NON-PERFORMING ASSETS-A STUDY OF PUNJAB NATIONAL BANK

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ABSTRACT

The main objective of commercial banking operations are to generate profits and make contribution to growth process of the country. A healthy and sound banking system is necessary for the growth of an economy. The level of NPAs is the best indicator of the healthy position of a banking system. NPAs adversely affect the profitability, liquidity and creditability of a bank. Higher NPAs indicate the inefficiency of management of banks while the lower level of NPAs indicates the best performance of management in a bank. This paper analyses the position of NPAs in PNB and give some suggestions how to overcome the position NPA in banks. This paper also highlights the impact of NPA.

Keywords: Non-performing assets, Commercial banks, Profitability etc.

INTRODUCTION

Commercial bank plays an important role in all the activities of a country. They are also to be considered as instrument of economic growth. The primary function of banks is to accept deposits from public repayable on demand and lend funds as loans to various sectors such as industry, agriculture, construction and for other development concern etc. Banks always adopt an appropriate operational approach with a view to maintaining liquidity and profitability of these assets. But there are many assets which create imbalance between liquidity and profitability. Such assets are known as non- performing assets. In other words, non- performing assets are those assets in which interest is not received regularly. The Narasimha Committee-1 had concluded that the main reason for increased NPA and reduced profitability of the commercial bank in India was given importance to priority sector lending. Banking industry has include a major change after the first phase of economic liberalization, so the importance of credit management has emerged for the proper management of finance in banking sector. The assets may be classified into four categories according to RBI guidelines. a) Standard Asset: these are those assets which do not carry more than normal risk. These assets are not disclosed any problem related to payment of interest and principal amount. These assets are not called NPA. In

simple words all the current loans may be treated as standard assets. b) Sub –standard Assets: these are those assets which have been called as NPA for the period not exceeding two years. In these assets, the credit weaknesses are well defined. However, in the case of cash credit, the accounts which are NPA for not more than 18 months will be classified as sub-standard assets. c) Doubtful Assets: The assets which remained NPA for a period more than two years and their recovery is highly doubtful on the basis of existing facts and conditions. These assets will be treated as doubtful assets. d) Loss Assets: these are those assets which are identified as loss by the bank but the amount has not been written off, partly or wholly. In these assets the following assets are included as NPA: (a) Borrower has become insolvent, (b) Fictitious and benami loans, (c) loan documents are lost and cannot be renewed, etc.

REVIEW OF LITERATURE

K.T.Srinivas (2013) stated that at present NPA in the banks is debate topic because of the increasing the NPA year by year in commercial banks as well as nationalized banks. The main objective of this study is to find out the general reasons for assets to become Non-performing assets. He suggested that by constant monitoring, a bank can controlled the problem of increasing NPA of banks. The banker should verify both formal and informal reports about the goodwill of a customer.

Selvarajan B. & Vadivalagan G (2013) analyzed the management of Non Performing assets in Priority sector with reference to Indian Bank and Public sector banks in India. He concluded that the problem of NPA is not limited to only Indian public sector banks, it prevails in the entire banking sector. The main portion of NPA in banks is arisen of lending to priority sector mainly to agriculture, and rural debts. Lastly he concluded that if the banks had monitored their loans effectively, the problem of increasing NPA can be eliminated.

Samir, Karma Deepa (2013) says that today the performance of bank is not depend on the y basis of number of branches and volume of deposits. The profitability, liquidity and solvency of the banks are adversely affected by the status of Non-performing assets. In this paper an analysis of the position of NPAs in selected banks namely State Bank of India (SBI), the Punjab National Bank (PNB) and Central Bank of India (CBI). The aim of this study is to analyze the trends in NPAs in terms of values, gross and net NPAs as a percentage of gross advances and net advances, gross and net NPAs as a percentage of Total Assets respectively. Finally, they give some suggestions to overcome the increasing Non- performing assets of a bank. Narula Sonia , Singla Monika (2014) states that Non-performing assets is an important parameter in the analysis of financial performance of a bank. The objective of this study is to compare the total advances, net profit, Net NPA of PNB and the impact of NPA on banks. In this study the time period of six years from 2006 to 2011-12 has been taken. Correlation between Net profit and Net NPA is

analyzed. Some suggestion have been given by them such as good management needed of banks to decrease the level of NPA and proper selection of borrowers should be required to get timely payment.

Rajiv Meenakshi & Mahesh H P (2010) revealed that the problem of NPA has been considerable attention after liberalisation of the financial sector in India. This paper also conclude that public sector banks in India have a good record in reducing NPAs in comparison of private sector banks. In this paper NPA at global level, NPA norms, recovery mechanism of NPA, NPA Trends are also discussed. Finally, he concluded that the NPA is the root cause of the global financial crisis. They suggested that the self-help group model can be applied to some of the sectors to help the poor access loans and recovery of payments.

OBJECTIVES OF THE STUDY

The present study has the following objectives:

1) To study the sources and investment of funds of PNB.

2) To examine the gross NPAs and net NPAs of PNB.
3) To compare the total advances, net profits, gross NPA & net NPA.

4) To study the relationship between Nets profit and Net NPA of PNB.

5) To suggest measures to manage NPAs in PNB.

RESEARCH METHODOLOGY

Research methodology is a systematic analysis of data or theoretical analysis of methods and principles associated with a branch of knowledge. It includes research design, sampling framework, methods of data collection framework of analysis and limitation. My research methodology includes gathering relevant data from the annual reports of PNB and RBI bulletins. In this study the annual reports of PNB for the period of 10 years from 2005-06 to 2014-15 is used. Coefficient of correlation has been used to determine the relationship between net profit and net NPA of PNB.

Table: PNBs Total Advances Compared with Net Profit, Gross NPA &Net NPA

YEAR	TOTAL ADVANCES	NET PROFIT	GROSS NPA	NET NPA
2005-06	74627	1439	-	-
2006-07	96597	1540	3391	726
2007-08	119502	2049	3319	754
2008-09	154703	3091	2506	264
2009-10	186601	3905	3214	982
2010-11	242107	4433	4379	2039
2011-12	293775	4884	8720	4454
2012-13	308725	4748	13466	7237
2013-14	349269	3343	18880	9917
2014-15	380534	3062	25695	15397
2015-16	412326	-3974	55818	35423
2016-17	419493	1325	55370	32702
2017-18	433735	-12283	86620	48684

Source: Annual Reports of PNB

Above table shows the total advances, net profit, gross NPA, net NPA of PNB. With the help of this table we find that the total advances of PNB during the period 2005 to 2014-15 is increasing continuously which shows that the bank's performance is good. But on the other side the Gross NPA & Net NPA is also increasing during this time period which shows that the management of PNB is not satisfactory.

Table: Total Advances as Compared to Net Profit

Year	Total Advances	Net profit
2005-06	74627	1439
2006-07	96597	1540
2007-08	119502	2049
2008-09	154703	3091
2009-10	186601	3905
2010-11	242107	4433
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Source: Annual reports of PNB

Above table shows that the total advances is increasing continuously during this time period but the total profit is increasing up to 2012-13 after that it is declining. The main reason of reduction in profit is to increase in NPA at higher level. Thus, it shows that the management of loans and recovery from borrowers is not well.

Table: NPAs Percentage to Total Advances and Total Assets

Year	NPA as Percentage of Total Advances	NPA as Percentage of Total Assets
2005-06	0.3	0.1
2006-07	0.76	0.4
2007-08	0.64	0.4
2008-09	0.17	0.1
2009-10	0.53	0.33
2010-11	0.85	0.54
2011-12	1.52	0.97
2012-13	2.35	1.51
2013-14	2.85	1.80
2014-15	4.06	2.55
2015-16	8.61	5.31
2016-17	7.81	4.54
2017-18	11.24	6.36

Source: Compiled from Annual Report of the PNB

Above table shows the NPA as percentage of total assets and NPA as a percentage of total advances. In 2005-06 the NPA as percentage of total advances is 0.3 percentage of total advances and in 2013-14 it is 2.85%. The NPA as percentage of total assets is 0.1 in 2005-06 and 1.80% in 2013-14. Thus, both are increasing continuously during this time period. Hence the bank should give more attention to reduce their NPA level.

NPAs EFFECT ON THE PERFORMANCE OF BANK

The large percentage of NPA has a harmful impact on the performance of a bank in a number of ways:

- Large amount of NPA make adverse effect on profitability. Due to more bad debts, the profit has become lower and it may cause a huge loss for a bank.
- NPA also effect on the image of a bank because the customer do not like to transaction such bank which has a large percentage of NPA.

- Due to more NPA, the bank will cause the liquidity problem. Then it adversely affects the value bank for credit facilities.
- For the recovery of payment from the client the bank has to appoint employees to deal and handle NPAs, which is additional cost to the bank.

RELATIONSHIP BETWEEN NET NPA AND NET PROFIT

Correlation: Correlation analysis refers to numerical measure used in measuring the relationship between the variables. In this paper, we want to determine whether there is any relation between net profit and NPA of PNB. Thus correlation is best technique in this regard.

CALCULATION OF CORRELATION BETWEEN NET PROFIT & NET NPA OF PNB

YEAR	NET PROFIT (X)	NET NPA (Y)
2007	1540	726
2008	2049	754
2009	3091	264
2010	3905	982
2011	4433	2039
2012	4884	4454
2013	4748	7237
2014	3343	9917
2015	3062	15397
2016	-3974	35423
2017	1325	32702
2018	-12283	48684

r = -.85

Interpretation of Result: we can see from the above table that the coefficient of correlation is equal to -0.19. It means that there is a low degree of negative correlation between net profit and net NPA. We can say that while NPA is decreasing, the net profit is increasing. But it does not show the sound position of bank because of low degree of correlation between these variables. There should be high degree of correlation between net profit and net NPA. As we already know

that there are two types of customers such as good and bad. Good customers leads to increase in profit by paying interest and principal amount timely while the bad customers leads to increase in NPA by not paying interest and installment amount timely. Thus if there is good management in the bank then the amount of NPA will decrease and net profit will increase. Hence, there will be high degree of negative correlation between net profit and NPA.

CONCLUSION AND POLICY IMPLICATION:

Total advances and NPA of bank are increase every year. Gross NPA and net NPA both are increasing every year during the time period 2005-06 t o 2014-15. The main reason of increasing NPA is the mismanagement of bank. Maximum amount of NPA is due to the loan given to the priority sector especially to agriculture sector and SSI. There is low degree of negative correlation between net NPA and net profit. Net profit of PNB starts decreasing from 2014 and 2015. The main reason of this decreasing is the large amount of NPA during this time period. It leads to adverse effect on profitability of bank and the bank is unable to give loans to the new customers.

SUGGESTIONS

The bank should prepare a loan recovery policy for reducing NPA. The advances provided by bank should be given after pre-sanctioning evaluation and post-disbursement control for reducing NPA. The bank should create special recovery cells as head office/regional office/zonal office identify critical branches for recovery. NPA may be reduced by proper selection of borrowers & clients required to get timely payment.

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