



**Effectiveness of Sarfaesi act 2002 in managing assets quality in Punjab National Bank-
a case study**

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Abstract: Rising non-performing assets is growing as a cancer in Indian banking sector. Almost all banks in India are affected with this death worthy disease. Due to NPA the income of the banks is reduced and the banks have to make the large number of the provisions that would curtail the profit of the banks. This leads to drain on the social resources. Government of India has enacted many legislatures to recover the dead amount of loan advanced by banks from time to time. A further step in the path of refining the health of banks and financial institutions by curbing NPA was enactment of SARFAESI Act 2002. The main aim behind this study is to analyze the effectiveness of SARFAESI act 2002, in managing the assets quality in terms of non-performing assets of Punjab National Bank. The Magnitude of Non-performing assets during PRE SARFAESI period and During POST SARFAESI period has been outlined.

Keywords: Punjab National Bank, Non-Performing Assets, SARFAESI Act, Effectiveness.

Introduction

Banks play an exceptionally helpful and dynamic part in the economic lifecycle of each cutting edge state. These are among the principle participants of the financial framework in India. A developing nation encounters numerous issues like poverty, scarcity of capital, lack of business entrepreneurs and so on. It is understood that since banks have the required investment potentiality, they can make a noteworthy contribution in eliminating poverty, unemployment and they can achieve dynamic diminishment in between provincial, inter-state and inter sectoral inconsistencies through quick development of banking services.

The banking sector has been counted as one of the most significant aspect to achieve the rapid development of Indian economy successfully. No doubt, Indian banking industry is regularly adapting with the international prudential norms and accounting practices. Still, there are certain areas in which the Indian banking sector is not capable to maintain level playing field as compared to other in the financial markets participants in the world. This is due to lacking of legal provision for expediting securitization of financial assets of banks and financial institutions. This is the reason why the banks and financial institutions have been hampered with ever-growing Non-Performing Assets. Further, no any legal provisions for expediting securitization of financial assets of banks, take possession of securities, and sell them without the involvement of the court prior to 2002. This has resulted in sluggish pace of recovery of defaulting loans and swelling levels of non-performing assets of banks and financial institutions. The NPAs is the key factor, which affect the performance of any



bank. NPAs of scheduled commercial banks in India was Rs.70, 861 crores as on March 2002, which form 10.40% of our gross bank credit, about 3% of GDP whereas 15.75% of annual fiscal budget. As per statistics revealed by RBI, Gross NPAs of Scheduled Commercial Banks in India has exhibited compound annual growth of approx. 21% from March 2003 to March 2016. In absolute figures Gross NPA has been increased from Rs.64812 crores in 2003 to Rs.6,11,947 crores in 2016 which is approx. one third of government fiscal budget for 2015-16(Rs.17,65,436 crores).The enactment of 'The securitization and reconstruction of the Financial Assets and the security interest Act (SARFAESI), 2002' is a step to curb the grim of NPA tumor. As regards Punjab National Bank, it was established in 1895 and it holds the distinction of being the first Indian bank to have been started exclusively with Indian capital. Bank has a strong capital base with capital adequacy ratio of 12.42%. The bank has over 60 million customers through 5286 offices including 421 extension counters. The bank has a paid up capital of Rs. 425.59 crore (As on 31 March 2017).

Review of Literature

Meenakshi Rajeev, H P Mahesh (2007) studied banking sector reforms and NPA'S in Indian commercial banks to examine the trends of NPA'S in India from various dimensions and to explain how immediate recognition and self monitoring has been able to reduce it to a great extent.

Ramesh.K.V, Sudhakar.A., (2012) investigated the NPA management in public sector banks-A case study of Canara Bank and State Bank of India to analyse the NPA of former mentioned banks. Data was collected for a period of ten years between 2000 to 2010. It is concluded that if the proper management of the NPAs is not undertaken it would be hampers the business of the banks.

Sandeep and Parul Mital (2012) analysed the comparative position of nonperforming assets of selected public and private sector banks in India to find their efficiency through comparative study. Data has been collected from various secondary sources for period of 10 years and analyzed with descriptive statistics and ANOVA. All the banks are making police trying for the containment of NPA'S for improving their asset quality and profitability.

Saikat Ghosh Roy (2014) The alarming thing is that all the developed and developing countries have already managed to curb the NPA level from the high of 2008-09 at the time of global recession, where it is still rising in India.

Objective of the study

1. To review the trend of Non-Performing assets in Punjab National Bank in PRE and in POST SARFAESI regime.
2. To Study effectiveness of SARFAESI Act 2002 in managing assets quality in Punjab National Bank in PRE and in POST SARFAESI regime.



Sources of Data

The data collected is mainly secondary in nature. The sources of data for this paper include the literature published by Indian Bank and the Reserve Bank of India, various magazines, Journals, Books dealing with the current banking scenario and research papers.

Research Methodology

Research design used to carry out this study is empirical research because it deals with statistical data and the main aim of the report is to study effectiveness of SARFAESI Act 2002 in managing assets quality in Punjab National Bank. For the purpose of this study, data related to volume of NPAs, Advances, Total Assets, Capital Adequacy Ratio and Operating Profit to Total Assets Ratio has been taken. The study evaluates the effectiveness of SARFAESI Act 2002 in curbing the level of Non-performing assets and performance of Punjab National Bank, Phase-wise analysis is conducted. The study is divided into two phases.

Phase –I: It covers a period of 7 years from 1996-97 to 2002-03, classified as PRE SARFAESI act.

Phase –II: It covers a period of 13 years from 2003-04 to 2015-16, classified as POST-SARFAESI act.

Tools of Analysis

In order to analyse the trend appropriate statistical techniques like percentages, averages, Annual Growth Rate have been used. 't – test' and 'F – test' are used to determine the significance of difference in averages between PRE SARFAESI period and POST SARFAESI period in Punjab National Bank.

Hypothesis of the Study

Ho: -There is no significant difference in magnitude of Non-Performing Assets in Punjab National Bank in PRE and POST the enactment of SARFAESI Act 2002.

H1: -There is a significant difference in magnitude of Non-Performing Assets in Punjab National Bank in PRE and POST the enactment of SARFAESI Act 2002.



Analysis and interpretation

Trends in NPAs and advances in Punjab National Bank

Table- 1 Growth in Total Advances and Gross NPAs of Punjab National Bank

(Pre- SARFAESI)

(Amount in Crores)

YEAR	Gross NPAs	Total Advances	Annual Growth in gross NPAs(%age)	Annual Growth in Total Advances (%age)
1996-97	2425	14868	----	----
1997-98	2446	16869	0.87	13.46
1998-99	2832	20057	15.78	18.90
1999-00	3127	23707	10.42	18.20
2000-01	3460	29547	10.65	24.63
2001-02	4140	36380	19.65	23.13
2002-03	4980	43005	20.29	18.21

Source: RBI: Report On Trend and Progress of Banking In India

Table 1 and Figure 1 shows that gross NPAs of Punjab National Bank has shown a consistent increase in gross NPA from Rs.2425 crores in 1996-97 to Rs. 4980 crore in 2003-04 during pre SARFAESI period. Highest growth in gross NPAs 20.29% (Rs4980 crores) in 2002-03 whereas lowest of 0.87% (Rs 2446 crores)in 1997-98. On the other hand, a growth in total advances has appeared from Rs. 14868 crores in 1996-97 to Rs 43005 crores in 2002-03 during pre SARFAESI period. Annual growth rate of total advances has recorded highest 24.63% in 2000-01 and lowest 13.46% in 1997-98.



Table- 2 Growth in Total Advances and Gross NPAs of Punjab National Bank
(Post-SARFAESI) (Amount in Crores)

YEAR	Gross NPAs	Total Advances	Annual Growth in gross NPAs(%age)	Annual Growth in Total Advances (%age)
2003-04	4670	49954	-6.22	16.16
2004-05	3741	62726	-19.89	25.57
2005-06	3138	76501	-16.12	21.96
2006-07	3391	98206	8.06	28.37
2007-08	3319	120932	-2.12	23.14
2008-09	2767	156098	-16.63	29.08
2009-10	3214	188306	16.15	20.63
2010-11	4379	243998	36.25	29.58
2011-12	8690	276108	98.45	13.16
2012-13	13466	315244	54.96	14.17
2013-14	18880	359646	40.20	14.08
2014-15	25695	392422	36.10	9.11
2015-16	55818	432775	117.23	10.28

Source: RBI: Report On Trend and Progress of Banking In India



Figure 1

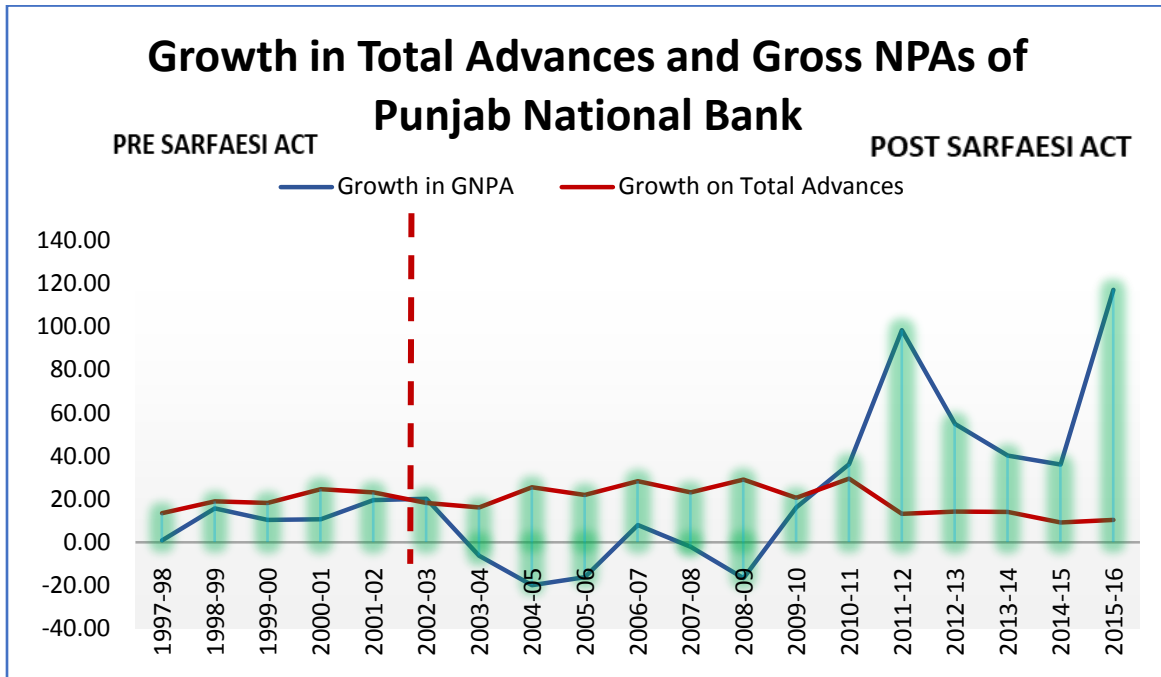


Table 2 and Figure 1 shows that gross NPAs of Punjab National Bank depicts a negative growth from Rs 4670 crores (-6.22%) in 2003-04 to Rs 2767 crores (-16.63%) in 2008-09 except 2006-07 where gross NPA has increased by 8.06% during post SARFAESI period. Thereafter, a significant increase in gross NPA of 16.15 % (Rs 3214 crores) in 2009-10 to 117.23% (Rs 55818 crores) in 2015-16. Highest annual growth in gross NPA has recorded in 2015-16 with 117.23% (Rs 55818 crores) whereas lowest growth rate in gross NPA has recorded with -19.89% (Rs 3741 crores) in 2004-05 in post SARFAESI period. Contrary to this, total advances have shown consistent annual growth of 16.16% (Rs 49954 crores) in 2003-04 to 10.28% (Rs 432775 crores) in 2015-16 .



Table- 3 Growth in Net Advances and Net NPAs of Punjab National Bank

(Pre- SARFAESI)

(Amount in Crores)

YEAR	Net NPAs	Net Advances	Annual Growth in Net NPAs(%age)	Annual Growth in Net Advances (%age)
1996-97	1440	13873	----	----
1997-98	1516	15841	5.28	14.19
1998-99	1695	18917	11.81	19.42
1999-00	1917	22500	13.10	18.94
2000-01	1871	27967	-2.40	24.30
2001-02	1810	34023	-3.26	21.65
2002-03	1527	39560	-15.64	16.27

Source: RBI: Report On Trend and Progress of Banking In India

Similarly, in table 3 and Figure 2, trends in net NPAs of Punjab National Bank has shown an increase from Rs. 1440 crores in net NPA in 1996-97 to Rs.1917 crores in 1999-00 followed by decline of -2.40% (Rs.1871 crore) in 2000-01 to -15.64% (Rs 1527 crores) in 2002-03 during pre SARFAESI period. Annual growth rate of Punjab National Bank shows highest growth in net NPAs 13.10% (Rs 1917 crores) in 1999-00 whereas lowest of -15.64% (Rs 1527 crores) in net NPAs in 2002-03. On the other hand, consistent growth in net advances has appeared from Rs. 13873 crores in 1996-97 to Rs 39560 crores in 2002-03. Annual growth rate of net advances has recorded highest 24.30% in 2001-02 and lowest 14.19% in 1997-98.

Table- 4 Growth in Net Advances and Net NPAs of Punjab National Bank

(Post- SARFAESI)

(Amount in Crores)

YEAR	Net NPAs	Net Advances	Annual Growth in Net NPAs(%age)	Annual Growth in Net Advances (%age)
2003-04	449	45816	-70.60	15.82
2004-05	119	59500	-73.50	29.87
2005-06	210	72414	76.47	21.70



2006-07	726	95526	245.71	31.92
2007-08	754	117813	3.86	23.33
2008-09	264	155294	-64.99	31.81
2009-10	982	185283	271.97	19.31
2010-11	2039	239882	107.64	29.47
2011-12	4454	293026	118.44	22.15
2012-13	7236	307915	62.46	5.08
2013-14	9917	347965	37.05	13.01
2014-15	15396	379212	55.25	8.98
2015-16	35422	411405	130.07	8.49

Source: RBI: Report On Trend and Progress of Banking In India

Figure 2

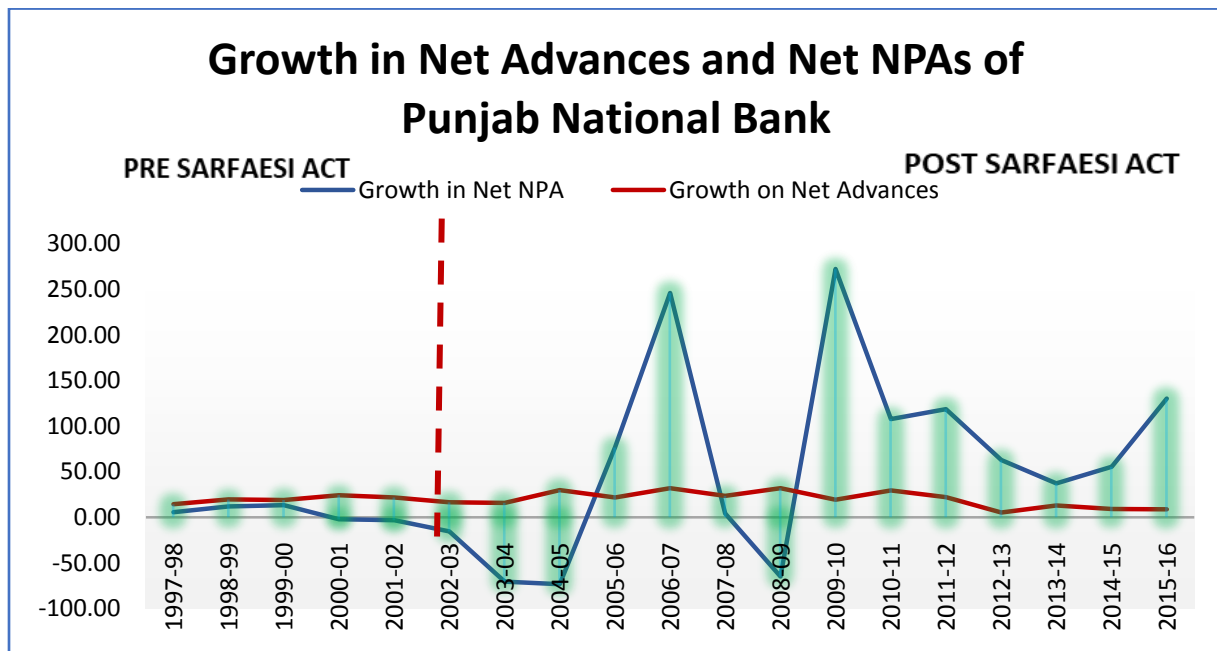


Table 4 and Figure 2 shows that net NPAs of Punjab National Bank depicts a significantly decline from Rs 449 crores (-70.60%) in 2003-04 to Rs 119 crores (-73.50%) in 2004-05 during post SARFAESI period. Thereafter absolute value of net NPA has rapidly increased by 76.47% (Rs. 210 crores) in 2005-06 to 13.07% (Rs 35422 crores) in 2015-16 except 2008-09 where, net NPA has significantly declined by-64.99%. Highest annual growth in net NPA has recorded in 2006-07 by



245.71% (Rs 726 crores) whereas lowest growth rate in net NPA has recorded by -73.50% (Rs 119 crores) in 2006-07 in post SARFAESI period. Contrary to this, net advances have shown consistent annual growth of 15.82% (Rs 45816 crores) in 2003-04 to 8.49% (Rs 411405 crores) in 2015-16. Annual growth rate of net advances has recorded highest 31.92% in 2006-07 and lowest 5.08% in 2011-12.

For the study of second objective, statistics relating to Assets Quality reflectors and banks performance reflectors of Punjab National Banks has been analyzed in two phases. Phase -I relates to PRE SARFAESI period i.e. from 1996-97 to 2002-03 (7 years) and Phase -II deals with POST SARFAESI period i.e 2003-04 to 2015-16 (13 years). Inferences has drawn based on statistical analysis.

For the purpose to compute t-tests there is an assumption of homogeneity of variance in the two groups that needs to be verified. So, first the F Test for equal variances between PRE SARFAESI period and POST SARFAESI period is performed using the data related to Assets Quality reflectors and bank performance reflectors. The assumption that the group variances are equal is accepted at 95% confidence level as the significance value is greater than 0.05.

Table – 5 F Test for Equality of Variances

Punjab National Bank	F Value	df1	df2	Crit Value	Sig.
GNPA to Total Assets	3.979	1	18	4.4139	.610
GNPA to Total Advances	1.309	1	18	4.4139	.268
NNPA to Total Assets	0.776	1	18	4.4139	.390
NNPA to Net Advances	0.292	1	18	4.4139	.595
Capital Adequacy Ratio	0.077	1	18	4.4139	.785
Operating Profit to Total Assets Ratio	7.856	1	18	4.4139	.012*

*The mean difference is significant at the 0.05 level

Source: RBI: Report On Trend and Progress of Banking In India



Table 6 Analysis of Punjab National Bank (t-test)

Punjab National Bank	SARF AESI	N	Mean	Std. Dev	Assumed Variance	t	df	Crit Value	Sig.(2 tailed)
GNPA to Total Assets	PRE	7	5.981	0.480	Equal	3.985	18	2.101	.001*
	POST	13	2.885	2.001					
GNPA to Total Advances	PRE	7	13.256	1.841	Equal	6.246	18	2.101	.000*
	POST	13	4.848	3.267					
NNPA to Total Assets	PRE	7	3.193	0.836	Equal	3.424	18	2.101	.003*
	POST	13	1.117	1.469					
NNPA to Net Advances	PRE	7	7.614	2.392	Equal	5.223	18	2.101	.000*
	POST	13	1.832	2.346					
Capital Adequacy Ratio	PRE	7	10.289	1.073	Equal	- 5.084	18	2.101	.000*
	POST	13	12.812	1.051					
Operating Profit to Total Assets	PRE	7	1.984	1.104	Un- Equal	- 0.956	6.72	2.365	.372
	POST	13	2.395	0.366					

*The mean difference is significant at the 0.05 level

Source: RBI: Report On Trend and Progress of Banking In India

It has depicted in Table 5 that the assumption of homogeneity of variance for the groups holds true for some of the parameters. F Test for Equality of Variances shows there is no significant difference in the variance between PRE SARFAESI period and POST SARFAESI in Punjab National Bank for GNPA to Total Assets, GNPA to Total Advances, NNPA to Total Assets, NNPA to Net Advances and Capital Adequacy Ratio as significant value >0.05 at 95% confidence level. Further, F Test for Equality of Variances shows there is a significant difference in the variance between PRE SARFAESI period and POST SARFAESI period in Punjab National Bank for Operating Profits to Total Assets Ratio with 95% confidence as significant value < 0.05 .

The result of Punjab National Bank (Table 6) explains that mean value, assuming equal variance, of Gross NPAs to Total Assets ratio (5.981 v/s 2.885, t-value = 3.985) and assuming equal variance, Net NPAs to Total Assets ratio (3.193 v/s 1.117, t-value = 3.424) has significant difference (at 0.05 level) and reject null hypothesis. The table also shows that mean value, assuming equal variance,



of Gross NPAs to Total Advances ratio (13.256 v/s 4.848, t-value = 6.246) and Net NPAs to Net Advances ratio (7.614 v/s 1.832, t-value = 5.223) has significant difference (at 0.05 level) and reject null hypothesis. Hence, there is a significant evidence that SARFAESI Act has controlled the level of Non-performing assets to Advances and Total assets. The results reveals the ability of Punjab National Bank to reduce the NPA effectively during POST SARFAESI period.

Further, in terms of bank performance, it is reflected from Table 6, assuming equal variance (shown by Table 5) that the difference in mean value of Capital Adequacy ratio (10.289 v/s 12.812, t-value = -5.084) is significant at 0.05 level, which concludes that null hypothesis is rejected and Capital Adequacy ratio has enhanced after enactment of SARFAESI Act. Similarly, difference in mean value, assuming un-equal variance, of Operating Profits to Total Assets (1.984 v/s 2.395, t-value = -0.956) is not significant at 0.05 level which concludes that a no change in profitability of Punjab National Bank, after enactment of SARFAESI Act.

Conclusion

The NPAs have always created a big problem for the banks in India. It is just not only problem for the banks but for the economy too. Profitability of banks directly affected due to growth in non-performing assets. The study shows that SARFAESI act 2002 has enhanced the efficiency of bank to access the risk of credit and fastened the recovery of NPAs. Similarly, a significant difference in capital adequacy ratio in post SARFAESI period clearly depicts that there is a significant heighten in margin of protection available to the depositor of funds and creditors during Post SARFAESI act. However, results of bank's performance reflector indicates no significant difference in operating profit to total assets ratio which shows SARFAESI Act has not changed the performance of Punjab National Bank in terms of earning capability through operating activities. The trend of Annual Growth Rate of Non-Performing Assets highlight that SARFAESI Act has performed dominant role in managing assets quality in Punjab National Bank. However, a sudden rise in magnitude of NPA leaves a worry about effectiveness of SARFAESI Act in managing assets quality in current scenario.

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