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A STUDY ON IMPACT OF NON-PERFORMING ASSETS ON RETURN ON TOTAL ASSETS OF PUNJAB NATIONAL BANK LIMITED

Dr. Shivshankar Vishwakarma , Dr. Santosh Solanki

Associate Professor, LNCT-MBA

Abstract

Profit is the main concern to start out any business organization. Like all other businesses, banks are also run with the motive of earning profit. Banks are indulged with the activity of deposits and borrowings. Non-Performing Assets are those part of assets that are associated with the bank"s borrowing activities. A high NPAs indicates that the number of credit defaulters is high in a particular bank which directly affects the profitability, liquidity, and solvency of that bank and also disservice the value of assets. The problem of NPAs does not only affect the banking sector but also the economy of a concerned country. A high NPAs is a direct indication of the poor financial health of a concerned bank. The Indian banking sector is facing the higher NPAs problem for a decade now. The magnitude of NPAs is relatively high within the public sector banks. To strengthen the profitability and efficiency of the banking system the level of NPAs needs to be lower down and controlled.This paper touches upon the meaning and therefore the definition of a non-performing asset, the conceptual framework of non-performing assets, classification of loan assets and provisions. This paper would evaluate the adverse effect of non-performing assets on the return on total assets of Punjab National Bank Limited for the period2013 to 2015, 2016-17, and 2019-20.

Keywords: Non-Performing Advance, Economy Development, Lending, Prudential Norms, Return on Total Assets, Banking Sector.

Introduction

The banking sector remains as always a dominant sector within the economic development of the bank based economic countries like India. A sound and well- developed banking industry is necessary for a healthy economy. The banking sector of India should not only ready to meet new challenges either they are associated with technological development or any other internal or external factors, but also they have to be hassle-free. Banks are the custodian and distributors who fulfil the liquidity need of the country. The prime operative function of banks is to receive deposits from their customers and supply them advance on the demand. If the advance providedby the bank to their customers comes with its principal and interested amount, it generates profit within the books of the bank and if itrefuses to generate any kind of profit it becomes a useless asset or in financial terminology it referred to as non-performing assets /or loans /or advance of the bank. A higher NPAs within the books of the bank is a clear indication of the inefficiency of the bank whereas lower NPAs indicate the bank is following a better asset-liability management system. In India, theproblem of non-performing assets was not takenseriously. Although some recommendations of the Narasimham committee and Verma Committee helps banks to unravel their previous years NPAs problem of balance sheets but it continuously has been seen from every corner there is a requirement for a systematic tracking'ssystem to gauge future NPAs. The irony of this situation is that public sector banks are leadingin this. Almost 90% of NPAs of the entire NPAsamount is said to public sector bank's advances. To fighting back against the economiccrisis and to make the banking sector strongBASEL committee of banking supervision has been introduced Basel I, Basel II, Basel III in the years1975, 1999, and 2010 respectively. Basel I has been revised several times since the committee has been introduced. Basel I linked capital requirement to its credit risk and divide capital into two tiers, Basel II was focused on the asset side of the balance sheet, and Basel III mostly concern about the liabilities side i.e. capital and liquidity. The aim of BASEL III is asfollows;

- Pillar I: Regulatory capital requirement for credit, market and operational risk for stand out during the financial crisis,
- Pillar II: Review the overall capital adequacy, and evaluate how well financial institutions are performing the task of assessing their risk and taking appropriateaction in response to those assessments
- Pillar III: transparency in disclosing certain details associated with their risk, capital, andrisk management, therefore the performance across the financial sectors can be compared with the assistance of this disclosed information.

These norms are mandatory to adopt for banks for operating in India or globally. To maintain the normal operation of bank's during the economic crisis or to performs adequately during this hard time each and every bank need to hold a minimum amount of capital, instead of providing all the advance to their customers.

Conceptual Framework of Non-PerformingAssets

The non-performing assets concept was introduced by the Reserve Bank of India within the year 1992-93, on the recommendation of Narashimam Committee under the heading of Prudential Norms. According to these norms,an asset are going to be considered as –non- performing assets‖ if the interest/ or instalment of the principal amount is due for the period of more than 180 days, but from 31st March 2004 Reserve Bank of India revised the days limit andadopt 90 days non-payment as identification of NPAs.

When an asset ceases to generate income or profit for the bank or the interested amount's payment and/ or principal amount's instalment exceeded 90 days limit in respect of advance will be known as NPA.RBI introduced prudential norms (witheffect from 30thSeptember 2004) on recognition of income, classification of loan assets and provisions to loans assets, non-performing asset (NPAs) shall be an advance where;

- For term loan, payment of interested amount and/ or payment of instalment of principal is not paid for more than 90 days.
- For an overdraft/cash credit, account is _out of order' or not operated for more than 90 days.
- For discounted and purchased of bill, bill remains in the category of non-payment for more than 90 days.
- In the case of an loan provided to agriculturesector, payment of interest and/ or payment of instalment of principal is not paid for two crop seasons for short duration crops, and one crop season for long duration crops.
- In the case of other accounts, when any amount received remains overdue for more than 90 days.

Classifications of Loan Assets and Provisions

Banks are further recommended to classify loan advance's in the four categories:

- **Standard Assets**: are the kind of assets that do not create any kind of unusual problem, except normal risk attached with business. So, they are treated as performing assets. On the global loan portfolio 0.25% general provision is provided on these assets.
- **Sub-Standard Assets**: with effect from31stMarch 2005, those assets will be treated as sub-standard assets, on which interest/ or instalment of principal is not paid for $\leq$ to 12 months. Sub-standard assets or advance contain some well-defined credit weakness which later result in non-payment of the debtand there is a high possibility that banks willface loss on these loans.10% provision on outstanding should be kept aside for sub-standard assets.
- **Doubtful Assets**: are the kind of assets on which payment of interest/ or payment ofinstalment of principal

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is not paid for more than 12 months. From 31st March 2005, a general provision of 100% of the unsecured portion of outstanding advance has to be provided by the banks after netting the realised amount of Deposit Insurance and Credit Guarantee Corporation and guarantee provided under Export Credit Guarantee Corporation.

- **Loss Assets**: are those kind of assets on which loss has been identified by the concern bank during the time of internal or external audit or by the Reserve Bank ofIndia itself and on which amount has not to be written off wholly or partially yet. These assets are irrecoverable or marginallycollectible and cannot be considered as bankable assets. A general provision of 100% is provided on these outstandingadvances.

Objectives of the Study

- To computed, analysis and interpreting the return on total assets of PNB bank.
- To measure the actual impact of non-performing assets (NPAs) on return on total assets of PNB bank.

Research Methodology

The following research methodology is used for the this paper;

➢ **Research Type**

- **Conclusive Research** : kind of research where information is clearly defined and tests the specific research problems and used to examine relationships to measure these problems. As the name implies, applied to generate findings that are practically useful in reaching towards a conclusion or decision-making.
- **Data Type and Data Source:** Secondarydata is gathered from the annual reports of PNB bank for the period 2013 to 2015, 2016-17, and 2019-20.
- **Sampling Design:** Purposive Sampling isused to select elementary units to obtain a specific objective.
- **The Universe and Sample Size:** As the present study is concentrated upon on only PNB bank, therefore the universe and sample size are an equivalent.
- **Tools for Analysis:** Ratio analysis is a kind of mathematical method used to evaluate issues associated with the liquidity, the efficiency of operations, and the profitabilityof an entity.

Limitation of the Study

- The study is concentrated on the return on total assets of PunjabNational Bank limited only.
- The data is collected for theyear2013 to 2015, 2016-17, and 2019-20 only. The data of 2015-16, 2017-18, and 2018-19 has not been taken, due to the high level of NPA‘sbank faced losses during these years.

Calculation of Return on Total Assets (ROTA) of Punjab National Bank Limited

The return on total assets (ROTA) or return on investment (ROI) is one of theprofitability ratios. This ratio is most often highlighted during the time of evaluating thefinancial statements as it shows how bank‘s assets are engaged in generating revenue or profit out of the total owned assets. It is one of the most efficient indicators to measure the effectiveness of a bank‘s management in terms of utilizing its assets for generating profit. Generally, it is considered that the return ontotal assets (ROTA) over 5 percent is good.

Table No. 1: Calculation of Return on total Assets for PNB Ltd. (Rs. In Crores)						
Particulars/ Years	**Net Profit**	**Total Assets (With NPAs)**	**Net NPAs**	**Total Assets (Without NPAs)**	**Return on Total Assets (With NPAs)**	**Return on Total Assets (Without NPAs)**
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
2019-20	363.34	851457.25	27218.9	824238.35	0.05	0.04
2016-17	901.13	733310.91	32702.1	700608.81	0.12	0.13
2014-15	3341.41	636011.17	15396.5	620614.67	0.52	0.54
2013-14	3534.61	574820.48	9916.99	564903.49	0.61	0.63
2012-13	4927.24	496577.1	7236.5	489340.6	0.99	1.01

*Source: Annual Reports of Punjab National Bank Limited.*Analysis and Interpretations

From the above table it can be concludedthat the net profit (NP) of PNB bank shows a continuous fall from Rs.4927.25 crores in the year 2012-13 to Rs.363.34 crores, where bank faced losses during the year 2015-16, 2017-18 and 2018-19. Although there has an shown increase in total assets with NPAs during the study period which is Rs.496577.1crores to Rs.851457.25 crores. Net NPAs has increased drastically during the period 2012-2013 to 2013-14 which is Rs.7236.5 crores to Rs.9916.99 crores respectively, further it shows a fall of Rs.15396.5 crores in the year 2014-15, it again shows a rise of Rs.32702.1 crores in the year 2016-17 and fall of Rs.27218.9 crores in theyear 2019-20. The total assets (without) NPAs has been computed by;

Total Assets (without NPAs) = Total Assets (with NPAs)

Net NPAsThe table shows the total assets (without NPAs) of Punjab National Banks Limited has been increased from Rs.489340.6 crores in 2012-13 to Rs.824238.35 crores in 2019-20. Thereturn on total assets (with NPAs***) has been*** computed by;

Return on Total Assets (with NPAs) = (NetProfit / Total Assets with NPAs) * 100

From the above table it can be concludedthat the return on total assets (with NPAs) represent the ratio of net profit to return on total assets (with NPAs)and the PNB bank is facing fall in the value of return on total assets (with NPAs)in the year 2012-13 to 2014-15, 2016-17 and 2019-20 which is 0.99 to 0.52, 0.12 and 0.05 per cent respectively. The return on total assets (without NPAs) has been computed by;

Return on Total Assets (without NPAs) = (Net Profit / Total Assets without NPAs) * 100

From the above table it can be concludedthat the return on total assets (without NPAs) represent the ratio of net profit to return on total assets (without NPAs)and the PNB bank is facing fall in the value of return on total assets (without NPAs)in the year 2012-13 to 2014-15, 2016-17 and 2019-20 which is 1.01 to 0.54, 0.13 and 0.04 per cent respectively.

Findings

Return on total assets is a kind of financial metric, typically used by all corporate finance companies, which provides insightsabout how effectively a banking organization is using its assets to generate maximized profit levels out of them. A decrease/ or low level of return on assets (ROTA) is an indicator for a bank that the business is not ploughing backenough profit or there is over-investment in assets and they are not adequately contributing to the maximization of the bank‘s profit. Table 1 shows that the non-performing assets of Punjab National Bank Limited are also playing an important role in reducing the return on totalassets. The NPAs of the bank was Rs.7236.5 crores in the year 2012-13 which drastically increase to Rs.9916.99 crores in the year 2013-14 and when looking for the return on total assets (with NPAs) it shows a fall during these years from 0.99 percent to 0.61 per cent in the year 2012-13 and 2013-14 respectively, samehappened in the case of return on total assets (without NPAs) reduced from 1.01 per cent to 0.63 per cent in the year 2012-13 and 2013-14 respectively. In the year 2014-15 when the level of NPAs reduced to Rs.15396.5 crores, it clearly shows that return on total assets (with NPAs)and return on total assets (without NPAs)increased to 0.52 percent to 0.54 percent respectively. The bank faced losses during the year 2015-16, 2017-18 and 2018-19 because of the high level of NPAs. Again when the level of NPAs of bank rise during the year 2016-17 to Rs.32702.1 crores, return on total assets (with NPAs) and return on total assets (without NPAs) shows a fall of 0.12 percent and 0.13 percent respectively. Although in the year 2019-20 NPAs has reduced but the return on total assets (with NPAs) and the return on total assets (without NPAs) not increased, because of profit loss during that year. The high level of NPAs not only puts huge pressure on asset return but also reduced the ability of lending of the bank which leads to the low level of return on total assets (ROTA). The falling return on total assets (ROTA) is a sure sign of trouble, especially for the growth of Punjab National Bank Limited.

Conclusions

The high level of NPAs is not only a thread for the Indian banking system but it is also affecting banks globally. The amount locked in NPAs has directly affected the profitability of banks and deprived them to use their assets in other profitability activities. The study shows the involvement of NPAs in total assets reduced the return on total assets of Punjab National Bank Limited. The bank must to follow a speedy and strict policy for the recovery process, also the government and Reserve Bank of India need to developed strict policies for the prevention and recovery of such loans, otherwise a high level of NPAs keep killing the profitability of banks which further affect the Indian economy.

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