



Non Performing Assets of Punjab National Bank – Sector Wise Analysis

Dr. Neetu Jain

Assistant Professor, The Bhopal School of Social Sciences, Bhopal

ABSTRACT

The incidence of NPA is the focal threat of banking sector. The Non-Performing Assets (NPAs) problem is one of the foremost and the most formidable problems that have shaken the whole banking sector in India like an earthquake. Like a cancer worm, it has been eating the banking system from within, since long. It has grown like a cancer and has infected every limb of the banking system. It has an effect on profitability and liquidity along posing threat on asset quality and survival of banks. The NPAs are considered as an important parameter to judge the performance and financial health of banks. The growing NPAs have been a cause of concern for the entire banking industry. Researcher has tried to study the sector wise pattern of Advances and NPA. Between Priority or Non Priority sector, which is more responsible for NPAs.

Sector wise analysis showed that NPA in Non Priority Sector was more than priority sector NPA in PNB. Though, there is no significant difference in Industry, Service sector of Priority and Non Priority Sector NPA but there is significant difference in Agriculture and Personal Loan sector of Priority and Non Priority Sector NPA.

Key words: Non Performing Assets, Priority Sector, Non Priority Sector, Advances

INTRODUCTION

The banking system plays an important and praiseworthy role in the development and growth of the economy. The banking system mobilizes the funds from the surplus units and circulates them to the deficit sectors for their fruitful and efficient utilization. The Indian banking sector consists of Public Sector Banks, Private Sector Banks and Foreign Sector Banks. The money is advanced in the form of loans and advances by these banks to earn interest income and get repayment of principal at periodic intervals as per the contractual obligations between the lender and the borrower. The assets which are unable to meet the commitment of payment within a specified period from due date is called Non Performing Asset or Non Standard Asset.

The NPAs are measured as one of the important concern to determine the performance and financial health of banks. Nowadays the mounting NPAs have been a major cause of concern for the entire banking industry. Due to wrong credit appraisal and incompetent recovery mechanism, banks have been staggering under sky-scraping bad debts.

NON PERFORMING ASSETS

Concept

An account is stated as NPA as per RBI norms which is based on the recovery of instalments and interest on loans and advances and other aspects. The updated norms as per **RBI guidelines** to declare the account as NPA are as follows:-

If An asset, including a leased asset stops to generate income for the bank. , it will become non-performing

1. A Non Performing Asset (NPA) is an advance where;

- (i) Installment of principal and/ or Interest of a term loan remain **unpaid** for a period of more than 90 days ,
- (ii) An Overdraft/Cash Credit (OD/CC) account stays '**out of order**', if the outstanding balance remains in overabundance of the sanctioned limit/drawing power continuously. If there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not adequate to cover the interest debited during the same period, these accounts should be treated as 'out of order' even if the outstanding balance in the principal operating account is less than the sanctioned limit / drawing power.
- (iii) The bill purchased and discounted stays overdue for a term of more than 90 days,
- (iv) For short duration crops , if the interest or/and installment of principal remains unpaid for two crop seasons,
- (v) For long duration crops, the installment of principal and/or interest keep on overdue for one Crop season,
- vi) The amount of liquidity facility remains due for more than 90 days,

regarding a securitisation transaction carry out as per the guidelines on

securitisation dated February 1, 2006.

- vii) In respect, the overdue receivables of derivative transactions representing positive mark-to-market value of a derivative contract remains outstanding for a period of 90 days from the specified due. The abovementioned RBI Guidelines for Loans and Advances applicable from 31-3-2004.

REVIEW OF LITERATURE

Bhatia, (2007), in his research paper, “Non-Performing Assets of Indian Public, Private and Foreign Sector Banks: An Empirical Assessment”, discussed an empirical method to analyze the NPAs of private, public and foreign sector banks in India. In his paper he intended to find the fundamental factors which impacted NPAs of banks. According to him, a model comprising of two factors, viz., bank-specific parameters and macroeconomic factors, is developed and the behavior of NPAs in the three categories of banks can be observed.

Meenakshi Rajeev, H P Mahesh (2010), conducted a study on banking sector reforms and NPAs in Indian commercial banks. With this research, they intended to examine the trends of NPAs in India from various dimensions and explain how several factors such as immediate recognition and self monitoring have been able to reduce it to a certain extent. The study also analyzed NPAs of India in comparison with other countries, NPAs of Indian banks as per the different sectors and their recovery channels. It was found that NPAs are a contributory factor for crisis in economy and the root cause of the global financial crisis. It was observed that NPAs in the priority sector were comparatively higher than that of the non-priority sector due to various reasons such as socio-economic objectives of banks.

Ashok Khurana and Mandeep Singh (2010), in their study stated that the issue of mounting NPAs is a challenge to public sector banks. The study found that the asset-wise classification of PSBs is in the right direction and there is significant variation in the recovery of NPAs in the different sectors. The research observed that PSBs should not be loaded with the twin objectives of profitability and social welfare.

Kaur and Saddy (2011), in their research paper entitled “A Comparative Study of Non-Performing Assets of Public and Private Sector Banks” made an attempt to clarify the concept of NPA, the magnitude of NPAs, the factors contributing to NPAs, reasons contributing to high NPAs and its impact on Indian banking operations. Besides this, they have also discussed the capital to RWA ratio of Private and Public sector banks, management of credit risk and suggestions for controlling the threat of NPAs.

OBJECTIVES OF THE STUDY

1. To understand the status of sector-wise advances of PNB.
2. To make a comparative study of sector-wise NPA of PNB.

HYPOTHESIS OF THE STUDY

H₀₁ : There is no significant difference between Priority Sector and Non Priority Sector

advances of PNB.

H₀₂ : There is no significant difference between Priority Sector and Non Priority Sector NPA

position of PNB.

H₀₃ : There is no significant difference between Priority Sector and Non Priority Sector

Agriculture advances of PNB.

H₀₄ : There is no significant difference between Priority Sector and Non Priority Sector

Industry advances of PNB.

H₀₅ : There is no significant difference between Priority Sector and Non Priority Sector

Services advances of PNB.

H₀₆ : There is no significant difference between Priority Sector and Non Priority Sector

Personal Loan advances of PNB.

Research Design

Research design is descriptive and empirical. The present study is an analytical study. The study is designed to be a narrative study with appropriate analytical discussions presented in tune with the proposed objectives. The study tries to look to what extent NPA had influenced sector wise in PNB.

Time period of the study

In the present study, research data was secondary in nature which is taken from the year 2016-17 to 2020-21.

Data base, Statistical Tools and Techniques

Study is based on secondary data. Information have been collected from annual reports of PNB, journals, articles, newspapers and relevant government websites. The data obtained has been analyzed using appropriate statistical measures/ techniques like percentages, averages, Standard Deviation. In the present study, Student's t – test was used to determine the significance of difference in sector wise analysis of NPA in PNB. Data collected was tabulated and diagram and graphs were used to clearly demonstrate the data.

DATA ANALYSIS AND INTERPRETATION**Sector Wise Advances**

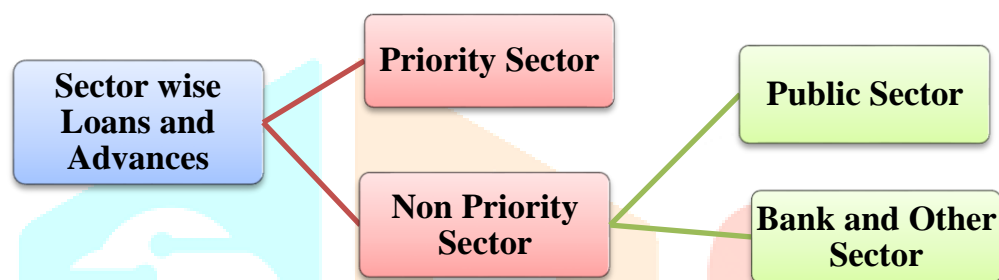
Banks lends loans and advances to different sectors which are further divided into two categories:

1. Priority Sector Advances
2. Non priority Sector Advances
 - a) Public Sector Advances
 - b) Bank and Other Sector Advances

Lending of loans to various categories of advances is given below in figure 1:

Figure – 1

Categories of Sector Wise Advances



1. Priority Sector Advances :

As per Reserve Bank of India, Priority sector includes the following:

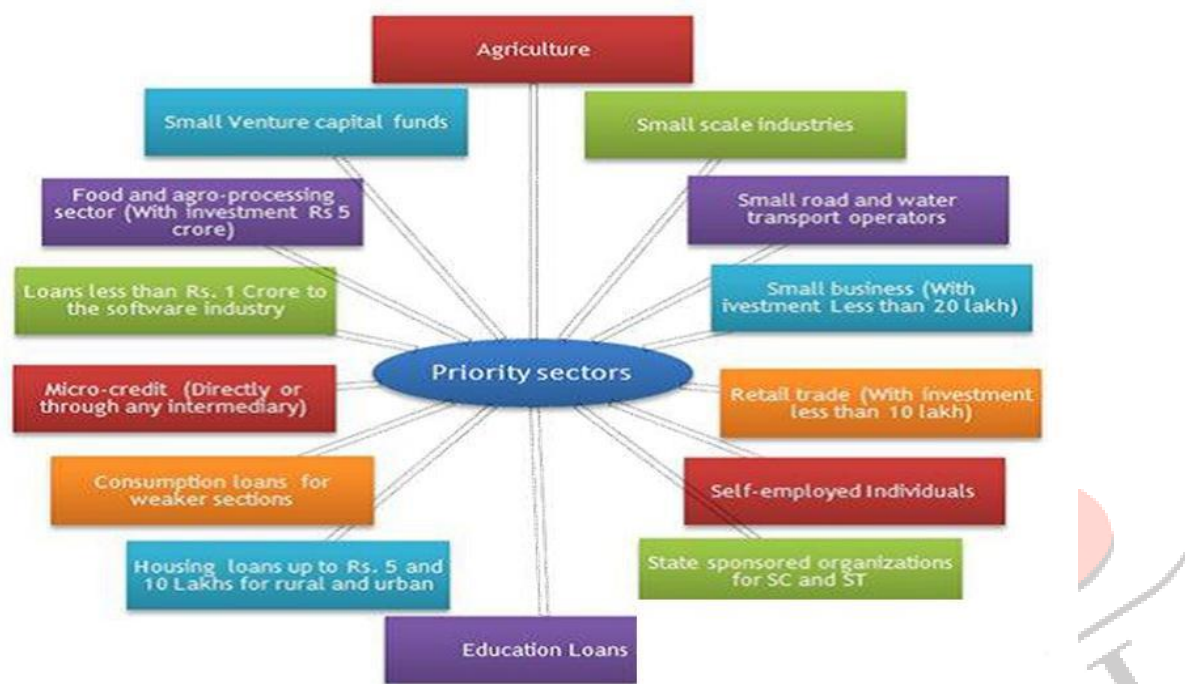
- Agriculture and Allied Activities, dairy, fishery, animal husbandry, poultry, beekeeping and sericulture. Small scale industries (including setting up of industrial estates) Small road and water transport operators (owning up to 10 vehicles).
- Small business (Original cost of equipment used for business not to exceed 20 lakh)
- Retail trade (advances to private retail traders up to 10 lakh)
- Professional and self-employed persons (borrowing limit not exceeding 10 lakh of which not more than Rs.2 lakh for working capital; in the case of qualified medical practitioners setting up practice in rural areas, the limits are Rs.15 lakh and Rs.3 lakh respectively and purchase of one motor vehicle within these limits can be included under priority sector)
- State sponsored organizations for Scheduled Castes/Scheduled Tribes Education (educational loans granted to individuals by banks)
- Housing [both direct and indirect – loans up to 5 Lakhs (direct loans up to Rs 10lakh in urban/ metropolitan areas), Loans up to Rs.1 lakh and Rs.2 lakh for repairing of houses in rural/ semi-urban and urban areas respectively.
- Consumption loans (under the consumption credit scheme for weaker sections) Micro-credit provided by banks either directly or through any intermediary; Loans to self-help groups (SHGs) / Non-Governmental Organizations (NGOs) for on lending to SHGs Loans to the software industry (having

credit limit not exceeding Rs 1 crore from the banking system) Loans to specified industries in the food and agro-processing sector having investment in plant and machinery up to Rs 5 crore.

Investment by banks in venture capital (venture capital funds/ companies registered with SEBI) Priority Sector Targets In 1974, the banks were given a target of 33.33 % as share of the priority sector in the total bank credit. On the basis of Dr. K S Krishnaswamy committee, the target was raised to 40%.

Figure – 2 states the different areas covered in the Priority Sectors.

**Figure – 2
Area of Priority Sectors**



(a) Priority Sector Advances to Total Advances Ratio

National Credit Council laid emphasis on great involvement of the Scheduled Commercial Banks into the priority sector. Dr. K S Krishnaswamy Committee defined this sector. The priority sectors include Agriculture Finance, Small Enterprises, Retail Trade, Micro Credit, Education Loans and housing loans. The objective of priority sector lending by the banks is to make sure that sufficient credit flows to the susceptible sectors of the economy, which may not be attractive from profitability point of view.

Ratio of Priority Sector advances to Total advances =

$$\frac{\text{Priority Sector Advances}}{\text{Total Advances}} * 100$$

(b) Non Priority Sector Advances to Total Advances Ratio

All lending other than priority are termed as Non Priority Sector which is further divided Public and Bank and Other Sector. As banks and other sector advances is safer than remaining non-priority sector. Banks are always attractive towards these sectors. These sector lending are provided against collateral security.

Ratio of Priority Sector advances to Total advances =

$$\frac{\text{Non Priority Sector Advances}}{\text{Total Advances}} * 100$$

Table - 1 showed the percentage of priority sector and non priority sector advances to total advances of PNB.

Table – 1
Ratio of Priority Sector and Non Priority Sector Advances to Total Advances Ratio
(In Percentage)

Year	Priority Sector Advances	% of Priority Sector Advances to Total Advances	Non Priority Sector Advances	% of Non Priority Sector Advances to Total Advances	Total Advances
2016-17	133128.05	31.74	286365.10	68.26	419493.15
2017-18	156285.12	36.03	277449.60	63.97	433734.72
2018-19	162888.74	35.55	295360.46	64.45	458249.20
2019-20	153992.43	32.29	322860.91	67.71	476853.34
2020-21	243442.80	35.83	435902.97	64.17	679345.77
Mean	169947.43	34.29	323587.81	65.71	493535.24
S.D.	42568.42	2.09	65050.50	2.09	106192.37
C.V.	25.05	6.10	20.10	3.18	21.52
t value	23.76				

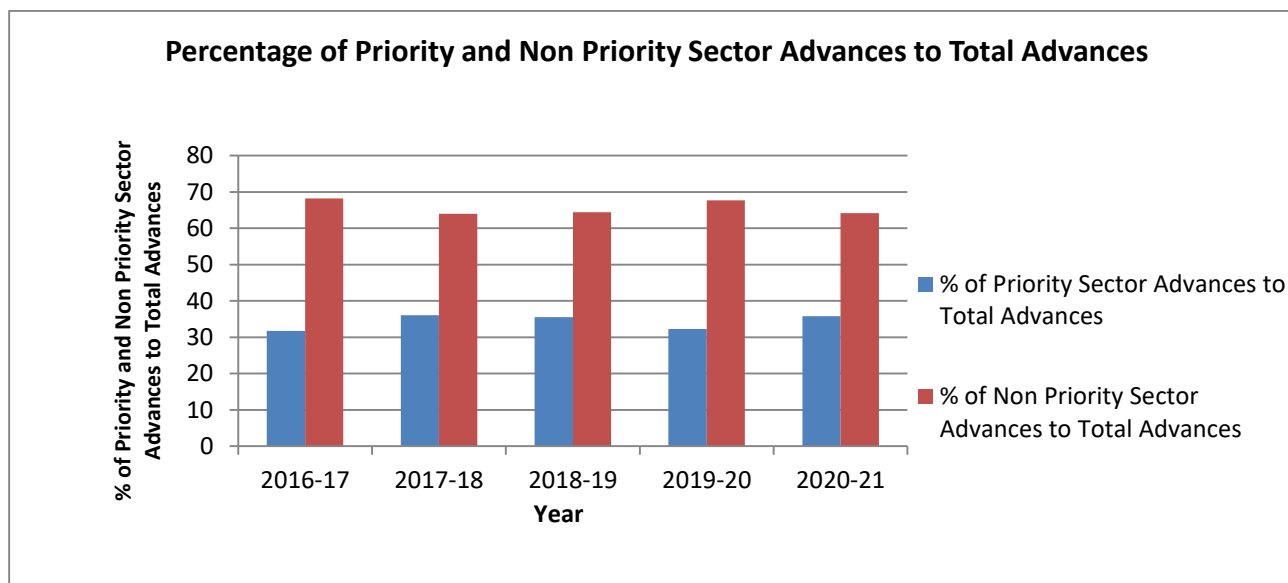
Source : Annual Report of PNB, Various issues

As per Table - 1, lending to priority sector ranged from 31.74% to 36.03% of total advances by PNB. At the same time, lending to non priority sector ranged from 63.97% to 68.26%. Average lending to priority sector and non priority sector made by PNB is 34.29% and 65.71% respectively. While comparing lending pattern, it was observed that PNB lent more to non priority sector in each year of reference period. Lending to Non Priority Sector is always higher than 60% of Total advances in each year.

As shown in the table-1, the calculated value of t (t= 23.76) was higher than table value (t=2.036 at 8 d.f at 95% significance level). Therefore, it can be said that there is significant difference in sector wise lending pattern of PNB .

Figure – 3

Priority and Non Priority Sector Advances to Total Advances Ratio of PNB



Sector Wise NPAs of PNB

As Priority sector is more risky to public sector advances because public sector advances has sound collateral securities to priority sector, and bank and other advances in non priority sector safer than public sector advances. Table - 2 provides information regarding Sector wise NPA of Priority and Non Priority Sectors of PNB during 2016-17 to 2020-21 which was shown in figure - 4.

Table – 2
Sector wise NPA of Priority and Non Priority Sector of PNB

(In percentage of Gross NPA to Total Advances to that sector)

Year	Priority Sector NPA					Non Priority Sector NPA				
	Agriculture and allied activities	Industry	Services	Personal Loan	Total	Agriculture and allied activities	Industry	Services	Personal Loan	Total
2016-17	9.68	16.71	7.95	5.78	9.88	2.26	26.21	5.90	2.59	13.74
2017-18	13.09	16.02	0.16	7.25	12.71	4.57	49.86	15.41	3.71	18.38
2018-19	14.41	21.77	12.82	6.79	13.96	2.07	27.09	14.77	2.91	15.5
2019-20	18.58	22.83	16.48	6.66	16.96	2.9	18.58	13.48	3.28	14.21
2020-21	20.85	21.03	21.24	6.14	18.76	4.16	19.3	6.99	8.73	14.12
Average	12.39	18.17	6.98	6.61	14.45	2.97	34.39	12.03	3.07	15.19
T value	0.41									

Source : Annual Report of PNB, Various issues.

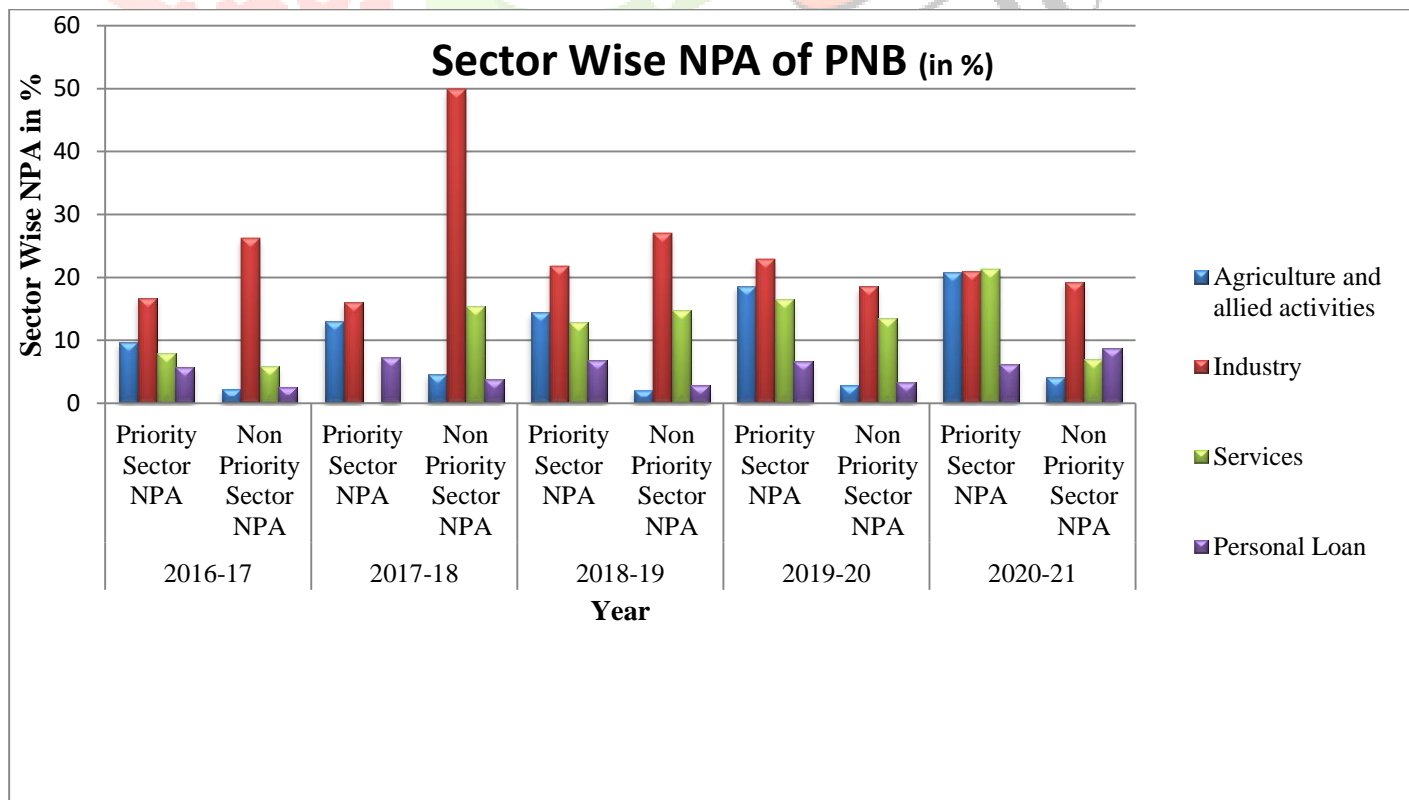
Table 3 : Independent Samples Test of Priority and Non Priority Sector NPA

	Levene's Test for Equality of Variances		t-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower	Upper
Total	2.116	.184	-.413	8	.690	-.73600	1.78198	-4.84524	3.37324
Equal variances assumed									
Equal variances not assumed			-.413	6.173	.694	-.73600	1.78198	-5.06686	3.59486

As per Table - 2, highest priority sector NPA is in the field Industry Advances (Mean =18.17) in PNB. In the same manner, Non Priority Sector NPA is also highest in the field of Industry Advances (Mean =34.39). While comparing NPA pattern, Overall Highest NPA was found in the field of Non Priority Sector Industry Advances. Priority Sector Agriculture and Allied Activities NPA and Personal Loan NPA are more than non priority sector NPA of the same field whereas NPA in Industry and Service sector Advances was found more in Non Priority Sector than priority sector.

As shown in the table-3, the calculated value of t (t= 0.41) was found less than table value (t=2.036 at 8 d.f at 95% significance level). Therefore, it can be said that there is no significant difference in priority and non priority sector NPA of PNB .

**Fig. – 4
Sector Wise NPA of PNB**



Priority and Non Priority Sector NPA

Agriculture Sector

Table 4 - Independent Samples Test of Priority and Non Priority NPA in Agriculture Sector Advances

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Sectorwise_NPA_Agriculture Advances	Equal variances assumed	7.494	.026	5.923	8	.000	12.13000	2.04778	7.40782	16.85218
	Equal variances not assumed			5.923	4.510	.003	12.13000	2.04778	6.68940	17.57060

As stated in table – 2, Average NPA in agriculture sector of Non Priority Sector in PNB was 2.97 % of gross NPA to gross advances of that sector whereas Average NPA in agriculture sector of Priority Sector in PNB for the period was 12.39% of gross NPA to gross advances of that sector whereas which was 4.17 times of Non Priority Sector lending.

As shown in the table-2, the calculated value of t (t= 5.92) was higher than table value (t=2.036 at 8 d.f at 95% significance level). Therefore, it can be said that there is significant difference in Agriculture sector in priority and non priority sector NPA of PNB .

Industry Sector

Table 5 - Independent Samples Test of Priority and Non Priority Sector NPA in Industry Sector Advances

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Sectorwise_NPA_Industry Advances	Equal variances assumed	2.637	.143	-1.459	8	.183	-8.53600	5.84992	-22.02594	4.9539
	Equal variances not assumed			-1.459	4.473	.211	-8.53600	5.84992	-24.12263	7.0506

As shown in Table – 2, Average NPA in Industry sector of Priority Sector in PNB was 18.17 % of gross NPA to gross advances of that sector whereas Average NPA in agriculture sector of Non Priority Sector in PNB for the period was 34.39% of gross NPA to gross advances of that sector whereas which was 1.89 times of Priority Sector lending.

As shown in the table-2, the calculated value of t (t= 1.46) was less than table value (t=2.036 at 8 d.f at 95% significance level). Therefore, it can be said that there is no significant difference in Industry sector in priority and non priority sector NPA of PNB .

Service Sector

Table 6 - Independent Samples Test of Priority and Non Priority Sector NPA in Industry Sector Advances

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Sectorwise_NPA_Service Advances	Equal variances assumed	1.271	.292	.101	8	.922	.42000	4.14587	-9.1404	9.98040
	Equal variances not assumed			.101	6.265	.922	.42000	4.14587	-9.6215	10.46157

Average NPA in Service Sector of Priority Sector in PNB was 6.98 % of gross NPA to gross advances of that sector whereas Average NPA in agriculture sector of Non Priority Sector in PNB for the period was 12.03% of gross NPA to gross advances of that sector whereas which was 1.72 times of Priority Sector lending.

As shown in the table-2, the calculated value of t (t= 0.1) was less than table value (t=2.036 at 8 d.f at 95% significance level). Therefore, it can be said that there is no significant difference in Service sector in priority and non priority sector NPA of PNB .

Personal Loan Sector

Table 7 - Independent Samples Test of Priority and Non Priority Sector NPA in Personal Loan Sector Advances

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Sectorwise_NPA_Personal Loan	Equal variances assumed	39.582	.000	-2.353	8	.046	-4.7860	2.0339	-9.4762	-.0957
	Equal variances not assumed			-2.353	4.129	.076	-4.7860	2.0339	-10.364	.7920

Average NPA in Personal Loan Sector of Priority Sector in PNB was 6.61 % of gross NPA to gross advances of that sector whereas Average NPA in agriculture sector of Non Priority Sector in PNB for the period was 15.19% of gross NPA to gross advances of that sector whereas which was 2.21 times of Priority Sector lending.

As shown in the table-2, the calculated value of t (t= 2.353) was more than table value (t=2.036 at 8 d.f at 95% significance level). Therefore, it can be said that there is significant difference in Personal Loan sector in priority and non priority sector NPA of PNB .

FINDINGS AND CONCLUSION

Sector wise analysis showed that NPA in Non Priority Sector was more than priority sector NPA in PNB. Though, there is no significant difference in Industry and Service sector of Priority and Non Priority Sector NPA but there is significant difference in Agriculture and Personal Loan sector of Priority and Non Priority Sector NPA. It is also analysed that NPA is highest in Industry Sector of Non Priority Sector in PNB and lowest in Agriculture and allied activities of Non Priority Sector in PNB. There is no significant difference in sector wise NPA of PNB (Table-2).

Hence, it is the high time for the banks to take solemn steps to curb NPA. If the banks do not take effective measures even now, the condition of NPA will turn out to be hazardous for the economy as the problem of NPA is related to supply of money and its circulation. So, the role of banking sector is of immense significance to make India more prosperous and self reliant.

REFERENCES:

- Ashok Khurana and Dr. Mandeep Singh, “A management: A study of new private Sector Banks in India”, **Indian Journal of Finance**, September 2010, pp. 174-185.
- Bhatia, “Non-Performing Assets of Indian Public, Private and Foreign Sector Banks:An Empirical Assessment”, **ICFAI Journal of Bank Management**, Vol. 6, No. 3, 2007, pp. 7-28.
- Kaur, H., and Saddy, N. K. (2011). A Comparative Study of Non-Performing Assets of Public and Private Sector Banks. *International Journal of Research in Commerce & Management*, 2(9), 82-89
- Malyadri, P., & Sirisha, S. (2011). A Comparative Study of Non Performing Assets in Indian Banking Industry. *International Journal of Economic Practices and Theories*, 1(2), 77-87
- Meenakshi Rajeev and H P Mahesh, “Banking sector reforms and NPA: a study of Indian commercial banks”, working paper 252, **Institute for social change and economic change**, Bangalore, ISBN 978-81-7791-108-4,,2010.
- Renu Jatana , “ Impact of NPA on Profitability of Banks” , an article published in *Indian Journal of Accounting* , Vol. XXXIX (2) June 2009.
- www.rbi.org
- Annual reports of PNB various issues
- Report on Trends and Progress of India various issues