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Impact of Non-Performing Assets (NPAs) on Assets Turnover Ratios of Punjab National Bank Limited

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Abstract

A well-developed and financially strong banking sector is the backbone of the economic development of any nation. Banks mobilize the savings of the public by accepting deposits and disburse credit according to socio-economic priorities of the country. Banks and financial institutions provide financial assistance in the form of advances to agricultural and industrial units, MSMEs and service sector, to run their businesses efficiently and to contribute in the economic development. It took almost 3-4 years for banks to come out of the 2008 financial crisis that happened in the world economy and still, banks are facing issues like non-performing assets, which not only reduced the profitability of banks but also affect their smooth operations and goodwill. A drastic increase in NPAs is happening in public sector banks of India. Public sector banks are ruling the banking sector in concern of net worth, which is 70 percent of the banking system of India. In the mid of September 2018 gross NPAs of SCBs crosses the limit of nine lakh crores out of which 90% NPAs were in the public sector banks. State Bank of India and Punjab National Bank are leading in that. Although, Reserve Bank of India and banks themselves have taken numerous steps to solve the NPAs problem but it is still alarming in the Indian economy.

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The paper touches upon the meaning and definition of non-performing assets, types and classification of NPAs, causes of NPAs and impact of NPAs on turnover ratios of Punjab National Bank Limited. This paper would analyze the impact of NPAs on the turnover ratios of Punjab National Bank Limited.

Keywords: Non-Performing Assets (NPAs), Public Sector Banks, Financial Institutions, Profitability, Turnover, Turnover Ratios, Assets Turnover Ratios, Economic Growth.

Introduction

After the economic liberalisation of 1991 banking sector faced a drastic change. Till the 1991 era of liberalisation assets quality was never beenthe main concern for the banking sector in India. Banks were mainly focused on opening new branches, expanding their banking business, priority sector lending and so on.The primary function of banks is to granting advance to their customers according to their financial needs. Banks grant loans to borrowers and increase their cash cycle by the mean of receiving interest or instalment of principal on the same. This receiving of funds plays a major role in increasing the income of banks. If funds provided to borrowers came back with interest then it generates profit for banks and if don’t it affects the profitability and goodwill of the banks. Cease to generate income from funds is termed as Non-Performing Assets.Public sector banks are ruling the banking sector in concern of net worth, which is 70 percent of the banking system of India. In the mid of September 2018 gross NPAs of SCBs crosses the limit of nine lakh crores out of which 90% NPAs were in the public sector banks. State Bank of India and Punjab National Bank Limited are leading in that.

A well-developed banking sector is a prime important pillar for the economic development of a nation, especially for developing nations. The economic crisis of

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2008,affect the banking sector too. To fight back in such a crisis, the BASEL norms have been introduced by the BASEL committee on banking supervision with three aims;

a. minimum capital requirement should be maintained by banks so that they can stand strong during the economic and financial crisis,
b. reducing the risk factor in the banking sector and
c. make banking function more transparent.

Every bank needs to adopt these norms for operating in India or globally. India adopted BASEL norms for the first time in 1999. The financial crisis of 2008 draw attention that the current BASEL norms need to update and BASEL III norms introduced. Basel III norms are an international regulatory, provided a set of reforms that are designed to improve the regulation functions, supervision function and risk management in the banking industry. The Basel Committee on Banking Supervision introduced Basel III norms during the year 2009, give the bank a minimum of three years to adopt these norms. BASEL III norms considered risk related to credit risk, the discipline of market and risk related to continuous banking operations. To face these risk banks need to maintain a minimum amount of capital and not to lend all the money to borrowers which they get from their depositors.

NPAs: An Introduction

At the time of operating banking functions, banks attract many types of risks such as market risk, credit risk, systematic risk, operation risk and so on. These risks are always indulged in banking operations. According to the banking regulation act 1949, sub-clause 5(b) “banking” means accepting and depositing the money of the public for providing loans or investment and repayable this money to the needy section on their demand or otherwise withdrawing in the form of a cheque, demand draft and so on. These lending or providing loans to the needy section always come with a risk of not returning interest of income or bad

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debts of even principal amount. If a fund comes along with interest and the principal amount is known as an income to a bank and if not it becomes a loss to the bank or in the banking term is called, “Non- Performance of Assets” or “Non-Performance ofFunds.”

Reserve bank of India’s Master Circular on prudential norm on income recognition and asset classification provides the following condition when an asset become non- performing;

- When a period of 180 days crossed in the case of the term loan, still interest and/ or instalment of principal amount remains overdue.
- When a period of 180 days crossed in the case of an overdraft/ cash credit (OD/CC), still accounts remains ‘out of order’.
- When a period of 180 days crossed in the case of bills purchased and discounted, still bills remain overdue.
- When two crops seasons have gone in the case of short duration crops, still instalment of principal or interest remains overdue.
- When one crop season has gone in the case of long duration crops, still instalment of principal or interest remains overdue.
- When a period of 90 days crossed in the case of the securitization transaction, still the amount of liquidity facilities remains overdue.
- When a period of 90 days crossed in the case of derivative transactions, still the amount remains overdue.

When a period of 90 days crossed (from the end of the quarter) in the case of interest payments, still the amount of interest is due (during any quarter).

Categories of Non-Performing Assets (NPAs)

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On the basis of non-performance of assets, banks (on the guidelines provided by reserve bank of India) further classified them into the following categories;

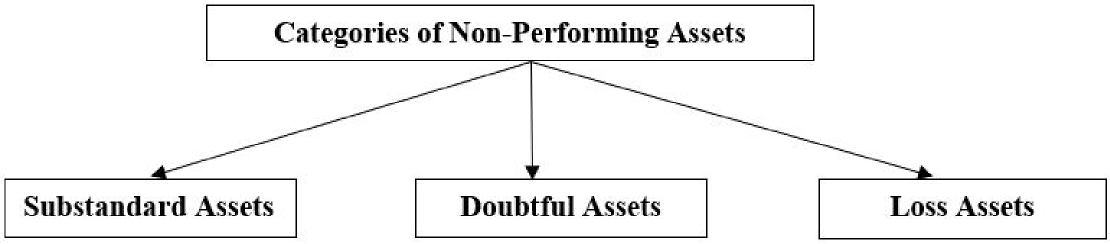

Figure 1: Categories of Non-Performing Assets

- Substandard Assets: When an asset remained NPA for a period of less than or equal to 12 months. This asset shows the credit weakness and risk on the advanced provided. Also, it shows there is a possibility that the bank will face some loss on such assets if the amount not recovered as soon as possible.
- Doubtful Assets: When an asset remained in substandard category for 12 months, such assets inherent all the weakness of substandard assets with the addition of make collection or liquidation in full,- depended on conditions and values and highly improbable.
- Loss Assets: Such assets identified in internal or external audit of a particular bank or when RBI does his inspection on a particular bank but the amount has not to be written off wholly. These assets are lost because a particular bank was unable to recover or collect them.

Review of Literature

Sasikala, P. and Mohanapriya, G. (2017) Author examined various factors ofcooperative banks in Pondicherry, plays an important role in increasing the NPAs. The

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analytical part is done by using both primary and secondarydata. Primary data was collected with the help of questionnairesfilled by the respective officers of public sector banks and secondary data is taken fromtheRBI website (NPAs data with reference to public sector banks).

Yadav Arvind Kumar and Shrotriya Vikas (2016) the concern of the study is to analysis the priority sector lending to MSME and farmers.The analytical part is based on secondary data and statistical techniques like growth rate analysis, parametric tests, correlation matrix has been used to evaluate strategic achievement of priority sector lending in IDBI bank Ltd. during 2011-2013 and concluded that the IDBI bank is continuously increasing leading,especially in MSMEs and SMF, which provides great help in the growth of micro and small entrepreneurship.

Singh Vivek Rajbahadur (2016)the focusof the study is on the non-performing assets in scheduled commercial banks of India which includes public sector banks, private sector banks and foreign banks operating in India. The study is based on secondary data and the author further discussed the conceptual framework of NPAs in PSBs and highlights the trends of NPAs. For that author examine the impact of net advance and net NPAs of scheduled commercial banks of India and the impact of grossadvance and gross NPAs of scheduled commercial banks of India and recovery of NPAs of SCBs through Lok Adalats,recovery of NPAs of SCBs through DRTs and recovery of NPAs of SCBs through SARFAESI act during the year 2000-2014.

Nag Amit Kumar (2015) The focus of the study is to analysis 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

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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.

Jain Dhiraj, Sheikh MS.Nasrren (2012) examine the performance of loans, level of NPAs and net profit of ten selected private sector banks (Axis Bank, ICICI Bank, IDBI Bank, HDFC Bank, Induslnd Bank, Kotak Mahindra Bank, Yes Bank, South Indian Bank, ING Vysya Bank, CITI Union Bank) during the year 2007-2011.For the purpose of analysis secondary data has been used and analytical tools like trend analysis and correlations have been used. The author further enlightened the effect of the loans and advance on the Indian economy. The study revealed that ICICI bank is highly correlated when compared with total private sector banks while south Indian bank and city union bank shows a negative correlation.

Rai Kamini (2012)the author made an effort to evaluate the operational performance of scheduled commercial banks **(**public, private and foreign banks**)**. For the purpose of analysis secondary data has been collected and statistical tools like average, percentage, ratio, frequency distribution, standard deviations, co-efficient of variation, t-test and ANOVA are used.The author further concluded that target-oriented approached of banks are the reason for the high level of non-performing assets and pinpoint the credit risk management of scheduled commercial banks during the year 2004-2011.

Objectives of the Study:

- To study the conceptual aspect of non-performing assetsof Punjab National Bank Limited.
- To study the compositionof the assets of Punjab National Bank Limited.

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- To calculate, analyse and interpret the asset turnover ratio of Punjab National Bank Limited.
- To evaluate the impact of non-performing assets on assetturnover of Punjab National Bank Limited.
- To providevaluable suggestions for reducing the level of non-performing assets in Punjab National Bank Limited.

Research Methodology

The methodology used for proposed research work is as follows:

- **Research Type**
  - **Exploratory Research**is the research conducted to understand a problem more clearly, provide the new operational definition and modified the final research design based on reviewing available literature anddata.
- **Data Type:** Secondary data
- **Data Source:** Secondary data has been collected from different sources such as;
  - Annual reports of Punjab National Bank Limited
  - Punjab National Bank Limited's pillar 3 disclosures under Basel III framework
  - Annual Reports of theReserve Bank of India
- **Sampling Design:** Purposive Sampling

  Purposive sampling is a kind of non-probability sampling in which sample units are selected based on characteristics of the particular population for achieving pre-determined objectives of the study.

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- **The Universe and Sample Size:** In the present study, the universe and sample are the same as the study is focused upon one unit only that is Punjab National Bank Limited.
- **Tools for Analysis**

Ratio Analysis is the mathematical method of analysing the financial health, growth and development of other related issues of concern.

Scope and Limitations of the Study

- Scope of the Study

The scope of the present study is restricted to Punjab National Bank Ltd. The reference period of study is from the year 2014-15 to 2018-19. Secondary data has been collected for the study purpose from different sources such as Annual reports of Punjab National Bank Limited, Punjab National Bank's Limited pillar 3 disclosures under the Basel III framework and Annual Reports of Reserve Bank of India. The present study shows current situation of the non-performing assets in Punjab National Bank Ltd.

- **Limitations of the Study**
    - The study is focused on Punjab National Bank Limited only.
    - The data of NPAs is collected for 2014-15 to 2018-19.
    - The level of NPAs changed time by time so the above study is based on the current position without foreseeing future consequences of the problem.

Turnover Ratios

The ratio analysis provides great help to understand how efficiently a firm is utilizing its valuable and available resources and generating revenue or profit out of it. The turnover ratio is also known as efficiency ratio, is the ratio which is not only used by the person who is

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engaging in maintaining the financial health of concern, but also widely used by the people who are engaged in operational activities. The turnover ratio of a company tracks how cash is flowing from conducting selling activities to receivable. The types of turn over ratios are:

- Inventory turnover or stock turnover
- Receivables turnover or debtor's turnover
- Payable turnover or credit turnover
- Debtor collection period ratio
- Working capital turnover
- Capital turnover
- Fixed assets turnover

Steps considered during turnover ratio analysis of Punjab National Bank Ltd.

➢ Selected the relevant accounting data from the financial statements of Punjab National Bank Limited.

➢ Conduct ratio analysis from the selected accounting data.

➢ Analysis and interpret the ratio most significantly and logically by keeping in mind the objectives chosen earlier and obtain conclusive financial information of the Punjab National Bank Limited. Compared the computed ratio with a predetermined standard to comment about the financial position of the Punjab National Bank Limited.

Table-1 Calculation of Assets Turnover Ratios of Punjab National Bank Limited

(· in Crores)

Particular / Year	2018-19	2017-18	2016-17	2015-16	2014-15	Average
Total Income	59514.53	57608.19	57225.66	56903.5	54884.42	57227.26
Non-Current Assets	6247.58	6370.99	6297.76	5308.12	3655.77	5576.044
Current Assets	783018.21	771157.1	727013.15	707484.84	632355.4	724205.7
Total Assets (Including NPAs)	789265.79	777528.1	733310.91	712792.96	636011.17	729781.8

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NPAs	30037.66	48684.29	32702.1	35422.56	15396.5	32448.62
Total Assets (Excluding NPAs)	759228.13	728843.8	700608.81	677370.4	620614.67	697333.2
Non- Current Assets Turnover Ratio	9.52	9.04	9.09	10.72	15.01	10.68
Current Assets Turnover Ratio	0.07	0.07	0.08	0.08	0.09	0.08
Total Assets Turnover Ratio(Including NPAs)	0.07	0.07	0.08	0.08	0.09	0.08
Total Assets Turnover Ratio (Excluding NPAs)	0.078	0.08	0.08	0.08	0.09	0.08

Source: Annual Reports and pillar 3 disclosures of Punjab National Bank Limited.

Analysis and Interpretation of Ratios

With reference to Table 1, it can be concluded that the total income ofPunjab National Bank Limited has increased from ▪ 54884.42crores in 2014-15 to ▪ 59514.53 crores in 2018-19 on an average of ▪ 57227.26 crores. The non-current assets have increased during the period 2014-15 to 2017-18 which is ▪ 3655.77 crores to ▪ 6370.99 crores respectively, shows a fall of ▪ 123.41 crores in period 2018-19 which is ▪ 6247.58 crores on an average of ▪ 5576.044 crores. The value of current assets has been gained by:

Current Assets = Total Assets – Non-Current Assets (Fixed Assets)

The table shows the current assets of Punjab National Banks Limited has increased from ▪ 632355.4 crores in 2014-15 to ▪ 783018.21 crores in 2018-19 on an average of ▪ 724205.7 crores. The amount of NPAs is included in total assets. The total assets included NPAs have increases during the period 2014-15 to 2018-19 which is ▪ 636011.17 crores to ▪ 789265.79 crores respectively on an average of ▪ 729781.8 crores. The non-performing assets have hugely increased during the period 2014-15 to 2015-16 which is ▪ 15396.5 crores to ▪ 35422.56 crores, after that, it decreased by ▪ 2720.46 crores in period 2016-17 which is ▪ 32702.1 crores. Again it increased by ▪ 48684.29 crores in period 2017-18 and shows a fall by ▪ 30037.66crores in period 2018-19 on an average of ▪ 32448.62 crores. The value of total assets (excluding NPAs) has been gained by:

Total Assets (Excluding NPAs) = Total Assets (Including NPAs) – NPAs

The table shows total assets (excluding NPAs) of Punjab National Bank Limited has increased from ▪ 620614.67 crores in 2014-15 to ▪ 759228.13 crores in 2018-19 on an average of ▪ 697333.2 crores. The value of non-current assets turnover ratio is calculated by the following formula:

Non-Current Assets Turnover Ratio = Total Income / Non-Current Assets

The table shows that the non-current assets ratio shows that proportion of total income to non-current assets and the bank is having a decreased trend of non-current assets turnover ratio till the year 2017-18 and an increased of ▪ 0.48 crores in 2018-19. The value of current assets turnover ratio is calculated by the following formula:

Current Assets Turnover Ratio = Total Income / Current Assets

The table shows thatcurrent assets ratio shows the proportion of total income to current assets and the bank is having a decreased trend of current assets turnover ratio during the year 2014-15 to 2017-18 after that it shows an increaseinthe trend in 2018-19. The value of total assets turnover ratio (including NPAs) is calculated by the following formula:

Total Assets Turnover Ratio(Including NPAs) = Total Income/ Total Assets (Including NPAs)

The table shows that total assets turnover ratio (including NPAs) shows the proportion of total income to total assets turnover ratio (including NPAs)and the bank is having decreased trend of total assets turnover ratio (including NPAs)during the year 2014-15 to

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Total Assets Turnover Ratio (Excluding NPAs) = Total Income/ Total Assets (Excluding NPAs)

The table shows that the total assets turnover ratio (excluding NPAs) shows the proportion of total income to total assets turnover ratio (excluding NPAs) and the bank is having a decreased trend of total assets turnover ratio (including NPAs) during the year 2014-15 to 2018-19.

Findings

The performance of Punjab National Bank Limited considering the non-performing assets is not the same or equal and it shows a mixture of sudden increased and decreased during the study. The high level of non-performing assets puts pressure on the recycling of the funds of the bank and forces the bank to reduce their ability of lending and the result is low interested income, which slowdowns the bank profitability and may lead to the economic slowdown. It also shows a positive relationship between the assets of banks and non-performing assets which shows a kind of mismanagement of banks while providing loans. The reason of this positive relationship might be because of choosing the wrong customers and lack of a proper background checking of loan takers. It put an adverse effect on the liquidity of bank and stops the bank to provide loans to new consumers, which ultimately slowdowns the profit earning of the bank.

Conclusions

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The banking industry of every nation plays an important role in the economic development of that country and if a country is in developing position like India, it becomes more important. Banks collect deposits from their customers and these collected deposited funds provided to the defects units in the form of loans. The success of any bank is hugely depended on how efficiently a bank collects its funds and manages its loans so the loan management performance is very important for every bank. From the above analysis and interpretation, it is clear that non-performing assets are shows a sudden increase and decrease in the study period. It also affects the total income, assets composition of the bank and turnover of bankon its assets.

It is not possible to have zero non-performing assets but a detail background checking and a speedy recovery of stuck loans are necessary. The problem of recovery loans is less with small borrowers but, for large borrowers, banks need to follow strict policies. Banks need to follow a better credit appraisal system to reduce future NPAs.

Suggestions

Punjab National Bank Limited need to done pre-sanctioning evaluation of their borrowers and detail background checking should be a must. For that, they need to calculate the debt-equity ratio before sanctioning the loans. A post- disbursement control should also be done. For a timely payment of interest, the bank needs to do a follow-up on the same.

Bank may also go for recovery camps, preference of claims such as ECGC, credit guarantee fund trust for small industries etc., compromise proposal, assetsreconstruction companies(ARC), corporate debt restructuring (CDR), technical write off, one time settlement scheme, suit filling such as arrest of defendants, decree copy, execution of decrees etc., circulation of information of defaulters, debt recovery tribunals, lok adalts and securitization act for recovery of his non-performing assets.

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Scope for the Future Study

Ratio analysis is not only one tool to know the impact of non-performing assets on the financial health of a bank. There are numerousother techniques available for knowing the effect of non-performing assets on financial health such as comparative statements, common-size statements, trend analysis and cash flow analysis and so on.

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