goodwill in the market. Investors are afraid of Investing their money in those banks whose NPA are more and Increase year by year. In my research, I explained the impact of Non-performing assets on the financial performance of Punjab National Bank. I also shows the relationship between Net Profit and Net NPA of the Punjab National Bank, the causes behind it and the measure taken by RBI to curb(Reducing) it. In this paper analyze that how Punjab National Bank manage their NPA.

Introduction

Bank plays a crucial role in an economy. They are also considered as appliance of economic growth. The main objective of commercial banking performance is to generate profit and make furnish growth process of the country. A healthy banking system is necessary for the growth of an economy. But there are many assets which create imbalance between liquidity and profitability. Such assets are knows as non performing assets. In other words, non performing assets are those assets in which interest and the principle amount is not received from such a period of time. Non Performing Assets are considered as important parameter to judge the performance and financial health of banks. But the financial institutions are now a day facing a major problem of managing the non performing assets.

NPA

Non-Performing assets are those assets of banks that are not performing or not generating the interest and the principle amount for the banks. In other words it can be say that when the borrowers are failed to pay their amount of interest and principle in a certain period of time, then it is the non-performing assets for the banks.

The assets may be classified into four categories according to RBI guidelines.

1- Standard Assets
2- Sub Standard Assets
3- Doubtful Assets
4- Loss Assets

Standard Assets: Standard assets are those assets which the bank is receiving interest as well as the principal amount of the loan regularly from the customer. The standard assets are also known as the performing assets who generate continuous income and repayments as and when they fall due. Such assets carry a normal risk and not a NPA in real sense. If asset fails to be in category of standard assets that is amount due more than 90 days then it is NPA and NPAs are further need to classify in sub categories.

Sub Standard Assets: With effect from 31st march 2005, a sub standard assets would be one, which has remain NPA for a period less than or equal to 12 month.

Doubtful Assets: A loan assets would be classified as doubtful if it remained in the sub-standard category for 12 month.

Loss Assets: A loss assets is one which considered uncollectible and of such little value that its continuance as a bankable assets is not warranted-although there may be some recovery value. Also, these assets would have been identified as "loss assets" by the bank or internal or external auditors or the RBI inspection but the amount would not be written-off wholly.

Literature Review

Devi S. (2015) conducted a study on "Non-performing Assets-A study of Punjab National Bank" International Research Journal of Management and Commerce. Volume No.2, Issue No.6(July 2015).The objectives of their study is to study the source and investment fund in the bank and to examine the gross NPA and net NPA of the Bank she has been used the Coefficient of correlation in their research methodology to determine the relationship between Net profit and NPA of PNB. In their study we can see that the coefficient of correlation is equal to -0.19. It means there is high degree of coefficient of correlation between net profit and net NPA. It leads to adverse effect on profitability of bank and the bank is unable to give loans to new customer.

Khnna P. (2012) Conducted a research on "Managing Non Performing Assets in the Commercial Banks" Gain Jyoti E-Journal, Volume 1, Issue 3 (April-Jun2012).This research base on the empirical study that will explore the trend in non-performing assets of the commercial banks in India in different sectors over the past five years ranging from 2005-10 and will also suggest the strategies for reducing them, the study will done on the secondary data for the period of five years. The objective of the study is to find out the growth of the NPAs in commercial bank of India. The NPA growth involves the necessity of the provisions, which reduces the profits and shareholder's value.

C.S.Balasubramaniam, conducted a study on "Non Performing Assets and Profitability of Commercial Banks in INDIA: Assessment and Emerging Issues" National Monthly Refereed Journals Research in Commerce and Management. Volume No.1, Issue No.7. They can analysis that the level of the NPA is high with all banks currently and the bank would be expected to bring down their NPAs. This can be achieved by the good credit appraisal procedure, effective internal control system along with their efforts to improve assets quality in their balance sheet.

Dr. Sushama Yadav,(January 2014) "NPAs: Rising Trends and Preventive Measures in Indian Banking Sactor" International Journal of Advance Research in Computer Science and Management Studies. Volume 2, Issue 1. In this paper researcher has tried to explain the recent trends of NPA and its preventive measures to control NPAs in Indian banking sectors in present scenario on the basis of secondary data sources. They find that, due to poor management the NPAs are growing fast, they suggested some measures to control the NPAs for the management are Credit assessment and monitoring, timely sanction and release of loans by the banks, etc.

Dr. Ashok Kumar Gupta, Priyanka Gautam conducted a study on "Non Performing Assets (NPAs): A study of Punjab National Bank" International Journal of Science Technology and Management. Volume No. 6, Issue no. 1. In their study they can analyze the source and development of funds of PNB, the funds blocked in the Gross NPA is huge amounted of 55818 crore during the year 2015-16. But there is no time frame and follow up to recover the blocked amount. They examine the trend of NPA, the gross NPA level during the study period is growing rapidly which shows the negative impact on the bank, the gross NPA ratio increasing from 2.93% in 2011 to 12.90% in 2015. In their study the Net NPAs ratio shows a market rising trend during study period. It increased from 1.52 percent in 2011-12 to 8.61 percent in 2015-16.

Rajeev and Mahesh (2010) conducted a research on Banking Sector Reforms and NPA: A study of Indian Commercial bank. This research paper examines the trends of NPAs in India from various dimensions and explains how mere recognition of the problem and self-monitoring has been able to reduce it to a great extent. It also shows that public sector banks in India, which function to some extent with welfare motives, have as good a record in reducing NPAs as their counterparts in the private sector. The paper also discusses the role of joint liability groups (JLGs) or self-help groups (SHGs) in enhancing the loan recovery rate.

RESEARCH METHODOLOGY

The aim of this study is to analyze the Non-performing assets of Punjab National Bank, Impact on the financial performance of PNB and the relationship between the NPA and Net profit and the measures taken by the RBI to reducing the non-performing assets. This study is based on the secondary data. The study is covered a time period of Ten years from 2009-10 to 2018-19.The data was collected from the annual repots of PNB and from the RBI repots. The data has been analyzed by the help of graphs, table, and coefficient of correlation.

RESEARCH OBJECTIVE

- To analyze the impact on Financial position due to changes in Non-Performing Assets.
- To study the relationship between Net profit and net NPA of PNB.
- To check the effect of measures taken for reducing the Non-Performing Assets.

Hypothesis

The Hypothesis developed for the study is as follow:-

1- **H0** = There is No significant impact of Non Performing Assets on the Net Profit.
H1 = There is a significant impact of Non Performing Assets on Net Profit

2- **H0 =** There is no relationship between net profit and net NPA
H1 = There is a relationship between net profit and net NPA

3- **H0** = There is No Favorable effect of measures taken for reducing the Non-performing Assets.
H1 = There is a Favorable effect of measures taken for reducing the Non- performing Assets

DATA ANALYSIS

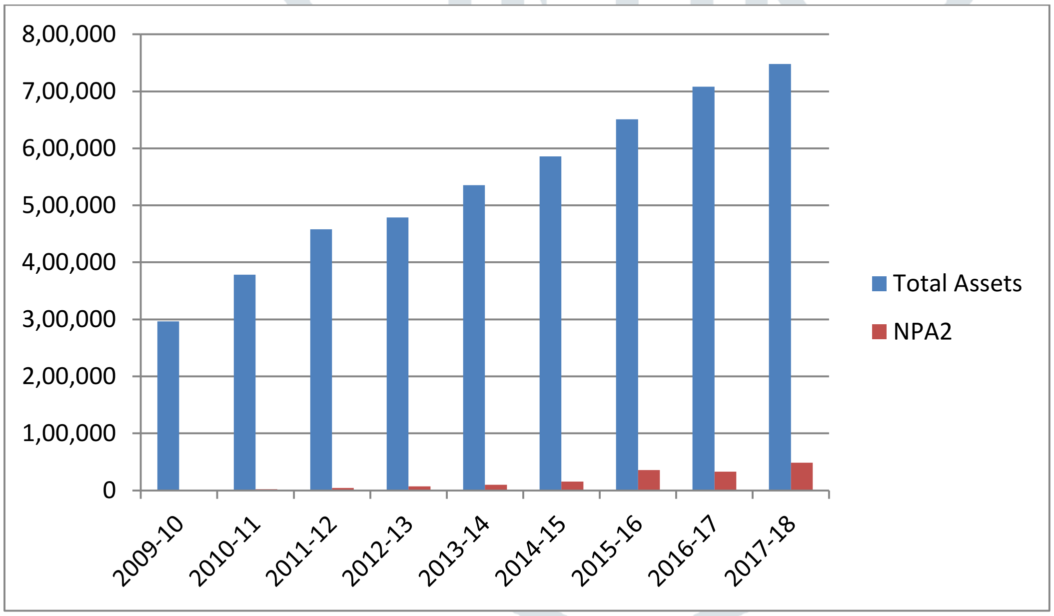
Table 4.1 showing Financial Position of PNB of last 10 years

Particulars/ Years	Total Assets	Operating Profit	Net Profit	Advances	Gross NPAs	Net NPAs
2008-09	246,919	5,690	3,091	1547.02	1.60%	0.17%
2009-10	296,633	7,326	3,905	1866.01	1.71%	0.53%
2010-11	378,325	9,056	4,433	2421.06	1.79%	0.85%
2011-12	458,192	10,614	4,884	2937.74	2.93%	1.52%
2012-13	478,877	10,907	4,748	3087.25	4.27%	2.35%
2013-14	535326.48	7160	3343.57	3492.69	5.25 %	2.85 %
2014-15	586128.71	6434	3062.58	3551.47	6.55 %	4.06 %
2015-16	651116.51	5735	-3974	4123.25	12.90%	8.61 %
2016-17	708064.86	6039	1324.80	4194.93	12.53%	7.81 %
2017-18	747835.07	1990	-12283	4337.34	18.38%	11.24%

Table 4.2 showing NPA and Total Assets

Year	NPA	Total Assets
2009-10	982	296,633
2010-11	2038.63	378,325
2011-12	4454.23	458,192
2012-13	7236.50	478,877
2013-14	9916.99	535326.48
2014-15	15396.50	586128.71
2015-16	35422.57	651116.51
2016-17	32702.11	708064.86
2017-18	48684.29	747835.07
Correlation	0.92	

Graph 4.2 showing correlation between Total assets and NPA

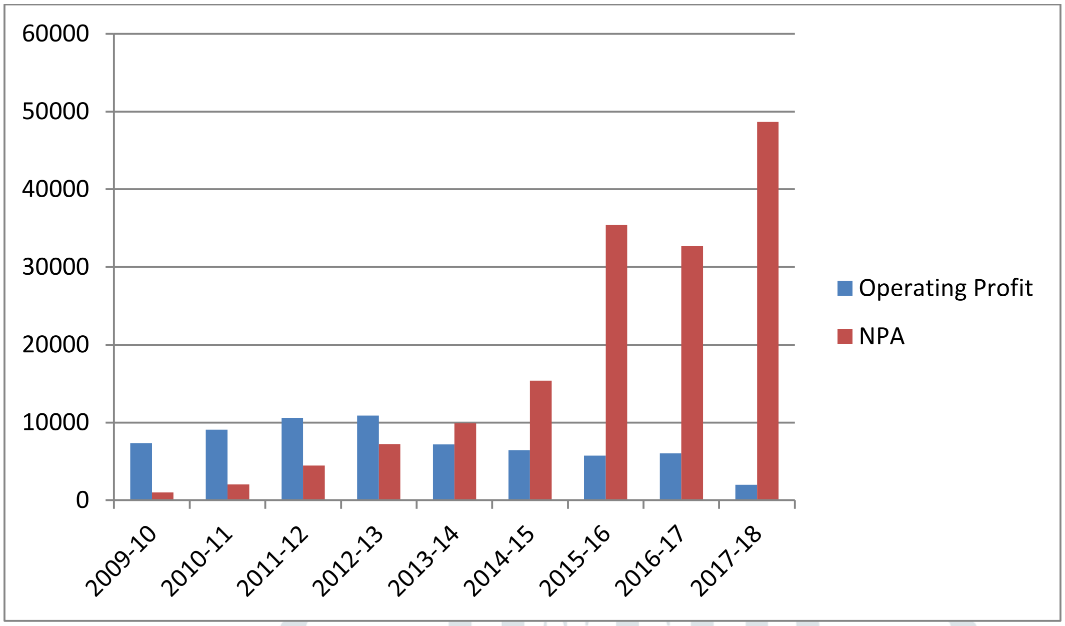


Interpretation: - Table is showing a highly positive correlation between Net NPA and Total Assets. The correlation coefficient was found 0.92.

Table 4.3 showing the Operating Profit and NPA

Year	NPA	Operating Profit
2009-10	982	7,326
2010-11	2038.63	9,056
2011-12	4454.23	10,614
2012-13	7236.50	10,907
2013-14	9916.99	7160
2014-15	15396.50	6434
2015-16	35422.57	5735
2016-17	32702.11	6039
2017-18	48684.29	1990
Correlation (r)	-0.84	

Graph 4.3 showing correlation between operating profit and NPA

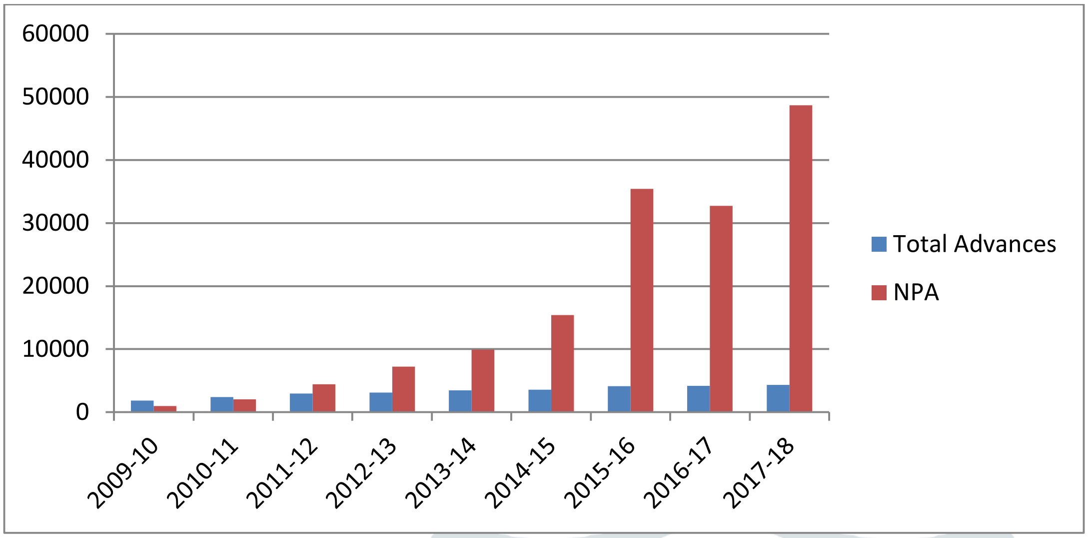


Interpretation:-Table is showing Highly Negative correlation between operating profit and NPA of PNB. The correlation coefficient was found -0.84.

Table 4.4 showing correlation between Total advances and NPA

Year	NPA	Total Advances
2009-10	982	1866.01
2010-11	2038.63	2421.06
2011-12	4454.23	2937.74
2012-13	7236.50	3087.25
2013-14	9916.99	3492.69
2014-15	15396.50	3551.47
2015-16	35422.57	4123.25
2016-17	32702.11	4194.93
2017-18	48684.29	4337.34
Correlation	0.88	

Graph 4.4 showing correlation between Total advances and NPA



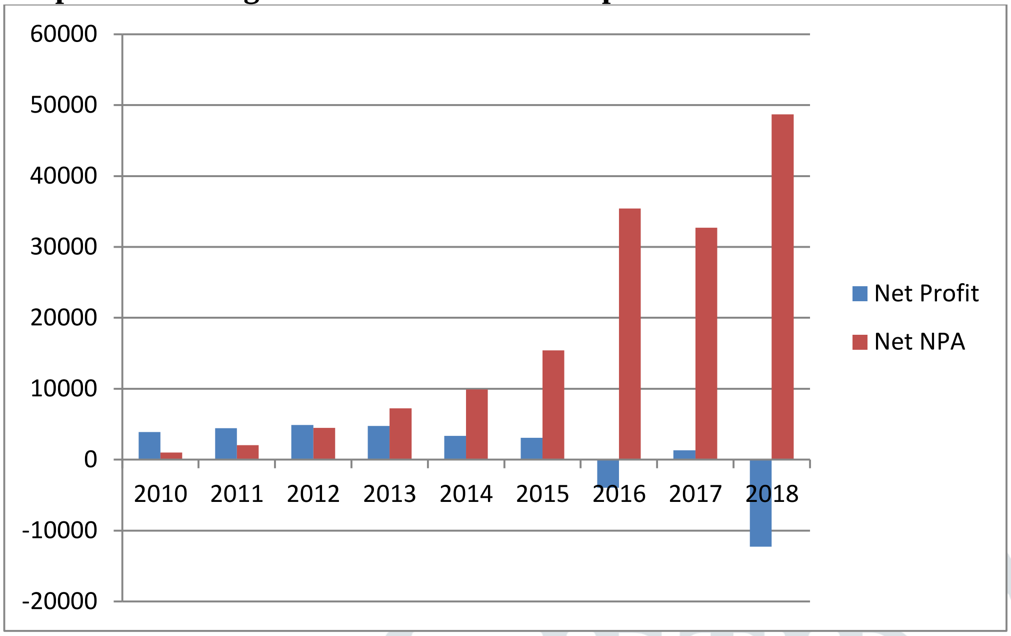
Interpretation: Table is showing a highly positive correlation between Net NPA and Total Assets. The Correlation coefficient was found 0.88

So, on the basis of it we can see that the hypothesis **H_0** is rejected. It means there is a significant impact on financial position.

Table 4.5 showing Net Profit and NPA (Rs in crore)

Years	Net Profit	NPA
2009-10	3905.35	982
2010-11	4433.50	2038.63
2011-12	4884.20	4454.23
2012-13	4748.67	7236.50
2013-14	3343.57	9916.99
2014-15	3062.58	15396.50
2015-16	-3974.39	35422.57
2016-17	1324.80	32702.11
2017-18	-12282.82	48684.29
Correlation (r)	-0.90	

Graph 4.5 showing correlation between Net profit and Net NPA



Interpretation: - Table is showing highly negative correlation between Net Profit and NPA of PNB. The Correlation coefficient was found -0.90.

So, we can say that null hypothesis Ho is rejected it means there is a relationship between NPA and Net Profit.

Measures taken for reducing the Non-Performing Assets by RBI

1- Special Mention Account (SMA)

Reserve Bank of India came with a new online portal where banks and all financial institutions who gave a loan of Rs 5 Cr. Or more any company or any individual, then they should update the performance of their assets on the online portal on a monthly basis, that the principal or interest amount came on time or not.

There are three categories of SMA:-

a) **SMA 0 - (1 to 30 days)** if the principal or Interest amount is not performing then they will classify these accounts as SMA0.
b) **SMA 1 – (31 to 60 days**) if the principal or interest amount is not performing in the time period between 31 to 60 days then they will be classified in this category.
c) **SMA 2 – (61 to 90 days)** if the borrower (Individual or Company) passed the 90 days tenure then the loan is considered as the bad loan or Non-performing assets.

2- Joint Lender Forum (JLF)

Joint lender forums are formed when the multiple lenders (Banks or Financial institutions) are reporting for the Special Mention Account (SMA) for single company or Individual. The banks and financial institutions are member of that committee who gave loan to that company or individual. Then they decided to take corrective action plan with majority voting.

In that forum the committee will take decision to increase the time period of repayment of the loan or giving some rebate on the interest amount of the borrower.

3- RBI "3R" Framework for revitalization distressed assets.

i) Rectification

AQR (2015): All banks must do the Assets Quality Review (AQW) of borrower before giving them an additional loan to them, but no change in the tenure, interest (%) of the old loan.

ii) Restructuring

Restructuring is the second method of the 3R framework if the first method is not work properly then this method will apply on the borrower. There are some strategies in this method are as follow:-

a) 5:25 Scheme (for Infra Loans 2014)

In this method 5:25 of restructuring the tenure of the borrower is extended to 25 years and the Interest reviewed in every five years.

b) SDR (Strategic Debt Restructuring) June 2015

In this strategy the banks can took shares of the company who they lending the money and they will sell their shares in the market who are going to bid higher. But before the taking of the shares, the company must ask the exisisting share holders about the expension of the shareholders.

c) S4A (Scheme for Sustainable Structure of Stressed Assets)

After Assets quality review the banks can found that the company have a potential to repay the loan is only 90% after selling all its assets then the bank can covert the balance 10% amount into the preference equity shares. So there is no change in the power. The amount of 10% which the company does not having the potential to repay that are also called as Unsustainable potential.

iii) Recovery

a) Debt Recovery Tribunal (1993)

After the Nationalisation of the banks the banks are facing problems in the recovery the non performing assets. If they want to sell the assets of the company for recovering their money so they are facing the problems of dates and the stay orders on the company assets with the ordinary court. Then in 1991 there was a committee called "Narsimhan committee" this committee decided that no ordinary court will for the recovery of loans there should be another legal entity "Debt Recovery Tribunal" for these types of problems.

b) SARFAEST Act 2002

After the Debt recovery tribunal the Banks are not stop the non performing assets so the Narsimah committee II again decide to change the recovery tribunal in 1998 and then they are decided to form SARFAEST Act 2002 (Securitization and Reconstruction of Financial Assets and Enforcement of security Interest Act 2002.

c) Insolvency Bankruptcy Code 2016.

The Insolvency and Bankruptcy Code, 2015 was introduced in the Lok Sabha on 21 December 2015 by Finance Minister, Arun jaitley. The Code was referred to a Joint Committee of Parliament on 23 December 2015, and recommended by the Committee on 28 April 2016. The Code was passed by the Lok Sabha on 5 May 2016 and by the Rajya Sabha on 11 May 2016.

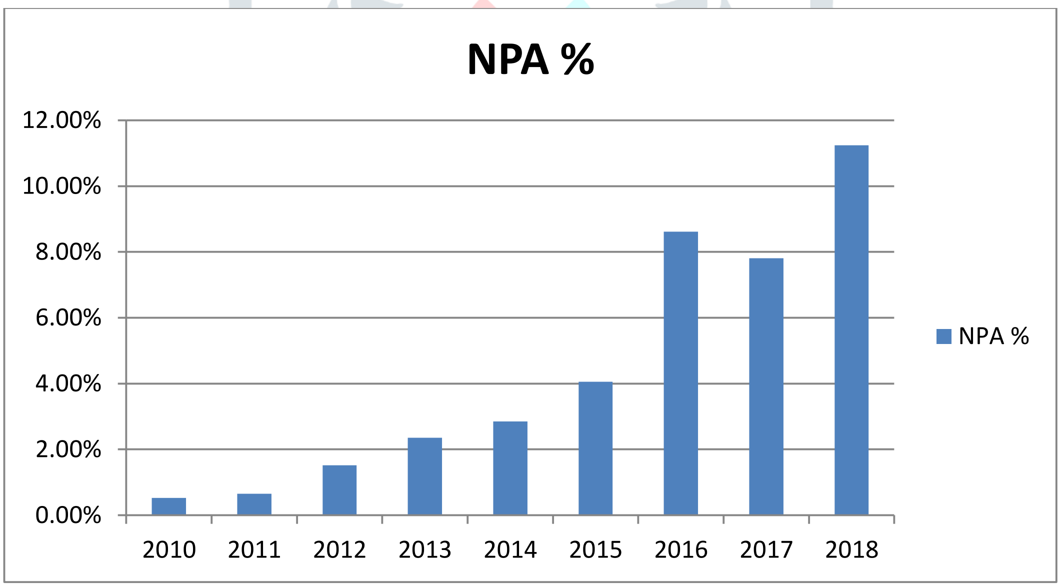
d) Basel III

Originally set in 1974, the most recent set of norms, called Basel III. These are common set of global standards to be implemented by banks across countries. In India, lenders have to adhere to these regulations from 2019. After the 2008 financial crisis, need arose to strengthen the banking system further so that they could meet further risks. To meet these dangers, banks were asked to maintain a certain minimum level of capital and not lend all the money they receive from deposits. This acts as a buffer during hard times. The Basel III norms also consider liquidity risks.

Table 4.6 showing NPA of the last 10 years.

Year	NPA	NPA %
2009-10	982	0.53%
2010-11	2038.63	0.85%
2011-12	4454.23	1.52%
2012-13	7236.50	2.35%
2013-14	9916.99	2.85 %
2014-15	15396.50	4.06 %
2015-16	35422.57	8.61 %
2016-17	32702.11	7.81 %
2017-18	48684.29	11.24%

Graph 4.6 showing Changes in Non-performing assets in the last ten years.



Interpretation: - It is clearly shown in graph that NPA of the PNB are increasing. NPA were 0.53% in 2010 and were found 8.6% in 2016. NPA decreased in 2017 to 7.81% but again there was an increment in NPA that were 11.24% in 2018.

So, we can said that the measures taken by RBI in 2016 onwards has least effect on NPA of PNB It was expected that the amount of the NPA would reduce but there was a sharp rise NPA in year 2018. So we can say up to this year the measures taken by RBI have no favorable effect on NPA.

On this basis we can say our null hypothesis is Accepted which means the measures taken by the RBI has no Favorable effect.

FINDINGS & CONCLUSION

- It was found that Net NPA and Total Assets of the bank was (0.92) highly positive correlated so when assets of bank increased then it was an increase in NPA as well.
- It was found that Net NPA and operating profit of the bank was (-0.84) highly negative correlated so when NPA of bank increased then it was a decrease in Operating profit.
- It was found that Net NPA and Total Advance of the bank was (0.88) highly positive correlated so when advances of bank increased then it was an increase in NPA as well.
- It was found that Net NPA and Net Profit of the bank was (-0.91) highly negative correlated so when NPA of bank increased then it was a Decreases in NPA.
- It was found that there was no favorable effect on NPA after measures taken by the RBI to curb the NPA.

CONCLUSION

In this study we checked the effect of NPA of financial position, Operating Profit and we also evaluated the effect of remedial measures taken by RBI in 2016.

It was found that NPA had a perfect relationship with financial performance and financial position. It was also found that the remedial measures taken by RBI could not improve the position of NPA in PNB.

The reason of increasing trend of NPA was management in efficiency and some frauds taken place in PNB.

To improve the position of NPA some most strict policy from the RBI is required as well as recovery from the defaulters is required to be insured. Major reason of sharp increase in NPA of PNB was a scam by the some officials of the PNB.

SUGGESTIONS

On the basis of the study it can be said that the NPA of Bank has severe effect on the profitability and financial position. Because of grater NPA the profitability of banks affects adversely. If a Bank wants to improve its financial position then it should have efficient management and batter credit policy. Some additional recommendation as follows:

- The advances disbursed by the bank after evaluating and discussing from the credit rating agencies to finalize the re-paying capacity of the borrower before giving the loans to the company or individual.
- The bank should also prepare strong loan recovery policy.
- Banks should fix the loan recovery time period in monthly basis.
- Banks should strictly follow the measures taken by the RBI for recovery of loans.
- The bank should improve credit policy to decrease their NPA.

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