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A Study of Nonperforming Assets of Punjab National Bank and their reduction before and after the enactment of Insolvency and Bankruptcy Code, 2016

CS Sangeeta Chopra Bagga, Research Scholar,
SMCS, Shri Guru Ram Rai University, Dehradun, Uttarakhand
Dr. Deepak Sahni, Professor, SMCS, Shri Guru Ram Rai University, Dehradun, Uttarakhand.
CA Bijaya Laxmi Thapliyal, Assistant Professor,
Department of Commerce, Graphic Era Hill University, Dehradun, Uttarakhand

Abstract

Purpose – The banking network has been the lifeblood of every economy, and nonperforming assets (NPA) and their elimination are one of the most difficult difficulties the banking system faces, as they have an explicit influence on the profitability measures of the concerned bank. The purpose for which this study has been conducted is to appraise the pattern of nonperforming assets (NPAs) and their reduction in the financial records of Punjab National Bank before and after the Insolvency and Bankruptcy Code, 2016. (IBC). Because it has been more than four years since the Insolvency and Bankruptcy Code, 2016, was enacted, the data pertaining to four-year period previous to and after the enactment of the IBC has been compiled for the purposes of this paper.

Research Methodology/ Design– To meet the ends of this paper, the Punjab National Bank's Annual Reports were used. The basis of this research is secondary data from the Punjab National Bank's website for the years 2012 to 2020. This article attempts to examine the state and trajectory of nonperforming assets (NPAs) in the Punjab National Bank during the pre-IBC and post-IBC eras.

Major Findings – The study reveals that the nonperforming asset have reduced and their recoveries have grown significantly after the implementation of the Insolvency and Bankruptcy Code, 2016, indicating that it has contributed to finding a solution to this important problem. The Insolvency and Bankruptcy Code of 2016, has aided not only in decrease nonperforming assets, it has a contributed significantly and has acted as a catalyst to the expedite recovery of nonperforming assets.

Research Implications – One of the main aims of enactment of IBC has been to provide an effective tool for speedy recoveries of NPA in banking sector. The research is intriguing as it studies and compares the status and trend of NPA and their reduction of the second largest and one of the most popular public sector bank of India, thus showing the effectiveness of IBC as a tool for reduction in NPA and increase in profitability of PNB. During literature review, no such previous study was found that explored the perspective of NPA and their reduction from this angle.

Keywords- Nonperforming assets, Insolvency and Bankruptcy Code, Punjab National Bank

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INTRODUCTION

Punjab National Bank

Punjab National Bank is a nationalised bank owned by the Indian government, having its headquarters in New Delhi. It is the second largest bank of India, after SBOI. It was founded in Lahore, Pakistan on May 19th, 1894 and was opened for business on April 12th, 1895. The bank lost its Lahore location after Pakistan gained its independence in 1947, although it continued its operations in Pakistan. Before Partition, on March 31, 1947, PNB made the decision to relocate its registered office from Lahore to India. On June 20, 1947, after receiving approval from the Lahore High Court, it opened another head office in New Delhi at Under Hill Road, Civil Lines. The bank's chairman was Lala Yodh Raj. The 39 Bharat Bank branches were purchased by PNB in 1951. (est. 1942). Formerly known as Bharat Bank, Bharat Nidhi Ltd. PNB relocated its headquarters once more in 1960, from Kolkata to Delhi. Ramakrishna Jain founded the Universal Bank of India in Dalmianagar, Bihar, in 1938, and PNB bought it in 1961. In 1960, the Punjab National Bank merged with the Indo-Commercial Bank Limited, and in 1961, it merged with the Universal Bank of India. The Pakistani government seized all Indian bank branches in Pakistan in September 1965, post 1965 Indo-Pak War. PNB also has a site or locations in East Pakistan (now Bangladesh). PNB and 13 other important commercial banks were nationalised by the Indian government on July 19, 1969. Hindustan Commercial Bank (founded in 1943) was bought by PNB in 1986 as part of a bailout. PNB acquired the 1943-founded Hindustan Commercial Bank in 1986 as part of a bailout. The purchase expanded PNB's network by 142 branches of Hindustan. New Bank of India, which was nationalised in 1980, was bought by PNB in 1993. Kerala’s oldest private sector bank, Nedungadi Bank, was acquired by PNB in 2003. The shares of Nedungadi Bank had no value at the time of the merger with PNB, hence its stockholders did not receive any compensation for their shares. On April 1st, 2020, Oriental Bank of Commerce alongwith United Bank had been amalgamated into PNB. After the merger, the Bank has one of the world’s largest networks with over 13,000 ATMs, 12,248 branches, and over 180 million customers worldwide. With assets of Rs. 17.95 lakh crores, it ranks as the second largest public sector bank in the nation.

Nonperforming Assets (NPAs)

As per the norms stated by RBI, Loan assets are treated as nonperforming assets (NPAs) where:

a) For term loans, interest and /or instalment of principal remains not paid after date of becoming due for not less than 90 days;
b) In the event of an overdraft or Cash Credit advances, the account is still considered to be "out of order." if the balance unpaid exceeds the permissible limit or drawing power for a period of 90 days, or if there are no repayments/credits for 90 days as of the balance-sheet date, or if the repayments/credits are insufficient to pay the interest due for the same time; For bills purchased or discounted, the bill remains not paid for more than 90 days after the due date.;
c) In the case of agricultural advances for short-term crops, where the principle or interest instalment stays unpaid for two crop seasons after the due date;
d) In the case of agricultural credit for long-term crops, where the principal or interest remains unpaid for one crop season after the due date.

Classification of NPAs

The classification stated by RBI in respect of NPAs are as follows: Loss assets, Doubtful assets and Sub-standard assets:

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a) Loss assets: A loan asset that has been recognised as having a loss, but the amount has not been entirely written off.
b) Doubtful assets: A loan asset that has been treated as sub-standard for at least 12 months.
c) Sub-standard assets: For not more than 12 months, a loan asset has been nonperforming.

Provisions to be made against NPAs

Every banking institution is required to make provisions as recommended and prescribed by the extent guidelines issued by the banking regulatory authorities, subject to minimum limits as mentioned below:

A. Substandard Assets:

a) General provision: 15%
b) Additional provision: 10% of advances that have been unsecured since inception (i.e., where market value of security is less than or equal to 10 percent since inception)
c) Unsecured Advances in respect of infrastructure loans and advances where some surety for example escrow accounts, is provided: 20%

B. Doubtful Assets:

- Secured portion: a) Upto one year: 25%
  b) One to three years: 40%
  c) More than three years:100%
- Unsecured portion: 100%

C. Loss Assets: 100%

Types of Non- Performing Assets

1. Gross NPAs
2. Net NPAs

Gross NPAs: Gross nonperforming assets (NPAs) are the total loan assets categorised as nonperforming assets (NPAs) as of the Balance Sheet date, according to RBI criteria. The amount of gross nonperforming assets (NPA) represents the quality of bank loans. All nonstandard assets, such as substandard, dubious, and loss assets, are included in this category. The following ratio can be used to compute it: (RBI, Reserve Bank of India, n.d.)

$$\text{Gross NPAs Ratio} = \frac{\text{Gross NPAs}}{\text{Gross Advances}}$$

Net NPAs: Net nonperforming assets (NPAs) are those for which the bank has made the deduction of the provision for NPAs. The net nonperforming assets (NPA) figure depicts the banks' true financial burden because bank balance sheets in India contain a large number of nonperforming assets (NPAs). Moreover, the process of decreasing and wiping off loans takes time. The provisions that banks must make providing for NPAs under RBI standards are enormous. As a result, the gap between gross NPAs and net NPAs is fairly large.

The RBI states the following procedure for computation of net NPAs:

$$\begin{aligned}\text{Net NPA} = \text{Gross NPA} - (&\text{Balance in Interest Suspense account} \\ &+ \text{ECGC/DICGC claims received and held pending adjustment} \\ &+ \text{Payment received in part and kept in suspense account} + \text{Total provisions held})\end{aligned}$$

The Net NPAs Ratio can be calculated as follows: (RBI, Reserve Bank of India, n.d.)

$$\text{Net NPAs Ratio} = \frac{\text{Gross NPAs} - \text{Provisions}}{\text{Gross Advances} - \text{Provisions}}$$

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Insolvency and Bankruptcy Code, 2016 (IBC)

In 2016, the **Insolvency and Bankruptcy Code (IBC)** was enacted which aims to resolve nonperforming assets (NPAs) caused by corporate debtors.

When a corporate debtor fails on payments, the procedure of corporate insolvency resolution can be started by a financial or operational creditor or the corporate debtor itself, according to Section 6 of the code. To initiate a corporate Insolvency Resolution Process (IRP), an application is filed gainst a corporate debtor is filed with the National Company Law Tribunal (NCLT). The NCLT determines if there is a default within 14 days of receiving the application, and if there is, the NCLT admits the application. The NCLT must present a resolution plan within one hundred eighty days from the date on which application is submitted. This time limit can be extended to a maximum of 90 days to guarantee a timely settlement, but not beyond that. The NCLT, through its resolution professionals, works to defend and maintain the value of the corporate debtor's property. In addition, in 2019, the code was revised, and a proviso was added to Section 12 requiring the settlement procedure to be completed within 330 days. To avoid undue delays in the insolvency resolution process, this change ensures that all stakeholders are on the same page. The delinquent firm's liquidation will occur if no settlement plan is established within 330 days after the application's admission.

RBI's guidelines for implementing the IBC on nonperforming assets (NPAs):

There was a lot of contention in the past, and the RBI released one circular in 2018. If the bank fails to implement a resolution plan within a period of 180 days of the default, the RBI has mandated that all banks and financial institutions with a loan exposure of more than Rs. 2000 Cr. launch a corporate insolvency resolution plan against the defaulting entity. The circular required banks to recognize and classify nonperforming assets as special mention accounts immediately, and institutions were required to inform RBI and undertake the resolution plan even if they missed a single payment. The current mechanisms, such as corporate debt restructuring and strategic debt reduction, have been withdrawn as a result of this circular.

Petition filed in response to the RBI's 2018 circular

A serious problem was recognized with the single day default norm as stated in the circular. As a result, complaints have been registered by the textile industry, the power industry, and others, alleging that it is unreasonable and inequitable since it failed to meet a few conditions, such as framing a schedule of one hundred eighteen days without considering the challenges encountered in other industrial zones. Furthermore, no prior approval was obtained from the Central Government, as required by Section 35AA of the Banking Regulation Act. In the event of a failure, the RBI can order any financial company to start an IRP under Section 35AA of the Banking Regulation Act. Before releasing a circular under section 35AA, however, it had to obtain permission from the central government. Consequently, this circular was found to be in violation of section 35AA of the Banking Regulation Act by Supreme Court.

RBI's New Circular

Two months after the Supreme Court rescinded the RBI 2018 Circular, which mandatorily required the Bank to start the IRP even if there was a single day default. A revised circular was issued by the RBI in 2019 for resolving nonperforming assets, giving financial institutions a thirty day period to categorise an account as a nonperforming asset. Lenders will have complete authority to create and implement resolution solutions under the new circular. It might begin the IBC procedure with a default of 30 days. The lenders must sign the inter-creditor agreement, which establishes a majority decision-making

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criterion. The RBI also upped the creditor approval percentage to 100%. Any decision reached by a lender representing 75% of the entire outstanding credit facility's value and 60% of the total number of lenders must be binding on all other lenders.

Review of Literature

Meenakshi Rajeev, H P Mahesh (2010) in their study, “Banking Sector Reforms and NPA: A Study Of Indian Commercial Banks” analysed the course of NPAs in India from a variety of perspectives and highlighted how early recognition and self-monitoring had helped to significantly reduce them. NPAs were identified to be a contributing component in the crisis faced by any economy and the basic cause of the recent financial challenges faced globally in this study. (Meenakshi Rajeev, 2010)

K.K. Siraj, P. Sudarsanan Pillai (March 2013) in their study "Efficiency of NPA Management in Indian SCBs – A Bank-Group Wise Exploratory Study", stated that the observed results indicated that public sector banks were more efficient in handling nonperforming assets (NPAs). Compared to other bank groups, Nationalized Banks' Gross NPA declined exponentially from 2001 to 2011, whereas SBOI & Associates' Gross NPA grew at a slower rate than the private sector and overseas banks. The higher provision for nonperforming assets, which grew at an EG rate of 20.41 percent and 20.92 percent respectively, had a greater repercussion on the performance of international/private banks. The higher growth of provisions (20.92%) over the increase in lending (16.69%) between 2001 and 2011 is an ominous indication for private sector banks. (K.K. Siraj, 2013)

Dr. D. Ganesan, R. Santhanakrishnan (October 2013) in their research paper, “Nonperforming Assets: A Study of State Bank of India” stated that after the initial stage of liberalization of the India’s economy, the banking sector underwent a significant transformation, and credit management has become increasingly important. Because of the rising number of nonperforming assets (NPAs), banks have become more cautious about issuing credit in recent years. This article examines the causes of nonperforming assets (NPAs) and the actions that should be taken to resolve the issue. (Dr. D. Ganesan, 2013)

Dr. Hanif U. Kanjer, Dr. Pankaj Trivedi (February 2014) conducted “A Study On P/E Performance And NPA In The Indian Banking Sector”, and stated that In comparison to the public sector, private banks have done a good job of reducing Net NPAs, prompting the government to push state-run banks to lower lending rates and clear blocked projects, although this could add to the increasing NPA. They also discovered that during the last three years, the Price to Earnings ratio has not been the same for all banks (private and public), and that the variability in the P/E ratio is more in public sector banks in comparison to private sector banks over last five years. (Dr. Hanif U. Kanjer, 2014)

Sulagna Das, Abhijit Dutta (November 2014) conducted a study titled "A Study on NPA of Public Sector Banks in India", to estimate whether there is a variation in occurrence of NPAs between various banks over the study period (2008-2013). They came to the denouement that there is no significant variation in bank NPA means at the 5% level of significance, and that banks that provide identical services have consubstantial NPAs in these years. (Sulagna Das, 2014)

Vaibhavi Shah, Sunil Sharma (February 2016) conducted a “A Comparative Study of NPA in ICICI Bank and HDFC Bank” to understand how a bank operates in terms of lending and credit policy, as well as what efforts the bank should take to eliminate nonperforming assets (NPA). "It is next to impossible to completely eradicate nonperforming assets from the banking territory," (Vaibhavi Shah, 2016). They concluded, "but they may be decreased." To avoid NPAs, it is invariably prudent to pursue thorough strategical analysis, administration, and resultant of loans and advances. Not only should banks take initiatives to minimise existing nonperforming assets, but they should also take essential precautions when lending money to avoid future NPAs.” (Vaibhavi Shah, 2016)

Vivek Rajbahadur Singh (March 2016) in his research paper “A Study of Nonperforming Assets of Commercial Banks and it’s recovery in India” made an effort to research state of Indian Scheduled Commercial Banks' nonperforming assets, percussion of NPAs on performance of banks, and their remediation via various pathways in order to give pertinent recommendations for avoiding imminent NPAs and managing current nonperforming assets in banks. He came to conclusion that nonperforming assets are a major issue for Indian banks. They are a concern for banks as well as for the economy. Money in NPAs has a direct impact on a bank's profitability because Indian banks mainly rely on interest from loans. According to this analysis, public sector banks have a sizable proportion of nonperforming assets (NPA). Although the government has taken several initiatives to reduce NPAs, much more has to be done to address this issue. In comparison to overseas banks, our banks' nonperforming assets (NPAs) remain high. It is impossible to have 0% nonperforming assets (NPAs). The bank's management needs to expedite the process of recovery. The difficulty of restoration of nonperforming assets is with the large borrowers and not with little borrowers, and to solve this problem, a stringent policy must be implemented. As a result, the problem of nonperforming assets (NPAs) requires a lot of serious attention; otherwise, NPAs would continue to eat into bank profits, which is not healthy indicator for the rising India’s economy. (Singh, 2016)

D. Siva Satyanarayana (Nov-Dec2016) in their research paper entitled “Nonperforming Assets of Commercial Banks in India - A Study” came to the conclusion that nonperforming assets are the major issue of all Indian banks. They are a concern for financial institutions as well as the entire economy. Money in NPAs has a direct impact on the performance of the bank because Indian banks rely largely on interest from loans. This analysis found that public sector banks had a relatively large proportion of nonperforming assets (NPA). Although the government has taken several initiatives to reduce NPAs, much more has to be done to address this issue. (D. Siva Satyanarayana, 2016)

Dr. Biswanath Sukul (January. 2017) in his paper "Nonperforming Assets (NPAs): A Comparative Analysis of Selected Private Sector Banks" conducted research to analyse and emphasize the trend of Gross NPAs and Net NPAs at HDFC Bank, ICICI Bank, and Axis Bank, to investigate the relationship between Net profit and Net NPAs, and to recommend solutions for effective NPA control. He came to the conclusion that managing NPAs is a difficult task. It necessitates both preventive and remedial actions, i.e., banks should take initiatives to minimise current nonperforming assets, but also take precautions to avert probable nonperforming assets. (Sukul, 2017)

Dr. Raj Kumar Mittal, Ms. Deeksha Suneja (July 2017) in their study **“**The Problem of Rising Non-Performing Assets in Banking Sector in India: Comparative Analysis of Public and Private Sector Banks” realised that Nonperforming assets have long been a source of concern for the banking sector in India, as they have a direct influence on their profitability. The breakdown of the banking territory could have ramifications in other industries. The amount of nonperforming assets in public sector banks is quite high than in private sector banks, according to this paper. Indian government has attempted numerous initiatives to address the problem of nonperforming assets, However, banks must be more aggressive in implementing a structured NPA strategy in order to avoid nonperforming assets and must adhere to severe recovery measures. (Mittal, 2016)

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Arun D'Souza (July 2017) in his study "Rising Nonperforming Assets in Scheduled Commercial Banks of India: Is Securitisation a Solution?" stated Indian banking sector is concerned about rising nonperforming assets (NPAs). Despite the fact that the nonperforming assets as a proportion of loans and advances has declined for the time being, it is remains on the larger than many other great economies when measured at the universal scale. In order to control the rising NPAs, policymakers have implemented a number of policy measures. The SARFAESI Act of 2002, which permitted all financial institutions including banks, to securitize their nonperforming loans, was one such major change. (D'Souza, 2017)

Research Gap

The studies conducted regarding Nonperforming assets are generally found to be comparative studies of two or more banks whereas this research paper aims at studying the impact of the Insolvency and Bankruptcy Code. 2016 on the NPAs and their reduction trends in case of the second largest and popular public sector bank of India i.e., Punjab National Bank. During literature review, no such previous study was found that explored the perspective of NPA and their reduction from this angle.

Objectives of the study

- To compare the status of Nonperforming Assets of Punjab National Bank during pre and post enforcement era of Insolvency and Bankruptcy Code, 2016 (IBC).
- To study the reduction trends of NPAs in Punjab National Bank before and after the enforcement of IBC.

Limitations of the study

i). The study of status and trends of NPAs is limited to Punjab National Bank

ii). The NPAs of Punjab National Bank have been identified on the basis of annual reports of the said bank.

iii). As it has only been four years since the IBC has been enforced in 2016 therefore a period of four years prior and after the enforcement has been considered for the study.

Sources of data

The nature of data compiled and analysed for this research is primarily secondary. The various sources of data for this paper include the annual reports of Punjab National Bank, literature published by the Reserve Bank of India, various Journals and Books dealing with the current banking aspects and earlier research papers.

Methodology of study

For this study, we have considered Nonperforming Assets of Punjab National Bank as published in their annual reports. The basis of this research paper is secondary data. The paper examines the importance of Punjab National Bank in Indian economy. It further clarifies conceptual framework of NPA and provisions of Insolvency and Bankruptcy Code, 2016 which are applicable for Nonperforming assets. This paper aims to conduct a comparative study of the status and trends of NPA of Punjab National Bank and their reduction during the period of 4 years before the enforcement of IBC i.e., from 2012-13 to 2015-16 *and* 4 years after the enforcement of IBC i.e. from 2016-17 to 2019-20. Many reputed research journals including research papers and articles have been referred for the purpose of this study. The RBI Report on Trend and Progress of Banking in India for various years, websites etc. have also been referred during the course of this study.

Time period of the paper

8 years' data regarding NPAs of PNB from 2012-13 to 2019-20 has been collected and analysed for this research paper.

Nonperforming Assets in Punjab National Bank

Table 1A – Gross Advances and Gross NPAS of PNB Before Insolvency and Bankruptcy Code, 2016 (Amount in Rupees Crores)

TABLE 1A (Rs. in Crores)			
YEAR	**GROSS ADVANCES**	**GROSS NPA (in Amount)**	**GROSS NPA (in percentage)**
2012-13	315358.08	13465.79	4.27
2013-14	359620.19	18880.06	5.25
2014-15	392287.94	25694.86	6.55
2015-16	432700.23	55818.33	12.9

Table 1B – Gross Advances and Gross NPAS of PNB After Insolvency and Bankruptcy Code, 2016 (Amount in Rupees Crores)

TABLE 1B (Rs. in Crores)			
YEAR	**GROSS ADVANCES**	**GROSS NPA (in Amount)**	**GROSS NPA (in percentage)**
2016-17	441903.03	55370.45	12.53
2017-18	471273.39	86620.05	18.38
2018-19	506275.48	78472.70	15.5
2019-20	517091.91	73478.76	14.21

Source: Data compiled from Annual Reports of PNB

Interpretation

Table 1A and 1B compiled from the Annual Reports of PNB depict the Gross Advances, Gross NPAs (in amount and in percentage). The study of Tables 1A and 1B show the amounts of Gross Advances, Gross NPAs and the percentage (%) of Gross NPAs during the period 2012-13 to 2019-20. The amounts of advances of have increased from Rs. 315358.08 crores in 2012-13 to Rs. 517091.91 crores in 2019-20. The amount of gross NPAs has increased from Rs. 13465.79 crores in 2012-13 to Rs. 86620.05 in 2017-18 and thereafter there is continuous decline during the coming years from 78472.70 crores in 2018-19 to 73478.76 crores in 2019-20. Similarly, the percentage of Gross NPAs is also depicting an upward trend from 4.27% in 2012-13 to 18.38% in 2017-18 and thereafter it depicts a continuous decline to 14.21% in 2019-20. As IBC as enforced in the year 2016, therefore the decline in NPAs can be attributed to enforcement of IBC.

Table 2A – Net Advances and Net NPAS of PNB Before Insolvency and Bankruptcy Code, 2016 (Amount in Rupees Crores)

TABLE 2A (Rs. in Crores)			
YEAR	**NET ADVANCES**	**NET NPA (in Amount)**	**NET NPA (in percentage)**
2012-13	308725.21	7,236.50	2.35
2013-14	349269.12	9,916.99	2.85

2014-15	380534.41	15,396.50	4.06
2015-16	412325.80	35,422.57	8.61

Table 2B – Net Advances and Net NPAS of PNB After Insolvency and Bankruptcy Code, 2016 (Amount in Rupees Crores)

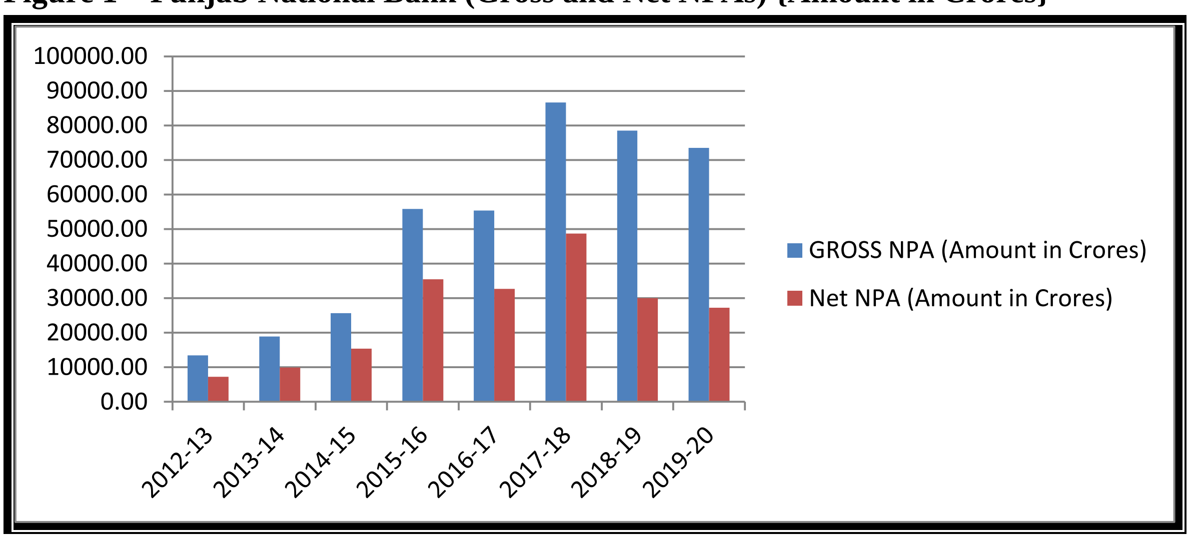
TABLE 2B (Rs. in Crores)			
YEAR	**NET ADVANCES**	**NET NPA (in Amount)**	**NET NPA (in percentage)**
2016-17	419493.15	32702.10	7.81
2017-18	433734.72	48684.29	11.24
2018-19	458249.20	30037.66	6.56
2019-20	471827.72	27218.90	5.78

Source: Data compiled from Annual Reports of PNB

Interpretation

Table 2A and 2B compiled from the Annual Reports of PNB depict the Net Advances, Net NPAs (in amount and in percentage). The study of Tables 2A and 2B show the amounts of Net Advances, Net NPAs and the percentage (%) of Net NPAs during the period 2012-13 to 2019-20. The amounts of net advances have increased from Rs. 308725.21 crores in 2012-13 to Rs. 471827.72 crores in 2019-20. The amount of Net NPAs has increased from Rs. 7,236.50 crores in 2012-13 to Rs. 48684.29 in 2017-18 and thereafter there is continuous decline during the coming years from 30037.66 crores in 2018-19 to 27218.90 crores in 2019-20. Similarly, Net NPA percentage (%) is exhibits an upward movement from 2.35% in 2012-13 to 11.24% in 2017-18 and thereafter it depicts a continuous decline to 5.78% in 2019-20. **The percentage of Net NPAs in 2017-18 is approximately twice of Net NPAs percentage in 2019-20. It indicates that the percentage of Net NPAs has been reduced to half since the application of Insolvency and Bankruptcy Code, 2016.It shows a commendable decreasing trend in NPAs since the Insolvency and Bankruptcy Code, 2016 has come into force.**

Figure 1 – Punjab National Bank (Gross and Net NPAs) {Amount in Crores}



The above figure shows the movement of Gross NPAs and Net NPAs in crores for the period of 8 years starting from 2012-13 till 2019-20. The X-axis represent the years i.e., as the period of (2012-13 to 2019-20) whereas Y-axis represent the amount of Gross NPAs and Net NPAs. We have examined here that the Gross amount of NPAs and Net amount of NPAs presents rising trend since the inception of the period i.e., from 2012-13 to 2017-18 and thereafter there has been a steady decline in both Gross NPAs and Net NPAs till 2019-20.

Figure 2 – Punjab National Bank (Gross and Net NPA) {in Percentage}

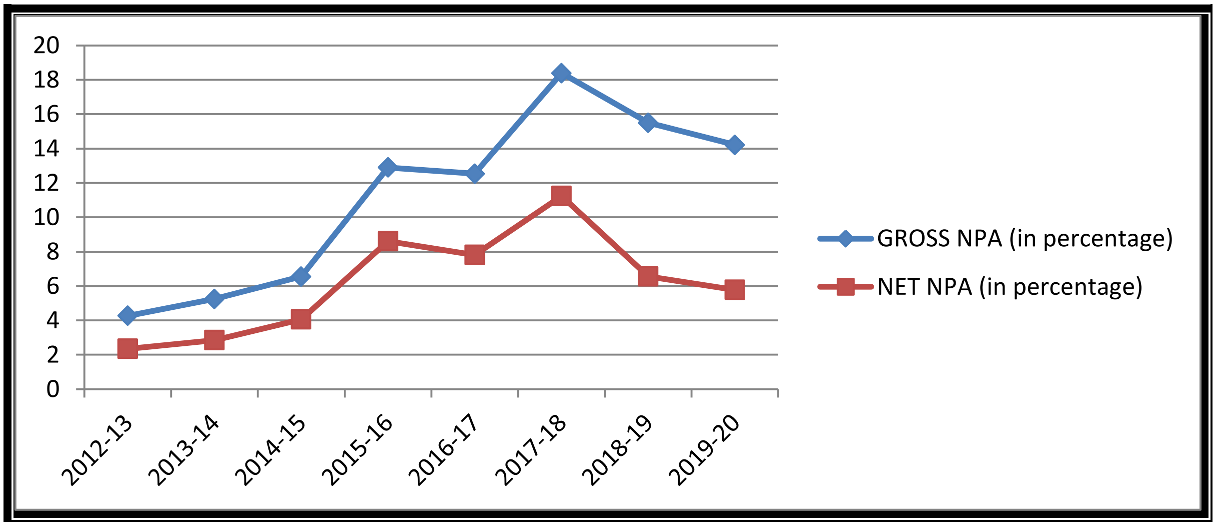
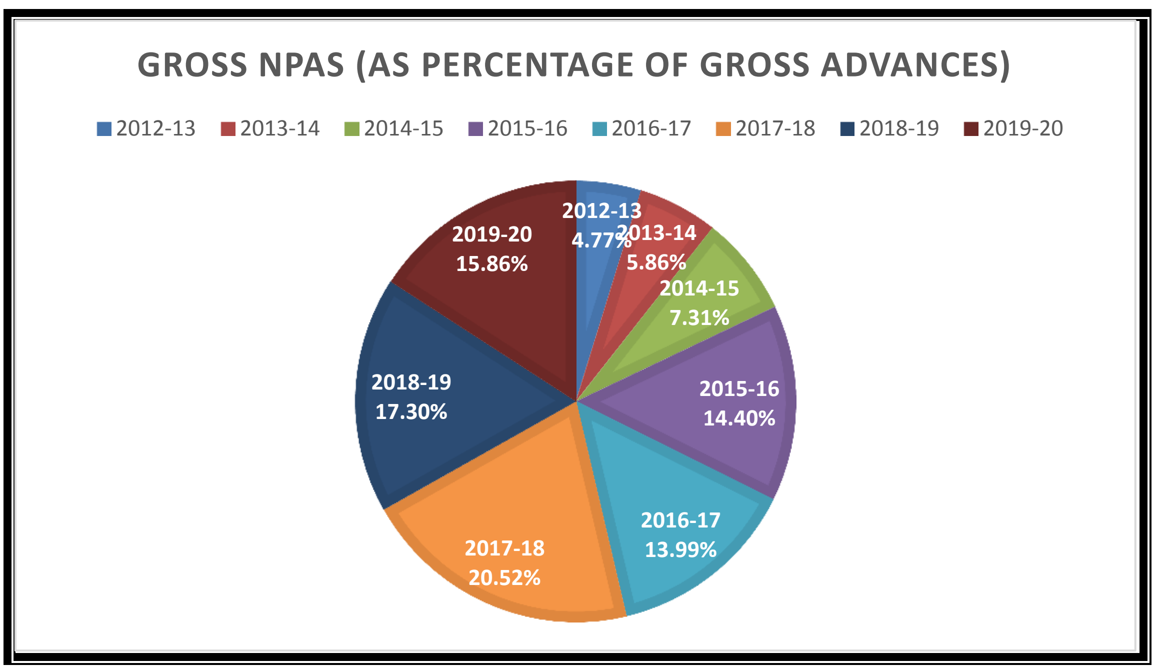


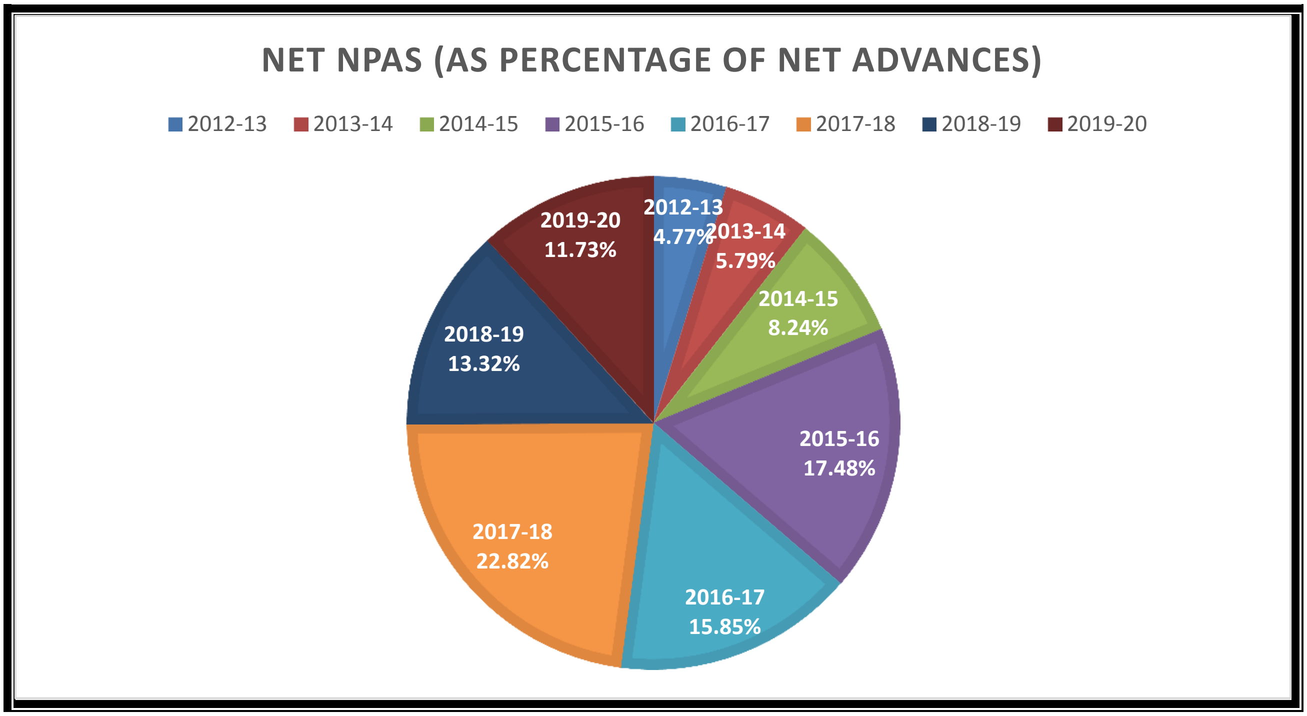
Figure 2 depicts the movement of Gross NPAs alongwith Net NPAs in percentages (%) for the period of 8 years i.e., from 2012-13 till 2019-20. The X-axis shows the period under study and Y-axis shows the percentage of Gross and Net NPAs. We can gather that the percentages of Gross NPAs alongwith Net NPAs have shown an upward trend till 2017-18 and after that there has been a downward trend from 2018-19 to 2019-20.

Figure 3 – Punjab National Bank {Gross NPAs as a percentage (%) of Gross Advances}



The above figure illustrates Gross NPAs as a percentage of Gross Advances presenting the least 4.77 % in 2012-13 and a constant rise in proportion with 20.52% as highest in 2017-18. It however shows a decline thereafter showing the proportion at 15.86% in 2019-20.

Figure 4 – Punjab National Bank{Net NPAs as a percentage (%) of Net Advances}



The above figure exhibits Net NPAs as a percentage of Net loans and advances displaying the highest proportion in 2017-18 at 22.82% and lowest at 4.77% in 2012-13. Beginning from the year 2012-13, the proportion is observed to be at 4.77% and a constant rise in proportion is seen with 22.82% as highest in 2017-18. A decline in the proportion is further recorded in the successive years with 11.73% in 2019-20, during the period under study.

Table 3A – Reduction in NPAs of PNB Before Insolvency and Bankruptcy Code, 2016
(Amount in Rupees Crores)

TABLE 3A (Rs. in Crores)	
YEAR	**NPA REDUCTION**
2012-13	3900.87
2013-14	5395.70
2014-15	9844.77
2015-16	12128.33

Table 3B – Reduction in NPAs of PNB After Insolvency and Bankruptcy Code, 2016
(Amount in Rupees Crores)

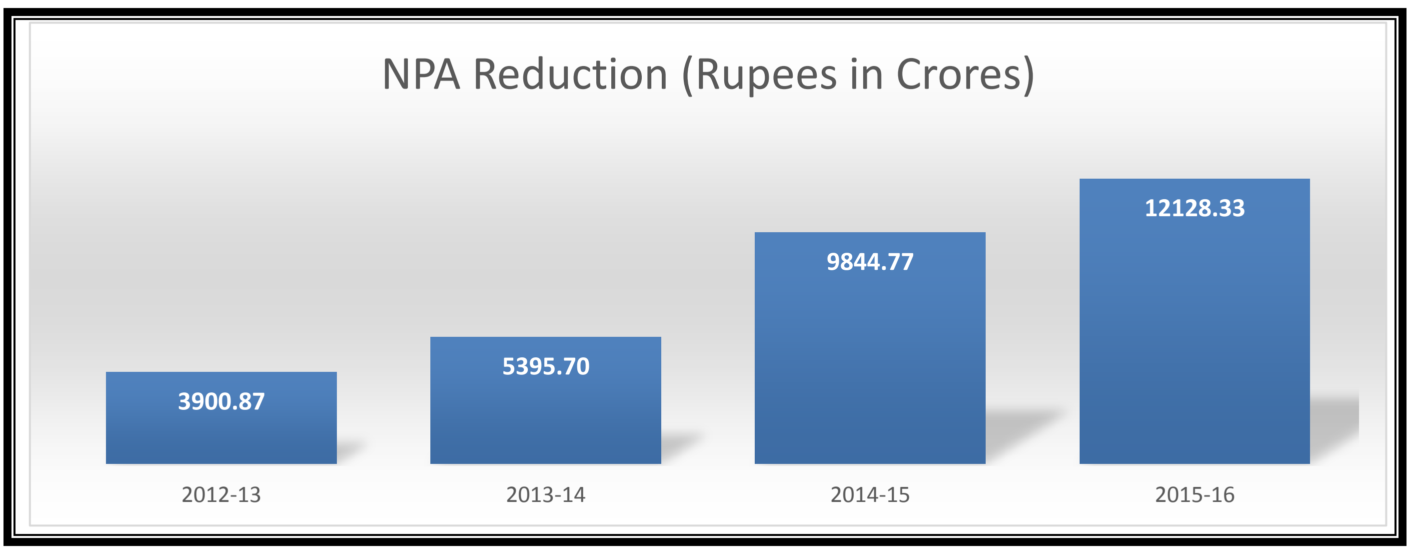
TABLE 3B (Rs. in Crores)	
YEAR	**NPA REDUCTION**
2016-17	22862.46
2017-18	13024.73
2018-19	28051.46
2019-20	25745.19

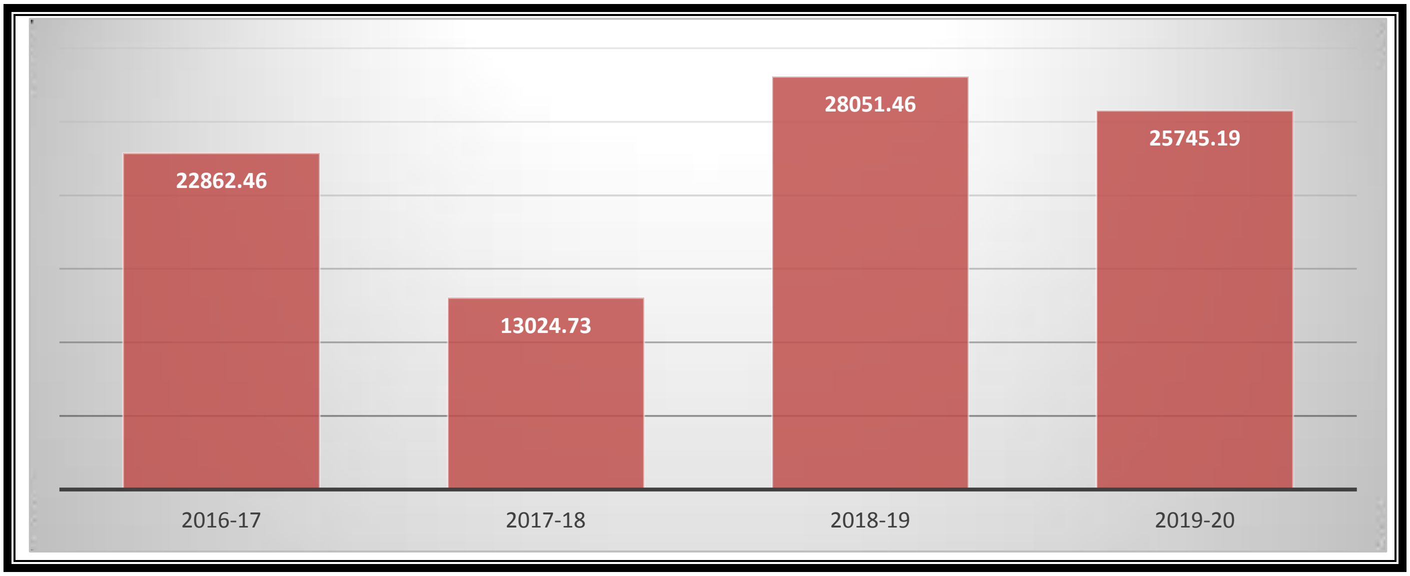
Source: Data compiled from Annual Reports of PNB

Interpretation

Table 3A and 3B compiled from the Annual Reports of PNB depict the Reduction in NPAs (in amount Rupees Crores). The study of Tables 3A and 3B show the amounts of reduction in NPAs during the period 2012-13 to 2019-20. The reduction in NPAs has been increasing continuously since 2012-13 till 2016-17. There was a significant decline in reduction of NPs during 2017-18 and it increased more than twice thereafter in 2018-19. **However, the reduction in NPAs showed significant increase in 2018-19 as the reduction in NPAs during this year was more than double of the reduction in preceding year which can be attributed to implementation of the Insolvency and Bankruptcy Code, 2016. The reduction in NPAs show some decline during 2019-20 but that may be due to reduction in Gross and Net NPAs during these years as explained in earlier tables and graphics.**

Figure 5 – Punjab National Bank (Reduction in NPAs)





The above graphic representation clearly depicts the NPAs reduction trends of Punjab National Bank during pre and post IBC, 2016 era. It shows that the NPAs reduction has increased significantly after the implementation of IBC, 2016. The reduction trends of 2018-19 clearly show a jump in reduction of NPAs. **Hence it can be inferred that the introduction and implementation of the Insolvency and Bankruptcy Code, 2016 has led to significant reduction in NPAs of Punjab National Bank.**

Findings

- Gross NPAs of Punjab National Bank have increased from Rs. 13465.79 crores in 2012-13 to Rs. 86620.05 crores in 2017-18 and thereafter it has shown a decreasing trend till 2019-20 when Gross NPAs amount to Rs. 73478.76 crores.
- Net NPAs of Punjab National Bank were continuously increasing since 2012-13 from Rs. 7236.5 crores to Rs. 48684.29 crores in 2017-18 which was a matter of high concern as it not only effected the Bank but being the second largest public sector bank, it also significantly affected the economy as a whole. The Net NPAs had a decreasing trend since 2018-19 from Rs. 30037.66 crores to Rs. 27218.9 in 2019-20.
- Gross NPAs Ratio were at their highest at 18.38 % in 2017-18, thereafter has shown a decreasing trend and had fallen to 14.21% in 2019-20.
- Net NPAs Ratio had risen to 11.24% in 2017-18 as against 2.35% in 2012-13 and have fallen to their lowest at 5.78% during 2019-20.

Conclusion

Nonperforming Assets (NPAs) have consistently been a major issue for India's banks. It is not simply a concern for banks, but also for the entire economy because Indian banks rely heavily on interest on funds given as loans and advances. NPAs have direct influence on the bank's profitability. Although the government has taken several initiatives to reduce NPAs, much more has to be done to address this issue. As observed and concluded in this study, after the introduction and implementation of the Insolvency and

Bankruptcy Code, 2016, a decreasing trend is observed in the Gross Nonperforming assets as well as Net Nonperforming assets which is a healthy indicator. The study also concludes that an increasing trend is visible in the reduction of Nonperforming assets during the post implementation period of Insolvency and Bankruptcy Code, 2016 which shows that the recoveries of Nonperforming assets have also increased significantly and hence it has contributed in providing solution for this major problem of Nonperforming assets. Although it is desirable but in the present scenario it is not possible to reduce the NPAs to zero. The Insolvency and Bankruptcy Code, 2016 has been a catalyst in speeding up the recovery process of Nonperforming assets. It paves the path for more expeditious resolution of ongoing cases of Nonperforming cases.

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