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Management of non-performing assets of nationalised commercial banks in Bihar with special reference to Punjab National Bank

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Abstract
The Banks being the mobiliser of finances for the different sectors of economy and are expected to be strong enough to withstand the shocks like inflation, deflation etc. and to cushion the other financial Institutions along with industries and common people against financial crisis. NPA is the best indicator for the health of the banking industry but in India Non-performing assets are one of the major concerns for banks. NPAs are the primary indicators of credit risk and it is the inevitable burden on the banking industry. Hence, the success of a bank depends upon methods of managing NPAs. The Public Sector Banks have shown very good performance wherever the financial operations are concerned. However, the only problem of the Nationalised Commercial Banks these days are the increasing level of the non-performing assets. The non-performing assets of the Public-Sector Banks have been increasing regularly year by year and the performance of banks Increasing Non-performing Asset (NPA) at an alarming rate which is a threat to the banking industry sending distressing signals on the sustainability of the affected banks.
When PNB Gross & NET NPA compared with total advances we get the result that there is mismanagement on the side of PNB. While analysing the impact of NPA level on PNB we derived the conclusion that there is a positive relation between Net Profits and NPA of PNB. It simply means that as profits increase NPA also increase. It is because of the mismanagement on the side of bank. Several prudential and provisioning norms have been introduced, and these are pressurizing banks to improve efficiency and trim down NPAs to improve the financial health in the banking system. In this paper, an effort has been made to understanding the concept of NPAs, its magnitude and major causes for increasing NPA & also to evaluate the operational performance of Punjab National Bank.

Keywords: non-performing assets, public sector banks, Punjab National Bank, recovery of debts

Introduction
The incidence of non-performing assets (NPAs) is affecting the performance of the credit institutions both financially and psychologically and also it makes the banker and the bank non-performing as it:
- Prevents or delays recycling of funds,
- Denies income from the asset by way of interest, and
- Erodes profit by way of provisions.

In the starting when the financial reforms were undertaken by the Government of India based on the Narasimham Committee report I and II, Reserve Bank of India introduced some prudential norms to address the credit monitoring policy, which were being pursued by the banks and other NBFCs. To strengthen the recovery of loans and dues by the banks and the other financial institutions, Government of India in the year 1993, promulgated the "Recovery of Debts Due to Banks and Other Financial Institutions Act" and the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act" in the year 2002. But, statistics shows NPA level is ever increasing day by day, and the said act, which was introduced by the Government of India, is not serving the purpose, they were actually formed. The reason behind it can be the bank's approach and attitude towards financing and recovery of loans especially from the small and medium enterprises and also the lack of knowledge about the law and its practice in banking and also violations of the RBI directives/circulars, which are essential to follow by every bank and financial institutions.
NPA is a disorder resulting in non-performance of a portion of loan portfolio leading to no recovery or less recovery / income to the lender. NPAs represent the quantified "Credit Risk". It also plays havoc on the mental make-up of the banker where in the banker tries to go slow on lending, fearing future NPAs, it may lead to delay and denial of credit resulting in low off- take of lendable funds. NPAs are an inevitable burden on the banking

industry. Hence, the success of a bank depends upon the methods of managing NPAs and keeping them within tolerance level.

Banks are indeed one of the building blocks of an economy because without money one cannot think of carrying on a business activity. Modern economy is regarded as a credit economy in the sense that credit forms the basis of most of the economic activities in such an economy. But during recent years the Indian banking system has been going through a stiff situation due to drastic increase in the level of Non-performing Assets, especially of public sector banks. At the end of fiscal year 2014-15 the Gross NPA of public sector banks was around 2,79,016 crore, at the end of 2015-16 it was 5,39,968 crore, at the end of 2016-17 Gross NPA was 6,84,732 crore, 8,64,433 crore in December 2018 (as per provisional data), at the end of fiscal year 2018-19 the Gross NPA of public sector bank was 8,95,601 crore and is still increasing, and at the end of fiscal year 2019-20 the Gross NPA of public sector bank decreases slightly and reached to 8,06,412 crore. After RBI's asset quality review most of banks' balance sheets are showing losses due to provisioning etc. But, provisioning is not the solution; a clear-cut solution must be there to tackle this NPA.

All previous researches were either specific or comparative or limited to different areas. This research is for NPA of PSBs in Bihar in general and in special reference to Punjab National Bank, Darbhanga District in particular.

Non-Performing Assets is a burning topic of concern for the public sector banks, as managing and controlling NPA is very important. The present research proposal with the help of secondary data, from RBI website, and other sources tries to analyse the net non-performing assets data of Punjab National Bank by using F-test, ANOVA statistics, and with the help of SPSS software. The main objective of the study is to manage NPAs and to find out suitable measures for minimising the NPAs and preventing the loan assets from becoming NPA of the concerned bank. This study also focuses on the reason behind the NPA and its impact on banking operations.

Review of Literature

Asset quality was not prime concern in Indian banking sector till 1991, but was mainly focused on performance objectives such as opening wide networks/branches, development of rural areas, priority sector lending, higher employment generation, etc. There are many studies conducted on the issue of Non-Performing Asset Management in Indian Banks, following is the review of few literatures about the NPA Practices and Management conducted for Banks in India.

Toor (1994) in a study conducted on NPAs found that recovery of non-performing assets be undertaken through the process of compromise by direct talks rather than by the lengthy and costly procedure of litigation. He suggested that by constant monitoring, it is possible to detect the sticky accounts, the incipient sickness at the early stages itself and an attempt could be made to review the unit and put it back on the road to recovery.

Bidani (2002) [2] felt that Non-Performing Assets are the smoking guns threatening the very stability of Indian banks. NPAs wreck a bank's profitability, both through the loss of interest income and write-off, of the principal loan amount itself. In a bid to stem the lurking rot, RBI issued in 1993 guidelines based on recommendations of the Narasimham Committee that mandated identification and reduction of NPAs and reducing NPAs was treated as a 'national priority'.

Kaur (2006) in her thesis titled Credit management and problem of NPAs in Public Sector Banks, suggested that for effective handling of NPAs, there is an urgent need for creating proper awareness about the adverse impact of NPAs on profitability amongst bank staff, particularly the field functionaries. Bankers should have frequent interactions and meeting with the borrowers for creating better understanding and mutual trust.

Bhatia (2007) in his research paper explores that NPAs are considered as an important parameter to judge the performance and financial health of banks. The level of NPAs is one of the drivers of financial stability and growth of the banking sector.

Meenakshi and Mahesh (2010) this exploratory paper examines the trends of NPAs at global level - One interesting observation is that most of the countries that fall under the higher „NPA/Total Loan‟ ratio Category are in the Asian region & Also examine India from various magnitudes and also identification of the problem & recovery mechanism to a great extent. It also show that NPA in the priority sector is higher than non – priority sector. The paper also discusses the role of joint liability groups (JLGs) or self-help groups (SHGs) in enhancing the loan recovery rate.

Kavitha (2012) emphasized on the assessment of nonperforming assets on profitability its magnitude and impact. Credit of total advances was in the form of doubtful assets in the past and has an adverse impact on profitability of all Public Sector Banks affected at very large extent when non-performing assets work with other banking and also affect productivity and efficiency of the banking groups. The study observed that there is increase in advances over the period of the study. However, the decline in ratio of Non-performing Assets indicates improvement in the assets quality of SBI groups, Nationalized Banks and Private Sector Banks

Das and Dutta (2014) tried to analyse, with the help of secondary data from RBI website, net nonperforming asset data of 26 public sector banks, by using Annova statistics, and with the help of SPSS software for the period of 6 years, (2008-2013). The main objective of the study is to find out if there are any significant differences in the mean variation of the concerned banks. This paper also focuses on the reason behind the NPA and its impact on banking operations. The study finds out that there is no significant deference between the means of NPA of the banks at five percent level of significance.

Nag (2015) analysed the assets quality and difference in the growth of NPAs (inter and intra comparison) of ten nationalised, ten foreign and ten private sector banks of India, during the year 2007-2014. The analytical part is done by using statistical techniques like percentage, mean, coefficient of variation and one way ANOVA and find out that nationalized and foreign banks NPAs are more than private banks.

Sasikala and Mohanapriya (2017) examined various factors of cooperative banks in Pondicherry, plays an important role in increasing the NPAs. The analytical part is done by using both primary and secondary data. Primary data was collected with the help of questionnaires filled by the respective officers of public sector banks and secondary data is taken from the RBI website (NPAs data with reference to public sector banks).

Statement of the Research Problem

The study will attempt to discuss the reasons of the NPA in public sector banks and also analyses the problems, with a suitable solution. The main subject matter of this proposed work is to understand the significant difference of the NPA occurrence, and management of NPA in different nationalized commercial banks of Bihar in respect to know the profitability, growth and functioning of PNB as well evaluate the efficacy of NPA management practices in bank.

A globally competitive economy requires a robust and competitive banking system. The growing NPA has shattered Indian banking sector especially public banking sector, very badly. The Central Bank i.e. RBI and policy-makers of our country are rigorously trying to curb the mounting NPA. But the problem is so vast that it is still unsolved.

At the end of fiscal year 2018-19 the Gross NPA has touched a margin of around 8.95 lakh crores & is still increasing and that's a huge amount. In recent times the banks have become very cautious in extending loans, the reason being mounting non-performing assets. Nonperforming assets had been the single largest cause of irritation of the banking sector of India. Earlier the Narsimhan committee-I had broadly concluded that the main reason for the reduced profitability of the commercial banks in India was given importance to priority sector lending. The committee had highlighted that priority sector lending was leading to the building up of non-performing assets of the banks and thus it recommended it to be phased out. Subsequently, the Narsimhan committee-II also highlighted the need the zero nonperforming assets for all Indian banks with international presence. A major portion of the money lent comes from the deposits received from the public. These deposits are mostly repayable on demand.

Management of Non-Performing Assets

A reduction in the total gross and net NPAs in the Indian financial system indicates a significant improvement in management of NPAs. This is also on account of various resolution mechanisms introduced in the recent past which include the SRFAESI (Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest) Act, one time settlement schemes, setting up of the Corporate Debt Restructuring (CDR) mechanism, strengthening of Debt Recovery Tribunals (DRTs). The total number of resolution approaches (including cases where action is to be initiated) is greater than the number of NPAs, indicating some double counting. As can be seen, suit filed and Bureau of Industrial Finance &Reconstruction (BIFR) are the two most common approaches to resolution of NPAs in public sector banks. Rehabilitation has been considered/ adopted in only about 13% of the cases. Settlement has been considered only in 9% of the cases. It is likely to have been adopted in even fewer cases. Data available on resolution strategies adopted by public sector banks suggest that Compromise settlement schemes with borrowers are found to be more effective than legal measures. Many banks have come out with their own restructuring schemes for settlement of NPA accounts. If NPAs are not properly managed, it can cause financial and economic degradation which in turn signals an adverse investment climate.

The concept of Non-Performing Assets arises mainly from investments and loans. Lending process involves risk of default which affects the bank's credit cycle (Jayanthi, 2015). When customers default in payment of their loans or when a bank made a wrong choice of its customers, the loans become non-performing assets. Despite the introduction of different policies and practices in the banking sector, NPA remains a challenge in banking sector.

The problem of NPA is also causing banks to incur other costs because banks won't have liquidity with them since their money will be blocked and causes them to borrow from other banks which requires them to pay interest. Operation of a bank will also be affected by the liquidity problem. Managerial skills are required to manage NPA in banks in order to reduce this problem. Banks are required to classify non-performing assets further into the following three categories based on the period for which the asset has remained non-performing and the reliability of the dues:

1. Sub-standard Assets (A sub-standard asset is one which has remained NPA for a period less than or equal to 12 months),
2. Doubtful Assets (With effect from March 31, 2005, an asset is required to be classified as doubtful, if it has remained NPA for more than 12 months),
3. Loss Assets are those assets which are considered un-collectible.

Types of Non-Performing Assets
Gross Non-Performing Assets (GNPAs): These are the sum of all loan assets that have been classified as NPAs as per RBI guidelines as on balance sheet date. Net Non-Performing Assets (NNPAs): They show the real position of NPAs as banks deduct provision from GNPAs and gross advances for calculating NNPAs.

Factors that contributes to NPA
NPA in India seen as one of the threat in banking sector. This problem is caused by both internal and external factors. Internal factors are those factors within the bank (inside) and the external factors are those factors from external environment (outside). Internal factors include; diversion of resources for modification or development projects, less satisfaction on the credit worthiness of the customers, noncompliance with the lending norms, shortage of documents, disproportionate overdraft lending.

Government Intervention
The government is set to promulgate an Ordinance to help banks tackle the menace of mounting bad loans, which is denting profits of lenders, slowing credit flow to industry and hurting the economy. Here are five ways the government and Reserve Bank of India can speed up recovery of nonperforming assets (NPAs):

1. Amendment in banking law to give RBI more powers The Banking Regulation Act may be amended to give RBI more powers to monitor bank accounts of big defaulters. The amendment in the banking law will enable setting up of a committee to oversee companies that have been the biggest defaulters of loans.
2. Stringent NPA recovery rules the government has over the years enacted and tweaked stringent rules to recover assets of defaulters. The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act or SARFAESI Act of 2002 was amended in 2016 as it took banks years to recover the assets.
3. RBI’s loan restructuring schemes RBI has over the past few decades come up with a number of schemes such as corporate debt restructuring (CDR), formation of joint lenders’ forum (JLF), flexible structuring for long-term project loans to infrastructure (or 5/25 Scheme), strategic debt restructuring (SDR) scheme and sustainable structuring of stressed assets (S4A) to check the menace of NPAs. In many cases, the companies have failed to make profits and defaulted even after their loans were restructured.
4. Present NPA scenario According to the latest information collated by the government, stressed assets which includes both non-performing assets as well as restructured loans of banks.
5. Banks may need to take a “hair cut” In the past few quarters, most of the banks especially PSU lenders, have reported a sharp fall in profits as they set aside hefty amounts for losses on account of NPAs, which eroded their profits. Given the gravity of the problem, the government may ask banks to go for more “hair cut” or write offs for NPAs. The government and RBI may also come up with a one-time settlement scheme for top defaulters before initiating stringent steps against them.

Conclusion
Setting up an Assets Reconstruction Companies (ARC) to take over sticky loans is the best bet. It will also reduce the government’s bank recapitalisation burden The new government to pursue structural reforms. Needless to emphasise that a sound banking system is a sine qua non to carry forward structural reforms initiated during last five years, after policy paralysis in the previous five years. Despite several initiatives by the Centre and the Reserve Bank of India, the problem of non-performing assets (NPAs) in the Indian banking system remains an unfinished agenda. The closing balance of NPAs of all scheduled commercial banks (SCBs), which was close to 8 trillion in 2016-17, rose to 10.4 trillion in 2017-18. Gross NPAs as per cent of gross advances of SCBs increased from 9.3 per cent (11.7 per cent for public sector banks) in 201617 to 11.2 per cent (14.6 per cent for PSBs) in 2017-18, notwithstanding recovery of 1.3 trillion and write-offs of 1.6 trillion during 2017-18. By September 2018, NPA ratios declined marginally. The RBI’s Financial Stability Report, due in June 2019, gives the latest information on NPAs for 2018-19.
Upon analysing the NPAs and Banking sector in India, it is evident that the NPAs still pose a significant threat to the banking sector. The present study is an attempt to examine the non-performing assets of public sector banks of Bihar and to evaluate the various facets of NPA and its management in Indian Banking Sector in Bihar with Special reference to Punjab National Bank, Darbhanga District.

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