Turnaround of NPAs Story - Punjab National Bank

Mr. Anilkumar Nirmal
Ph.D Scholar,Parul Institute of Management & Research, Faculty Of Management , Parul University, Vadodara, Gujarat -391760
Adjunct Faculty,Faculty of Commerce, Parul University, Vadodara, Gujarat -391760

Dr. Purvi Derashri

Assistant Professor, Faculty of Commerce, Parul Institute of Commerce
Parul University, Vadodara, Gujarat - 391760

Abstract

There are lots of stories about the banks some has grown and some have shut their doors after incurring huge losses and have never been able to stand up again with different reasons. But this is not the case with Countries' third public sector Bank in size that is Punjab National Bank. The bank has published the second quarter (Q2) result of FY 2019-20 and posted a profit of INR 507 Crores combine more than 1500 crores for half of the year. This becomes more interesting because in same quarter last year bank has posted a loss of INR 4532.35Cr. This is just turn the table kind of journey for the bank in the last few years after suffering from fever of "so called diamond king" couple of years back. PNB is looking in a very tragic situation where CASA is going down and profitability is getting hampered.

1. Introduction of Punjab National Bank

Punjab National Bank is currently the third largest public sector lender after SBI and BOB. Punjab National Bank has primarily started its operations from 12 April, 1895 from Lahore, Currently situated in Pakistan. They have started the bank with authorized capital of 2 lakhs and working capital of INR 20,000. Punjab National Bank has been started with the great nationalist spirit where by 7 banks has been merged to form one bank and dream was about to form a first Swadeshi Bank.

If we look at the current scenario Mr Sunil Mehta is MD and CEO of Punjab National Bank. Current share capital of Punjab National Bank is INR 921 Crores. Total Deposits with the Bank is INR 6,76,030 Crores and total advances is INR 4,58,249. Total Business reported by the bank as on FY 2018-19 is INR 11,34,279 crores. Currently bank is operating with 6989 branches and 9255 ATMs across India. In the FY 2018-19 banks has reported the loss of INR 9975 due to huge provisions done by the bank. The main reason was NPAs which has eaten all the profits of the bank. The gross NPAs of the bank were 15.50% and net NPAs was 6.56%. But bank has able to manage the capital adequacy ratio (CAR) 9.73% which was the only good news about the bank. But in the first of the financial year 209-20 bank has reported the profit the profit of approximately INR 1500 crores and that became the base of writing the research paper on the given topic and for consideration of Punjab National bank.

2.Award and Recognition

- PNB won BFSI Awards 2019- Mobile App and SME Connect
- PNB also won 'Digital Payments Award 2018-19' At MeiTY Start up Summit 2019.
- PNB also won 'IBA Banking Technology Award' Winner: Most Innovative Project using Technology Runner up : "Best use of Information Technology & Data Analytics for business outcome amongst large domestic banks "
- PNB awarded "Bank of the year" award by Indo-American Chamber Of Commerce.
- PNB awarded 1st Prize for Rajbhasha Kirti Award.

- PNB won SCOPE Corporate Communication Excellence Award 2019, 3rd prize in the category of Crisis Handling.

2.1 Business Performance

Business figures of Bank from Mar, 2017 to Mar, 2019 is as below,

Parameters & (Figures in crores)	Mar2017	Mar2018	Mar2019	Growth % Mar, 19/ Mar, 18	Growth % (Mar 17, Mar 18)	Growth % (Mar 17, Mar 19)
Gross International Business	1063455	1113523	1182224	6.2	4.7	11.16
Domestic Gross Business	957323.00	1030681.00	1145511.00	11.2	7.5	19.65
International Deposit	621704	642226	676030	5.3	3.3	8.73
Domestic Deposits	565573	600387	654536	9.0	6.15	15.72
Gross International Advances	441751	471297	506194	7.4	6.7	14.58
Domestic Gross Advances	391750	430294	490975	14.1	9.8	25.32
CASA Deposits	260016	263247	285040	8.3	1.2	9.62

In the above table we have compared business figures from March 17 to March 19. There was also the time when famous default has happened by using the “letter of undertaking” without having any collateral with the bank. Since then bank has strongly reemerged as winner after so many ups and downs which bank has seen. If we look at the above table figures gross domestic advances has grown approximately 25.32% which is really commendable as which also shows the strength of the bank liability book wise. Similarly CASA deposits have grown approximately 9.62% and this is really crucial after so many rumors about the bank which emerges after the LOU big bang loss of the bank. Bank has also really outperformed in the gross International advances since 2017 and YOY grown about 7% approximately. Bank’s gross domestic business has also grown 7.5% to 11.1% if compare the growth from the year March 18 and Growth Figures of March 2019 as per the above table. The final gross domestic growth is 19.65%.

3.Introduction to NPA

NPA is in limelight since last 2015 and from almost 4 year now as the government has started observing the defaulters and once started focusing on the bank’s profitability and employee productivity. PNB has also been in limelight due to some wrong reasons but after that they have come out very strongly from there.

Below is the regulator guidelines and guidance on about the NPAs,

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank.
A non performing assets (NPAs) is a loan or an advance where;

- Interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,

- the account remains ‘out of order’, in respect of an Overdraft/Cash Credit (OD/CC),
- Thebillremainsoverdueforaperiodofmorethan90daysinthecaseof bills purchased and discounted,
- The installment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- the installment of principal or interest thereon remains overdue for one crop season for long duration crops,
- The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of guidelines on securitization dated February 1, 2006.
- In respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

In case of interest payments, banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

3.1 ASSET CLASSIFICATION

Type of NPAs

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:

- Substandard Assets
- Doubtful Assets
- Loss Assets

3.1.1 Substandard Assets

With effect from March 31, 2005, a substandard asset would be one, which has remained NPA for a period less than or equal to 12 months. Such an asset will have well defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the bank will sustain some loss if deficiencies are not corrected.

3.1.2 Doubtful Assets

With effect from March 31, 2005, an asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub- standard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values –highly questionable and improbable.

3.1.3 Loss Assets

A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

3.2 NPAs background and data

As per Reserve Bank of India (RBI) data on International operations, aggregate gross advances of Public Sector Banks (PSBs) increased from Rs. 18,19,074 crore as on 31.3.2008 to Rs. 52,15,920 crore as on 31.3.2014. As per RBI inputs, the primary reasons for spurt in stressed assets have been observed to be, inter-alia, aggressive lending practices, willful default / loan frauds / corruption in some cases, and economic slowdown. Asset Quality Review (AQR) initiated in 2015 for clean and fully provisioned bank balance-sheets revealed high incidence of NPAs. As a result of AQR and subsequent transparent recognition by banks, stressed accounts were reclassified as NPAs and expected losses on stressed loans, not provided for earlier under flexibility given to restructured loans, were provided for. Further, all such schemes for restructuring stressed loans were withdrawn. Primarily as a result of transparent recognition of stressed assets as NPAs, gross NPAs of PSBs, as per RBI data on International operations, rose from Rs. 2, 79,016 crore as on 31.3.2015, to Rs. 8, 95,601 crore as on 31.3.2018, and as a result of Government's **4R's strategy of recognition, resolution, recapitalization and reforms,** have since declined by Rs. 89,189 crore to Rs. 8, 06,412 crore as on 31.3.2019 (provisional data).

Data on NPAs is regularly published by RBI as part of its Financial Stability Reports. NPA data is not collated by RBI in terms of corporate houses / companies. PSB-wise details of gross NPA (GNPA) for Industry category advances in domestic operations and total GNPA in International operations, as per RBI data, are at Annex.

As per RBI provisional data on International operations, as on 31.3.2019, the aggregate amount of gross NPAs of PSBs and Scheduled Commercial Banks (SCBs) were Rs. 8.06 Lakhs crore and Rs. 9.49 Lakhs crore respectively.

4. Literature Review

Research on the banking sector in India or Public sector banks or private sector banks or group of banks are published. We found some of the related paper for the study purpose and we have anlysed them. Research paper alone on PNB is not found but few papers were found where PNB was one of the integral part of study,

4.1 Avani Ojha and Hemchandra Jha, has done the study on impact of NPAs on working of the SBI and PNB by using the different research methods and tested the hypothesis from the complete study they have concluded that NPAs are contributing significantly. NPAs have huge impact on the profitability of banks as they majorly related to the productivity, profitability and asset liability management of the banks. NPAs are the result of under recovery or non-recovery of asset within certain period of time. They have recommended the constant analysis of NPAs by the banks purpose wise, borrower wise, region wise etc. there should the methods and proper examinations of the borrowers before sanctioning the credit. Information on the financial position should be analyzed (Avani Ojha, 2018) extensively.

4.2 Dr. Ganesan and R. Santhanakrishnan has did the study on NPAs of state Bank of India for the duration of 2002-03 to 2011-12 by keeping the objective of deployment of funds, examining gross NPAs, investigate the impact of NPAs, measures to be suggested to control the NPAs. They have tested the hypothesis by calculating the mean and standard deviation and concluded the result on the mentioned objectives. They have concluded that banking industry has undergone many fold changes after the first phase of economic liberalization and due to this importance of credit management emerged. NPAs have increased with the economic growth and aggressive lending of the banks. After some default banks also become the cautious and government has taken the measures and ultimately it looks quite in control so far.

4.3 Manisha Raj, Aashita Jain, Shruti Bansal, Tanya Verma has done the study on NPAs and conducted the "A comparative study of SBI & ICICI Bank from 2014-17". They have majorly done the study on NPAs and to check the trend of NPAs in 4 years from 2014-17 of SBI and ICICI Bank. Also they have compared the total advances, net profit, gross NPAs and net NPAs of SBI and ICICI Bank. Also during the study, they have checked for a linear relationship in net profit and net NPAs in both the banks. They have concluded after study that management of NPAs is daunting task for every bank in the banking industry. After the study of figures for the given years it is found that it seems biggest challenge as far as liquidity is concern for both the banks as NPAs has increased and profitability has gone down. Even though SBI having higher NPAs than the ICICI Bank. As SBI is public sector bank, it is more vulnerable to give up the returns if the loans extended to general public. In the case of ICICI Bank their study found that there is no major profit or loss has been declared but the NPAs are settled against the profitability of the bank from time to time. In case SBI situation is worse as losses have increased due to increasing NPAs.

4.4 Swathi.M.S, Sridhar.K , has did the study of NPAs from year 2006-07 to to 2012-13 to analyze the ways in which NPAs can be fixed for the public sector, private and other categories of the banks. They have majorly used the secondary data released by the banks at the quarter end and at the year end and the RBI annual report. From the data extracted from secondary sourced they have took the net and gross NPAs to analyze and to find the fact and figures. They have majorly studies the cause and factor affecting the NPAs. The main point in the central light was willful default by the customers of the banks. Other reasons they found of the default was lenient lending norms, industrial crises, diversification of the funds, higher leverage and borrowing cost, sudden capital market downfall. Also remedies are suggested by them for the problems are in terms of Lok Adalat, Enactment of SARFAESI Act, Asset Reconstruction Company, Corporate debt restructuring etc.

5. The Design of Study and Research methodology

5.1 Need for the Study

NPAs are the big challenges for the banking system in entire world. As far as Indian banking system perspective NPAs has grown drastically in last few years since year 2014. There are number of reasons for this but foremost reason being the prevailing transparency now days in the system since then 2014. Total NPAs has reached more than 10.25 lakhs crores and it was became the matter of concern for the banks. There for different studies has been conducted on the same. PNB is one of public sector bank which has most dangerous asset book as far as NPAs are concerned and hence they were making huge losses. Hence we have selected to study the PNB for our study.

5.2 Statement of Problem

Definition of NPAs has been changes in India from time to time and hence NPAs in India in banking sector has also been changes in increasing order. Since year 2014 NPAs has been seen as big monster in every corporate for different good reasons for which one of the reason being more transparency taken in to the picture especially in banking. To study these dynamic changes in NPAs for different banks become very important and we have chosen one of the banks which are PNB which became performing for atleast first half in the year 2019-20.

Present study has focused on the different component like CAR, Gross Profit, ROA and total provision by keeping NPA ratios in the central for the study of non-performing assets of Punjab National Bank.

5.3 Scope of the study:

The scope of the study is to analyze the “Turnaround Story of Punjab National Bank which makes the bank Profitable / performing in the first half of financial year 2019-20. Also it covers the data from 2014 to 2019 for the study purpose from the annual report of Punjab National Bank.

5.4 Objectives:

1. To analyze impact of NPAs on overall functioning of bank.
2. To evaluate efficiency in managing NPAs.
3. To understand strategy this made the PNB profitable in the second quarter of 2019-20.

5.5 Hypotheses of study:

H0 = There is significant impact of NPAs on Profitability of Bank.

H1= There is no significant impact of NPAs on overall profitability of Bank.

H0 = There is significant impact on ROA of NPAs.

H1= There is no significant impact on ROA of NPAs.

H0= There is significant impact on CAR of NPAs.

H1= There is no significant impact on CAR of NPAs.

H0 = There is significant relationship between NPAs and Provisions.

H1 = There is no significant relationship between NPAs and Provisions.

5.6 Methodology:

Methodology describes the research route to be followed, the instruments to be used, universe and sample of the study for the data to be collected, the tools of analysis used and pattern of deducing conclusions.

For the purpose of the study, we will collect the required data from the Annual reports of Punjab National Banks which published every year and half yearly report of current year. The study is based on secondary data. To supplement the data, the researcher elicits other relevant data available from the annual reports of PNB.

5.6.1. The Sample:

The universe of the study consists of all the different ratios and variables of Punjab National Bank for the study purpose. Here, research has been done on PNB, to study the turnaround story of bank of which posted profit in QUARTER 2 of FY 2019-20.

5.6.2. Period of the study:

The study has been carried out for a Six years and 6 Month, i.e., during 2014-2019 and till the second quarter of FY 2019-20. The study is based on secondary data.

5.7 Data collection tool and techniques:

As per the nature of study following tools and techniques are used for testing the hypotheses,

- Tool - Ratio Analysis, Excel
- Statistical Techniques - Mean, Standard deviation and T – test.

5.8 Data Analysis

The Data analysis is the core of the research. Scientific methods are been used now a days to get the output or study made authentic and can also suffice the purpose what the study meant for. The collected data now a day's analyzed by using the Microsoft excel with the in built formulas and helpful to researchers as well.

To reach certain relevant results, the data collected from all resources have been tabulated, analyzed and interpreted with the help of appropriate statistical techniques. In order to analyze the data and draw conclusions in this study, various statistical tools like Excel. The study is confined to a period of six years and Six Month i.e., from 2014 to 2019 and till second quarter of FY 2019-20

5.9 Limitations of the study:

The present study has the following limitations such as,

A) Comparison is restricted to the two banks of the public sector.

B) The study is based on secondary data as published in various publications of RBI and other reports. These data are based on historical accounting concept, which ignores the impact of inflation.

C) The study, as limitations, is confined only to the selected and restricted indicators and the study is confined only for a period of five years.

6. Data Analysis and Interpretation

Entire collected data is analyzed with respect to Gross NPA Ratios and different test are conducted by keeping NPA ratio as primary parameter and other ratio as secondary parameter to tabulate the same.

However below mentioned data is authentically exported from the Annual and Half yearly reports of Punjab National Bank's annual report.

By using the NPAs ratios we have compared the 4 parameters that are Gross Profit, CAR, ROA and total Provisions to check the significance level and impact.

6.1 Gross NPAs Ratio vs. Gross Profit

In the below mentioned chart we have compared the Gross NPAs ratio to Gross profit of the Punjab National Bank. If we observe the data from the year 2014 to 2019 and then half yearly NPAs are increasing accept in 2019 where there is some falls from year 2018. In the half yearly figures of 2019-20 it is showing less than 2018. Its mean comes at 12.53 which is really big number as far as NPAs is concern for a bank or a financial institution if we look at the financial health of the company. Its correlation is near to (0.7) which indicate that NPAs has close correlations with the gross profit of the bank of bank of bank as once NPAs increases in the institution at the same time profitability start declining. Same is visible on the chart-1 as well if we analyze it critically.

	Gross NPAs Ratio	**Gross Profit**
March, 2014	5.25	3343
March, 2015	6.55	3062
March, 2016	12.9	-3974
March, 2017	12.53	1325
March, 2018	18.38	-12282
March, 2019	15.5	-9975
Half Year -2019-20	16.63	1525.68
Mean	12.53	-2425.04
Standard Deviation	8.04	1285.03
Significant Level	0.05	
DF	12	
t stat	0.99	
t critical two tail	2.178	
P (T <= t) two tail	0.33	

Table -1

Here the t critical two tail (2.178) is greater than t stat value (0.99) so we should accept the null hypothesis which is “There is significant impact of NPAs on Profitability of Bank”. However there is a huge impact on the profitability of the bank once the NPAs start increasing in the system and ultimately it starts eating the earning of the institutions. While analyzing the above data standard deviation is 8.04.
Also if we look the significance level which is 0.05 is also lesser than the P value (0.33) this also evident and signifies to reject the alternate hypothesis and accept the null hypothesis.

If we look as per the below chart -1 gross NPAs ratio and profit of the bank maintaining good distance and moving in the opposite directions.

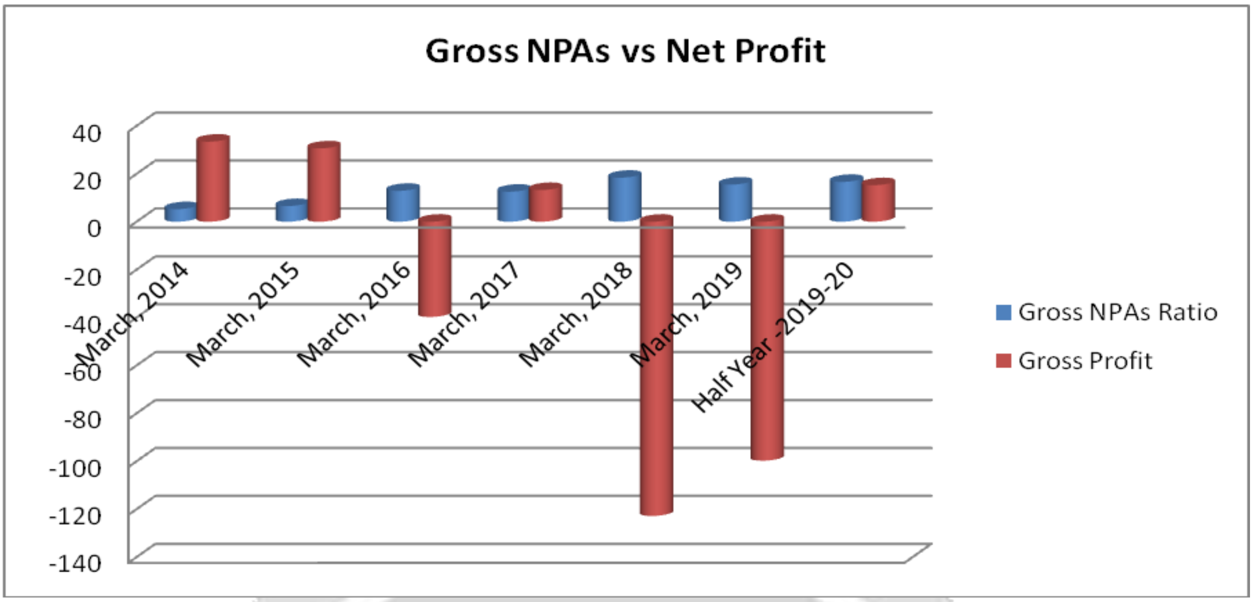

Chart -1

As per the chart-1gross NPAs ratios and the profit of the banks are showing distant from each other in case of PNB by plotting the chart. Also during the t-test finding from the given data it reveals that there is no significance between these two data so we accepted the null hypothesis and rejected the alternate hypotheses.

6.2 Gross NPAs Ratios vs. Return on Asset (ROA)

For the below mentioned comparison of Gross NPAs vs. Return of Asset we have analyzed the below mentioned data. Mean of the data comes to 12.53 and standard deviation is 8.04. Variation in the NPAs is bit big from lowest to highest figures.

	Gross NPAs Ratio	Return of Asset
March, 2014	5.25	0.64
March, 2015	6.55	0.53
March, 2016	12.9	-0.61
March, 2017	12.53	0.19
March, 2018	18.38	-1.6
March, 2019	15.5	-1.25
Half Year -2019-20	16.63	0.37
Mean	12.53	-0.24
Standard Deviation	8.04	0.19
Significant Level	0.05	
DF	12	
t stat	6.6	
t critical two tail	2.17	
P (T <= t) two tail	0.000002	

Table -2

As the study conducted above t critical two tail (2.17) which is lesser than the t stat (6.6) so we here reject the null hypothesis which is “There is significant impact on ROA of NPAs” and we will accept the alternate hypothesis that there is no significant impact of NPAs on ROA in case of Punjab National Bank for the selected duration of study. Also P value (0.000002) is small than the significant level (0.05) which suggests the same to reject the null hypothesis and accept the alternate hypothesis.

Here results suggest that NPAs don't have any significant impact to ROA as far as data collected for the selected duration of Punjab National Bank.

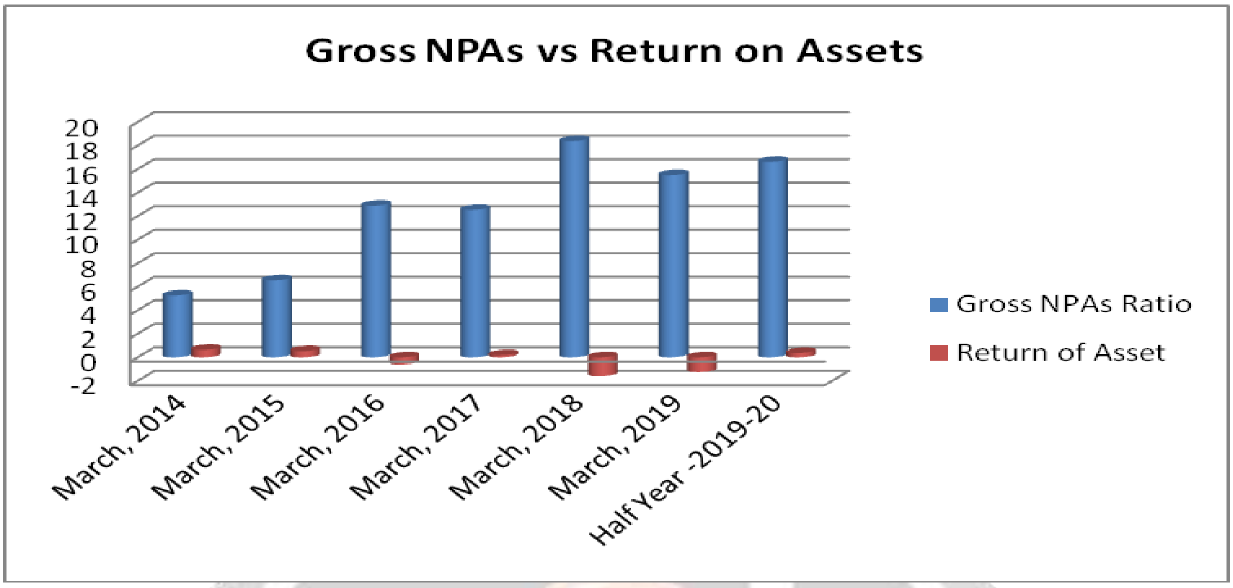

Chart -2

6.3 Gross NPAs Ration vs. CAR

In the below table we are comparing the Gross NPAs ratios vs the capital adequacy ratio. We have calculated the required data using the excel sheet and with respect to t-test and we will check that by these data what the statistical result.

Capital adequacy ratio is the required liquidity which needs to maintain by the commercial banks in India according to Basel -3 norms and which is kept at 9.0% which is mandatory. As the hypotheses we will compute the significance of the ratios with Gross NPAs.

	Gross NPAs Ratio	CAR
March, 2014	5.25	11.52
March, 2015	6.55	12.21
March, 2016	12.9	11.28
March, 2017	12.53	11.66
March, 2018	18.38	9.2
March, 2019	15.5	9.73
Half Year -2019-20	16.63	14.07
Mean	12.53	11.38
Standard Deviation	8.04	1.80
Significant Level	0.05	
DF	12	
t stat	0.58	
t critical two tail	2.17	
P (T <= t) two tail	0.57	

Table - 3

As per the above table we can see that the mean of the NPAs and CAR is 12.53 and 11.38 respectively. Also the standard deviation for the mean is varying much higher than the SD of CAR which is nearly 1. If we look the P value (0.57) it is more than the significance level (0.05) and hence we will accept the null hypothesis which is "There is significant impact on CAR of NPAs" and we will reject the alternate hypothesis "There is no significant impact on CAR of NPAs". As per the below mentioned data null hypothesis is getting accepted.

In the case of Punjab National Bank, the data from year 2014 to Sep, 2019 doesn't establishing the significance standard. However, if we look at the data in the year march 2018 and March 2019 when the NPAs ratios of higher and socking for the bank that 18.38 and 15.5 the CAR was 9.3 and 9.7 respectively that is at the bottom level and near the base requirement. In the other years CAR is considerably in the good position even though NPAs are also lower. Interesting point is seeing in the year 2019 Sep, when NPAs are around 16% and then also CAR level are more than 15% this is because the fabulous recovery of NPAs which was approximately Rs 700 crores. Also Profits of banks for 2 quarter combining is more than rs 1500 crores. Also the second quarter profit of Rs 507 crores has made the headlines of the newspaper as well.

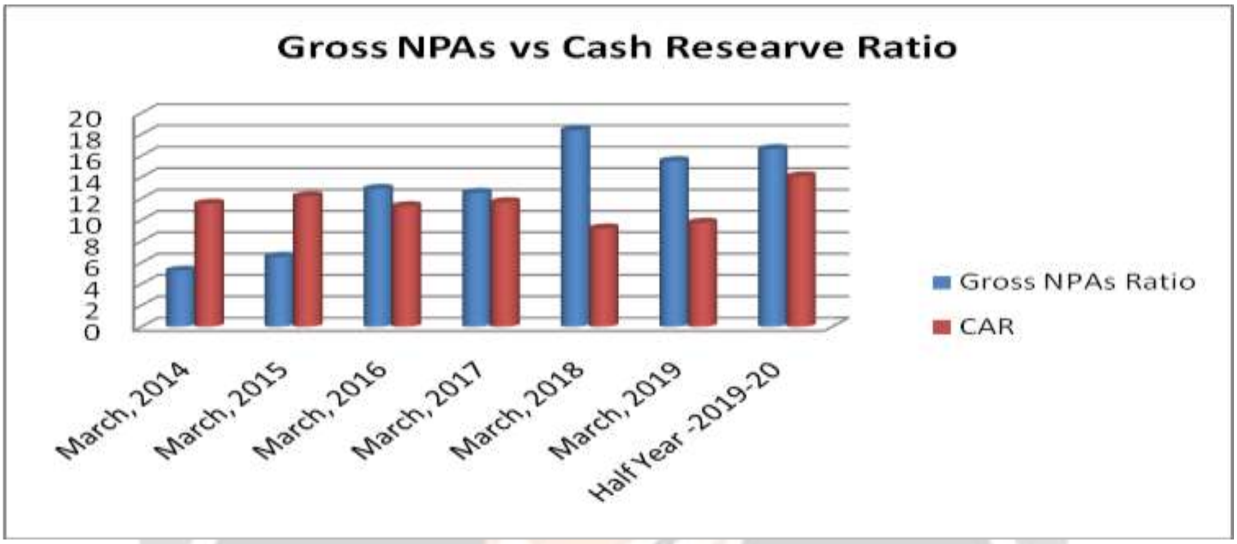

Chart -3

6.4 Gross NPAs vs. Total Provisions

Gross NPAs ratio vs. Total provisions we are analyzing in the below table where mean of NPAs is approximately 12.53 and standard deviation is 8.04, for the Total Provisions Mean is 13776.48 and S.D. is 1867.90. While computing the student t test we have considered the significance level at 5% that is 0.05. We have computed the two tail t test with unequal variance. Same is computed by using the excel sheet Here P value is 0.0002 which lesser than the 0.05 significance level and hence we will reject the null hypothesis "There is significant relationship between NPAs and Provisions" but in this case we will accept the alternate hypothesis H1 that is "There is no significant relationship between NPAs and Provisions"

	Gross NPAs Ratio	Total Provisions
March, 2014	5.25	8042
March, 2015	6.55	8893
March, 2016	12.9	15313
March, 2017	12.53	13240
March, 2018	18.38	22576
March, 2019	15.5	22971
Half Year -2019-20	16.63	5400.39
Mean	12.53	13776.48
Standard Deviation	8.04	1867.90
Significant Level	0.05	
DF	12	
t stat	-5.22	
t critical two tail	2.17	
P (T <= t) two tail	0.0002	

Table -4

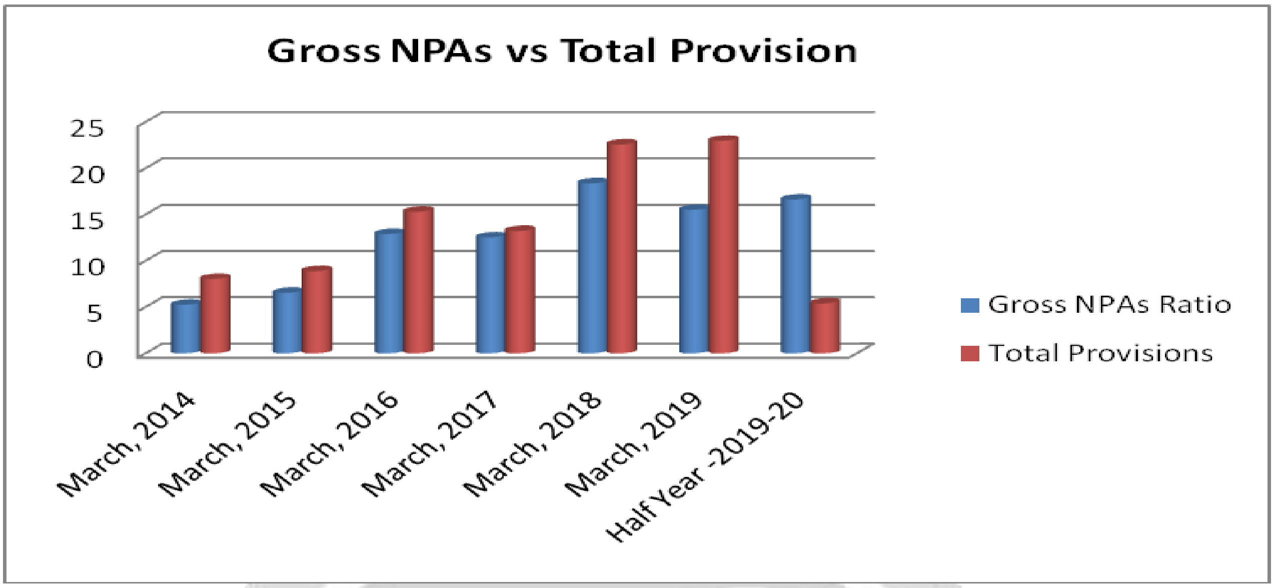

Chart -4

From the above chart is it appears that as long as NPAs are increasing bank has to plan the bigger provisioning. Provision is nothing but the profits we are adjusting from the gross income of the bank and ultimately it's deeply hurt the profitability of the bank.

As per the chart if look the both blue and red lines which shows Gross NPAs ratio and Total Provisions are clearly state that with the larger NPAs ratios provisioning also has increased and ultimately profits are sacrificed. In the current financial year, the story of bank has changed as NPAs has been held the current level but the provisioning got down from the highest level of Rs 22,971 crores to Rs 5400.39 (half yearly). This is because bank's NPAs recovery policy got strengthened and target of Rs 2000 crores of NPA recovery decided and Rs 700 recovered in the half year time.

7. Summary, conclusion and recommendation

7.1 Summery

Also by looking result of last two quarters it is observed that bank has started showing profits in its balance sheet and in Q2 of financial year 2019-20 they have booked the profit of 507cr. This shows that bank has started showing its strength. They have left the past behind and recovered from the bad phase and started the new journey towards growth. Bank's management is believing that in the coming time country's GDP will see the upswing and it will be supported by continuous investment and robust consumption also they are expecting the impetus from the fiscal policy. FY 2019 was challenging for the bank as there was huge stressed asset with the bank and hence there was high provisioning has been done. There was capital constraint for the bank and hence it has hampered the profitability as well. Bank has made the strategy to come out from this situation and made the strategy as well for the same due to this bank has recovered the substantial NPAs and booked the profit in the first half of FY, 2020.

Bank has also launched greater mobile banking and net-banking services in to reach the young customers in the market place who are techno savvy and finally which can increase the reach of the bank. This will also destroy the fixed mindset of customers about the public sector banks, as most of the customer having the belief that public sector banks are not much techno savvy and they are good for the traditional banking only.

Conclusion

NPAs are the junk for any banking system as well as they always eat the profitability of the bank and hence commercial banks are conscious and concern about the NPAs. PNB figures of NPAs vs. profitability shows no significance on each and hence we rejected the null hypothesis however this is the acceptation as NPAs are always considered to be eating the profit of the commercial bank and hence when NPAs goes high profitability goes down.

PNB has reduced the provisioning requirement substantially in the June quarter. In the last two years, PNB had an impact of a fraud (Nirav Modi and Mehul Choski) for which they had to make a provision of Rs 15,000 crores spread over two years. In this fiscal, they don't have any legacy provisioning requirement.

7.2 Recommendations

Below are the recommendations from the above study,

a. Bank should focus on the loss and assets to recover them in order to increase the profitability of the bank which in turn will reduce the NPAs as well.
b. Substandard assets need to be monitoring such a way that it should be categorized in the standard assets.
c. As the research and data collected for the study purpose we found that there is significance relationship between NPAs and Total Provisions. So once bank should start focus to reduce NPAs, automatically they should not have to spare money in provisioning and that will ultimately help in increasing the profitability and more liquidity.
d. Based on the study of PNB one of main reason of NPAs is also lending with low collateral or without collateral so it is recommended to have sufficient collateral while lending the money to any kind of corporate or individual customers.
e. Bank may focus on retail loans rather than the big commercial loans which can increase the bank's penetration in the market as well as the small loans can lead to less risk of being NPA a large sum of money in a one go. Also small loans may increase the higher customer base which can increase the other product sell for them and ultimately customer engagement would be superior.
f. Every month bank is publishing the list of willful defaulters on their website and have the long records of doing so (https://www.pnbindia.in/wilful-defaulters.html) but they can also start focusing on showing the top 10 defaulters name on their websites as well as on the leading newspapers / NEWS Channels / Social Media on the regular basis in order build the reputation pressure on them so they clean up the loans on priority basis.
g. There should be better enactment of SARFAESI Act can be done which can simply help in recovery of assets / dues, however PNB must be using them and setting up the higher target of NPAs recovery. In the current quarter of FY 2019-20 in Q2 also it is seen that bank has recovered the notable amount of NPAs.
h. Recovery measures and steps against Large NPAs- the RBI coordinated the Public Sector Banks to inspect all the documents of default of Rs. 1 crore or more and document criminal cases against strong defaulters. The governing body is asked to audit NPAs records of 1 crore or more with reference to the responsibility of staffs in banks exclusively.
i. Rotation of Staff - If HR practices in the banks are improved effectively and efficiently it can help to minimize and as well as reduce the frauds. If all the officers in banks are rotated in their roles, it could not only increase the supervision capacity of banks, but also helpful in overall development of banks and also all the staffs will gain knowledge of banking policies and regulations.

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