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A STUDY ON THE PERFORMANCE OF PUNJAB NATIONAL BANK IN THE BACKDROP OF ITS NPAs

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Abstract:

Non-Performing Assets had been a serious concern for Indian commercial banks and public sector banks in particular. After several ups and downs, Punjab National Bank is still struggling to retain its supremacy as one of the oldest banks in India. MD and CEO of the bank recently announced that, it has to face a loss of Rs1700 crores due to increase in interest rates. Disproportionate assets was another concern for PNB. However, as per its MD and CEO, PNB is recovering as per the targets set.
This research paper is aimed to analyze its NPAs from 2001 to 2020 using appropriate tools like regression analysis. It has taken into account 8 key financial metrics to compare it with Net NPAs. Objective of the paper is to identify the key metrics where there is high impact on its Net NPAs. It would help us to understand the areas to be focused to revive the performance of one of popular public banks in India.

Key words: NPAs, Recovery, Operating profit, Net Interest Margin.

Introduction:

After the LPG (Liberalization, Privatization and Globalization), private banks entry into Indian Banking Industry was revelation. There was an increased competitiveness among commercial banks. Most of the public banks realized the fact that they really need restructure and adapt to the situation and make themselves ready for the competition with private banks. While some of the banks succeeded in their efforts, the other banks struggled to keep up the pace. Few banks had to get into the trap of building up of Non-Performing Assets for several reasons, including willful defaulters, faulty loan appraisal process, and governance and business ethics. PNB though initially managed to be among the top performing public banks, due to disproportionate assets issue and other human resources related issues, faced several business challenges.

Literature Review:

A key indicator of soundness of a financial system reflects in the quality of assets held by the banks and financial institutions. Non-performing assets (NPAs) are loans lent by a bank or a financial institution, and usually the borrower fails to replay or delays interest or principle payments. According to the RBI norms, principle amount or interest amount delayed beyond 90 days has to be identified as non-performing assets[14]. NPAs are grouped into sub-standard, doubtful and loss assets.

Non-performing assets were categorised based on the period for which the asset has remained non-performing and the realization of the dues:

Classification of assets - Source: www.rbi.org.in

a) Sub-standard Assets

b) Doubtful Assets

c) Loss Assets

Sub-standard Assets

An asset which is not performing upto 2 years is called sub-standard asset. In this case, the net worth of the borrower is not sufficient to recover the dues. From 31-3-2005, period is reduced to less than 12 months.

Doubtful Assets

Period for doubtful assets is more than two years, but from 31-3-2005, the period has been reset to more than 12 months.

Loss Assets

Asset which cannot be recovered as classified as loss asset. These type of assets may fetch mere some salvage value.

Some of the important reasons for the increase in NPAs

Banks do diversion of funds for expansion/modernization, Business failure, Management inefficiency, Lack of skills/training, inappropriate technology, Political reasons, Poor credit management and monitoring, Recession, Accident and Natural Calamities, Government policies.

Some of the remedial measures in practice

Securitization, Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act 2002, Bank Board Bureau (BBB), Capitalization Programme, Government Reforms, Empowerment, Asset Reconstruction Companies, Insolvency and Bankruptcy Code 2015, Debt Recovery Tribunals, Corporate Debt Restructuring, Lok Adalat.

***Earlier studies*:**

Jaslene kaur Bawa, Vinay Goyal, SK Mitra, Sankarshan Basu, September 2918, IIM Raipur, Benguluru. IIMB Management Review, An analysis of NPAs of Indian banks, using a comprehensive framework of 31 financial ratios.No.0970-3896. Objective of this paper was to identify the key financial metrics and study the impact of those identified metrics on NPAs. It was identified that, few of the financial metrics have direct impact on NPAs both in public and private sector banks. Panel data regression analysis is applied.

Tulika Hora, K Raaga, Asra Khan. Dec 2017 Christ University, Bengaluru, Emperor International Journal of Finance and Management Research, ISSN:2395 5929, Objective of this study was to to analyze the various key aspects affecting the financial performance and employees of the State Bank of India. They found that, As per the survey conducted, the merger not benefitted the employees. Negative trend of few subsidiaries before merger affecting SBI after merger.

Sahota S, Dhiman B, May 2017 Volume 11, Issue 5, 1 May 2017, Pages 40-57, Indian Journal of Finance) in their study opined that, there is a touch competition between public and private banks in India. Surprisingly, it was noticed that, there was not much of variation in these banks in terms of ratios and sub-parameters namely, debt/equity ratio, gross non-performing assets/total assets, income interest/total assets, and liquid assets to total deposits. They found that, banks performed satisfactorily after the reforms, SBI being the top performer. They insisted that, to seen the sustainability of the financial system, it is very important to analyze the performances of the banks frequently to know their strengths and vulnerabilities.

*Sulagna Das, Abhijit Dutta, Nov 2014 (IOSR journal of business management, ISSN 2319 7668)***,** as per the study, at 5% significance level, it is observed that there is no major difference in NPAs among these banks.

Dr Jeelan Basha V, March 2017, Indian Journal of Research, ISSN 2250-1991, Objective of this study is to study the status of non-performing asset using financial ratios in SBI group. and suggest and conclude based on findings. They found by using standard deviation and coefficient of variation that, the money locked up in NPAs has a direct impact on profitability of the banks. Bank should ensure that the NPAs should not be further slipped and written off .It has to strategically plan for proper appraisal of credit application.

R.S.Raghavan, National Institute of Bank Management, Vol.37, Issue 4- 47-56, Ob jective of this study was to highlight the salient features and explores the impact of consolidation. They found that, Banks consolidation may have significant impact on the Indian banking industry.

Research Gap:

There is no comprehensive study on PNB (one of the oldest public banks in India) for the said period of 2001-2020, which include the great global meltdown in 2008 and revolutionary measure to curb NPAs among public banks since 2015.

Objectives:

1. To identify the key financial metrics effecting NPAs of PNB.
2. To assess the extent of impact of the identified metrics on NPAs.

Methodology:

Study is based on secondary data collected from various sources like RBI website and PROWESS IQ database. Regression analysis is used to identify the impact of various financial metric on NPAs.

Data Analysis:

Based on the literature review, key financial metrics with higher impact were identified and considered those metrics as independent variables and NNPA as dependent variable. Applied regression analysis.

Dependent variable: Net Non-Performing Assets.

Independent variables:
Variable 1: Interest income as a percentage to working funds.
Variable 2. Non-interest income as a percentage to working funds.
Variable 3. Operating profit
Variable 4. Return on Assets (RoA)
Variable 5. Provision Coverage Ratio
Variable 6. Credit Deposit Ratio
Variable 7. Net Interest Margin
Variable 8. Slippage Ratio

Regression Statistics								
Multiple R	0.972897667							
R Square	0.94652987							
Adjusted R Square	0.907642503							
Standard Error	1.008363109							
Observations	20							
ANOVA								
	df	*SS*	*MS*	*F*	*Significance F*			
Regression	8	197.9929	24.74912	24.34029	6.07579E-06			
Residual	11	11.18476	1.016796					
Total	19	209.1777						
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	15.22490969	11.6389	1.308106	0.217512	-10.39212698	40.84195	-10.3921	40.84194635
X Variable 1	0.686622162	0.404377	1.697974	0.117587	-0.203406413	1.576651	-0.20341	1.576650738
X Variable 2	0.461234185	1.827057	0.252447	0.805351	-3.560090875	4.482559	-3.56009	4.482559245
X Variable 3	-2.1857105	1.089245	-2.00663	0.070004	-4.583122079	0.211701	-4.58312	0.21170107
X Variable 4	-1.33722488	0.729378	-1.83338	0.093923	-2.942574628	0.268125	-2.94257	0.268124868
X Variable 5	-0.0914516	0.048955	-1.86807	0.088602	-0.199201126	0.016298	-0.1992	0.01629792
X Variable 6	0.091805758	0.154349	0.594794	0.564016	-0.247913548	0.431525	-0.24791	0.431525063
X Variable 7	-4.19487	1.078725	-3.88873	0.002525	-6.569128048	-1.82061	-6.56913	-1.820611945
X Variable 8	3.59175E-05	0.001503	0.023896	0.981364	-0.003272387	0.003344	-0.00327	0.003344222

Findings and Interpretation:

With the above regression analysis, it is evident that, there is a perfect regression overall based on significance F factor which is much lesser than 0.05, while R square shows data fitness for regression. However, not all the independent variables are having impact on NNPA. It is identified that Variable7, which is Net Interest Margin is having highest impact on NNPA, though operating profit too has lesser impact on NNPA. Other variables have insignificant impact on NNPA based on the identified *P* values.

With the above interpretation, it is found that, bank has to work on its Interest rates mechanism along with maintaining the optimum levels of operating profit with a control on operating expenses.

However, there is a further scope for research on this area, as some of the independent variables selected based on the literature review, should have some impact on NNPA, which present analysis is unable to identify.

Conclusion:

As rightly said by the MD and CEO, bank is suffering with interest rate fluctuations apart from the other governance related issues. An attempt had been made to capture the variables those are effecting the NNPAs of the bank. In spite of proven financial metrics which usually effects NPAs, did not hold true to some extent. To take this research further, Panel Data Regression could be applied to fetch the more accurate results.

On NPAs front, as per the guidelines given by RBI in 2015, where restructured assets should be considered as Non-Performing Assets, so that appropriate corrective action could be taken in time before the loans slip into NPA category.

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