IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

Impact Of Insolvency And Bankruptcy Code 2016 On Non- Performing Assets Of Select Public Sector Banks – A Comparative Study Of Bank Of Baroda And Punjab National Bank

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ABSTRACT

Research Problem: Punjab National Bank and Bank of Baroda are two of the largest public sector banks of India, after State Bank of India with the market capitalization share of Rs. 626.53 billion and Rs. 932.40 billion respectively. These banks form the backbone of the Indian economy. Unfortunately, the Indian banking system has been facing the problem of ever rising NPAs due to mismanagement of NPAs owing to some sector wide reasons and some bank specific reasons**.**

Research Gap: It has been found that there are lot of comparative studies on the impact of non- performing assets on the banks from public and private sectors. The IBC has been a huge reform in the legal framework of the country concerning the insolvency and bankruptcy matters of entities. This aims at making the resolution process easy and resolution and recovery of NPAs fast. There is no study on the comparative study on the NPAs of these two major public sector banks after the implementation of the IBC**.**

Objective:

- To compare the levels of NPAs of the banks in pre and post IBC era.
- To analyze the impact of IBC on the performance of banks using ratios

Research Methodology: For the purpose of the study, the secondary data collected from various online resources including official websites of the Reserve Bank of India, government websites and annual reports of the banks obtained from the money control website and banks' websites. The study is descriptive in nature and tools like tables and graphs have been used to study the trends of recovery of NPAs before and after the IBC. The present study is descriptive in nature and aims to study the impact of the IBC 2016 on the NPAs of these banks. The data used is secondary in nature obtained from various online resources.

Keywords – Non-Performing Assets, Public Sector Bank, IBC 2016, Punjab National Bank, Bank of Baroda.

INTRODUCTION

India, being a developing country, uses its banking system for social welfare along with economic welfare. Due to which, the banking system has always been laden with the NPAs. Banks are the drivers of various flagship programs initiated by the central and state governments for the purpose of promotion of industrial growth, agriculture and social welfare of the people. Banks invest large chunk of their deposits in these welfare and also sponsor some of these. Sometimes these overtly ambitious schemes and programs of the governments result in failure, resulting in sinking of funds invested. Apart from governments, the private businesses also use banks for getting loans and advances to invest in profitable projects. Sometimes these debtors become defaulters when it comes to repay the borrowed loans. These factors, mentioned above are some of the major contributors in the NPAs load of the banks.

Punjab National Bank

It was established in the year 1894, headquartered in Dwarka, Delhi. The bank was nationalized on 19 July 1969.On August 30, 2019; Finance Minister Nirmala Sitharaman announced the bank's merger with United Bank of India and Oriental Bank of Commerce. By 2023, the bank's total assets had grown to US$190 million; making it the nation's second-largest public sector bank. The bank offers various financial and non- financial services to its customers. Working along with its 21 subsidiaries, it is one of the largest lenders of the country. The focus areas of the bank are RAM (Retail, Agriculture and MSME).

Despite being the second largest public sector bank, the bank is also notorious for having the second largest in NPAs. To curb the NPA menace, the bank has launched various programs like **Prayaas** to promote recovery of

NPAs and write off accounts. Under the bank's special recovery campaigns, known as Rin Mutki Shivirs, senior authorities from the Circle Office, Head Office, and FGMs took part in making judgments on account resolution on the spot, such as One Time Settlement or Upgrade, among other things. The Bank has also set up specialized branches known as Asset Recovery Management Branches and specialized cells known as Special Asset Recovery Cells which function exclusively for resolving NPAs (Sharma, 2021). Even after these rigorous efforts taken by the bank, the bank is laden with NPAs.

Bank of Baroda

Bank of Baroda is also an India public sector bank headquartered in Vadodara, Gujrat. This is the second largest public sector bank, following the State Bank of India. Its total business accounts for US$218 billion. The bank was nationalized in 1969 along with other 13 banks. Asset management, investment banking, retail banking, private banking, and private equity are just a few of the services the bank offers. But, the bank also has its share of NPA story. The bank was facing high NPA during the period of 2010-11 to 2019-20. This had negatively impacted the profitability of the bank (Bansal et.el, 2021). The NPAs of Bank of Baroda rose from Rs. 11, 876 Cr. in March 2014 to Rs. 73,140 Cr. in December 2019.

In recent times, the bank has emerged as the third best performer in management of NPAs. The bank established asset management verticals. All big and medium sized accounts will be brought under these verticals. These are called Stressed Assets Recovery Branches. The bank has also launched call centres in various languages to work at ground level and has deployed officers for recovery of small NPAs and doubtful NPAs.

Insolvency and Bankruptcy Code 2016

The Recovery of Debts Due to Banks and Financial Institutions Act of 1993, the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act of 2002, the Debt Recovery Tribunals, and the Lok Adalats were among the legislation that existed before the code. These platforms had limitations of their own like cumbersome recovery process, over- lapping of various provisions, time taking litigation process, unclear definitions of various terms, no preferential hierarchy of repayment to creditors etc. Keeping these limitations in mind, the need for a comprehensive law was direly felt. Therefore, the Government of India formed Banking Law Reforms Committee, chaired by T.K. Vishwanathan, to suggest the required improvements in the insolvency regime of India. . The committee suggested that the Provincial Insolvency Act of 1920 and the Presidency Towns Insolvency Acts of 1909 be repealed, and that the following be merged:

- Companies Act 2013
- Sick Industrial Companies Act 2013
- Indian Partnership Act 1932;
- Limited Liability Partnership Act 2008;
- SARFAESI Act 2002;
- RDDBFI Act 1993

The framework of the code is comprised of four bodies

a) <u>Insolvency and Bankruptcy Board of India</u>

This body has the authority to regulate insolvency professionals, agencies, information utilities, and insolvency professional agencies, among other things. The board is comprised of by a chairperson and three other members appointed by the Central government and some other members appointed by the central bank. As per section 196(1) of the code, the board is supposed to register the insolvency agencies and utilities, specify the minimum required qualifications to be insolvency professional, levy and charge fees and specify regulations and standards of functioning of insolvency professionals and agencies.

b) <u>Insolvency Professional Agencies</u>

As per the section 201, any person who is registered with the IBBI is an insolvency professional agency. They are vested with functions of developing professional standards, code of ethics and be the first level regulator for Insolvency professionals members. Currently, ICMA, ICSI and ICAI are working as the insolvency professional agencies.

c) <u>Information Utilities</u>

A person who is registered with the Insolvency and Bankruptcy Board of India is considered an information utility under section 3(21) of the code. The following essential services are anticipated from the information utilities:

- Acceptance of electronic financial information input;
- Accurate and safe financial information recording;
- Authentication and verification of financial data; and
- Granting designated individuals access to data kept with them.

d) <u>The National Companies Law Tribunal and National Companies Appellate Law Tribunal</u>

It is a quasi judicial body adjudicating the matters under the IBC code, as recommended by the Justice Eradi Committee. One of the core functions of the tribunal is the recovery of NPAs. As per section 202 and 211, the judgments passed by the NCLT can be challenged before the National Companies Appellate Law Tribunal, if parties to matter are not satisfied with the judgment.

LITERATURE REVIEW

The available literature has been critically reviewed to find out the gap and work done concerned with the area of the study.

Sharda and Jain (2016) studied the percentage of recovery of NPAs made under the SARFAESI Act 2002 in comparison with Lok Adalats and the Debt Recovery Tribunal with respect to select public sector banks including the Bank of Baroda. They concluded that NPAs are recovered, comparatively easily by the amendments in the SARFAESI Act.

Gadhia (2018) focused on the GNPA, NNPA, net profit and total advances of Bank of Baroda and Axis Bank to make a comparative analysis of NPA of a public and private bank.

Ojha and Jha (2018) conducted a comparative study regarding the impact of NPAs on working of the State Bank of India and Bank of Baroda. Due to the length of its operations, they concluded that SBI was in a stronger position than BOB, which was superior in a number of areas, including total assets, total business, business per employee, average return on assets, profit per employee, and so forth. Overall the BOB has been better than the SBI in many terms, but increasing NPAs had badly impacted the working and profitability of both the banks.

Bagga (2020) studied the pattern of NPA reduction in the PNB after and before IBC 2016. They analyzed the secondary data from 2012-2020 and found that NPAs have reduced after IBC. IBC has not only decreased NPA, it has contributed significantly and catalyzed the process of faster recovery of NPAs. But, they concluded that the durable objective of reducing NPAs to nil is still not possible in present scenario.

Bansal, Kumar and Purohit (2021) evaluated the impact of NPAs on the financial performance of banks by analyzing the past data of two large PSBs viz. the State Bank of India and Bank of Baroda. They used correlation, trend analysis and ANOVA. They came to the conclusion that, from 2009–10 to 2018–19, NPA and profitability were negatively correlated.

Sharma (2021) in her study evaluated the adverse effect of NPAs on the return, total assets of PNB for the period of 2013 to 2015, 2016-17 and 2019-20.She determined total assets without non-performing assets (NPAs), return on total assets (with NPAs), and return on total assets (without assets). She came to the conclusion that, while total assets (with NPAs) have increased, the other two variables have decreased, indicating that non-performing assets (NPAs) are a threat to the sustainability and profitability of banks' operations.

Kaushik (2022) investigated the pattern of NPAs of both NPAs in private and public sector banks. For this, she selected top 5 banks. She also examined the NPAs of these banks in pre and post IBC period ranging from 2011-2021.

RESEARCH GAP

There are several comparative studies on the effects of non-performing assets on banks in the public and private sectors, according to the literature study. The IBC has been a huge reform in the legal framework of the country concerning the insolvency and bankruptcy matters of entities. This aims at making the resolution process easy and resolution and recovery of NPAs fast. A comparative analysis of the non-performing assets (NPAs) of the two largest public sector banks following the implementation of the IBC is lacking.

OBJECTIVES OF THE STUDY

- To compare the levels of NPAs of the banks in pre and post IBC era.
- To analyze the impact of IBC on the performance of banks using ratios.

RESEARCH METHODOLOGY

Secondary data for the study was gathered from a variety of internet sources, such as the Reserve Bank of India's official website, government websites, and bank annual reports retrieved from the websites of banks and the Money Control website. The study is descriptive in nature and tools like tables and graphs have been used to study the trends of recovery of NPAs before and after the IBC.

1. GROSS NPAs ANALAYSIS OF THE BANKS

The two banks' respective positions in terms of gross non-performing assets (NPAs), gross advances, and gross NPAs as a proportion of total advances are shown in the following table. The table indicates that both banks' GNPAs had a rising tendency from 2010–11 to 2015–16. Similarly, during the course of the investigation, both banks' gross advances have demonstrated an upward tendency. The GNPA % as percentage of total advances has also increased from 2010-11 to 2017-18. After that, this has also shown a downward trend. This can be contributed to the enactment of the IBC. The code has been a catalyst in the decrease of NPAs of the banks leveraged with the bank specific factors.

Table-1A

GNPAS AND GROSS ADVANCES OF PNB AND BOB

Bank / YEAR	Punjab National Bank			Bank of Baroda		
	GNPA (in Rs. Cr.)	Gross Advances (in Rs. Cr.)	GNPA (% of Gross Advances)	GNPA (in Rs. Cr.)	Gross Advances (in Rs. Cr.)	GNPA (% of Gross Advances)
2010-11	4,379.39	242,106.67	2.00	3,152.50	228,676.36	1.00
2011-12	8719.62	293,774.76	3.00	4,464.75	287,377.29	2.00
2012-13	13,465.79	308,725.21	4.00	7,982.58	328,185.76	2.00
2013-14	18,880.06	349,269.13	5.00	11,875.90	397,005.81	3.00
2014-15	25,694.86	380,534.40	7.00	16,261.44	428,065.14	4.00
2015-16	55,818.33	412,325.80	13.00	40,521.04	383,770.18	10.00

2016-17	55,370.45	419,493.15	13.00	42,719.00	383,259.22	10.00
2017-18	86,620.05	433,734.72	18.00	56.480.00	427,431.83	12.00
2018-19	78,472.70	458,249.20	16.00	48,232.76	468,818.74	10.00
2019-20	73,478.76	471,827.72	14.00	69,381.43	690,120.73	9.00
2020-21	104,423.42	674,230.08	14.00	66,671.00	706,300.51	9.00
2021-22	92,448.04	728,185.68	12.00	64,059.39	777,155.18	7.00
2022-23	77,328.00	830,838.98	9.00	36,764.00	940,998.27	4.00

Source: MoneyControl Website

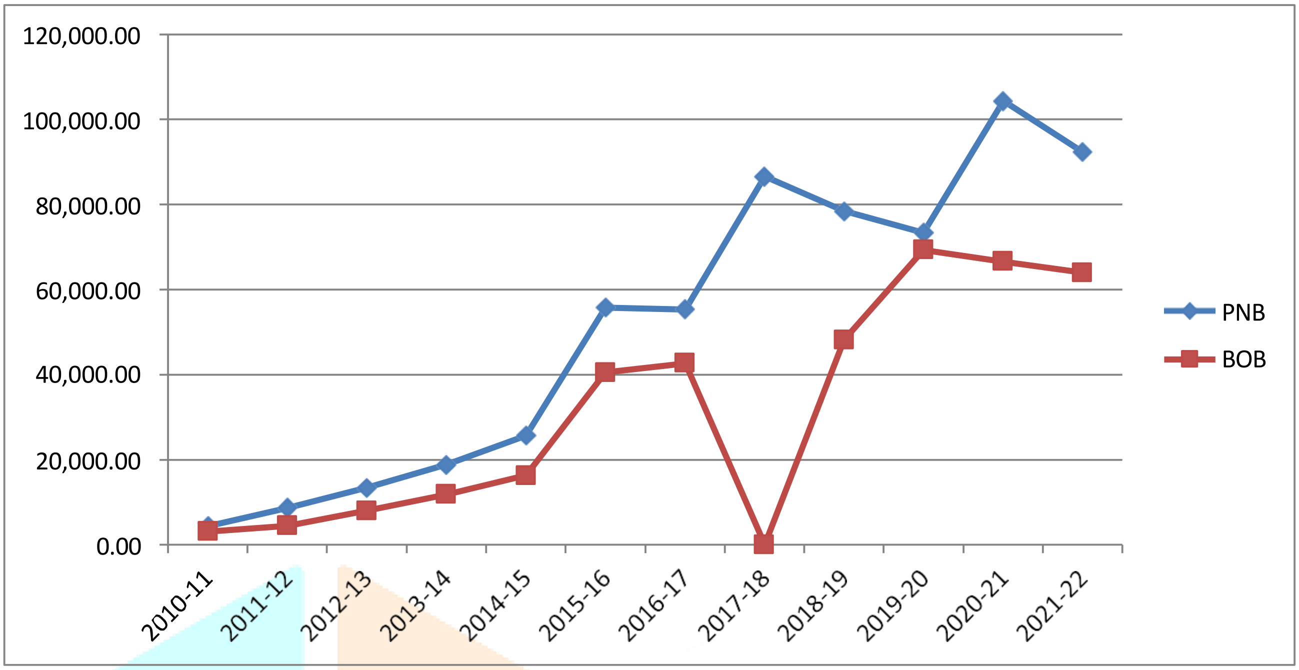
TABLE-1B

DESCRIPTIVE ANALYSIS OF GNPAs PNB AND BOB

STATISTICS	PNB		BOB	
	2010-16(Pre IBC)	**2016-23(Post)IBC**	**2010-16(Pre IBC)**	**2016-23(Post IBC)**
Mean	21159.68	81163.06	14043.04	54901.08
Standard Deviation	18560.8	15515.73	13840.37	12625.38
Skewness	1.62	-0.21	1.82	-1.68
Kurtosis	2.89	0.68	3.58	-0.30
Median	16172.93	78472.7	9929.24	56480

The above descriptive analysis has been done on MS- Excel. From the data, it can be interpreted that the introduction IBC has not resulted in any significant difference between the average gross NPAs of both the banks when compared with pre IBC era. Same goes for the deviation in pre and post years. As mean is affected by extreme values, so to correctly understand the impact of the IBC, other statistics are also used. But they also depict same thing, no significant impact of IBC in the reduction of NPAs of the banks. But, this can't solely be attributed to the IBC as there are various other factors responsible for the rise in the levels of banks, both bank specific and economy specific.

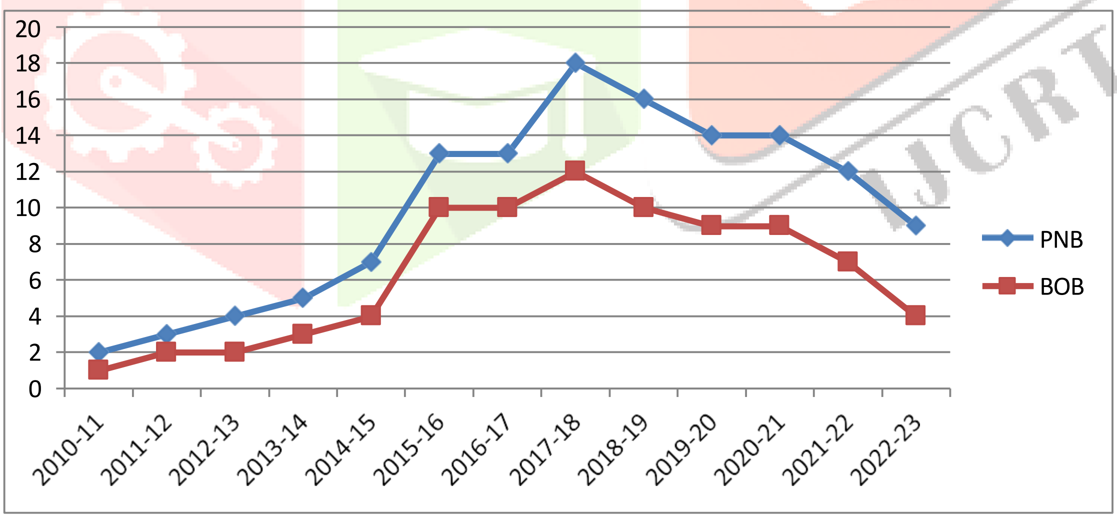
Figure-1A



Source: Author Generated

The above graph shows that though the GNPAs of both the banks have been showing an increasing and then a decreasing trend, the GNPAs of the Bank of Baroda have always been lesser than that of the Punjab National Bank...

Figure-1B



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The above graph clearly shows that the BOB has outperformed the PNB in terms of GNPAs Percentage of total advances. This can only be credited to the better management of bad assets by the BOB.

Table-1B

GROSS ADVANCES AND ANNUAL GROWTH RATE IN GNPAs

Source: Author Calculated

BANK	Punjab National Bank		Bank of Baroda	
YEAR	**Gross Advances (in Rs. Cr.)**	**Annual Growth in Gross Advances**	**Gross Advances (in Rs. Cr.)**	**Annual Growth in Gross Advances**
2010-11	242,106.67	-	228,676.36	-
2011-12	293,774.76	0.21	287,377.29	0.25
2012-13	308,725.21	0.05	328,185.76	0.14
2013-14	349,269.13	0.13	397,005.81	0.21
2014-15	380,534.40	0.89	428,065.14	0.08
2015-16	412,325.80	0.08	383,770.18	-0.10
2016-17	419,493.15	0.02	383,259.22	0.00
2017-18	433,734.72	0.03	427,431.83	0.12
2018-19	458,249.20	0.06	468,818.74	0.96
2019-20	471,827.72	0.03	690,120.73	0.47
2020-21	674,230.08	0.43	706,300.51	0.02
2021-22	728,185.68	0.08	777,155.18	0.10
2022-23	830,838.98	0.14	940,998.27	0.21

TABLE-1C

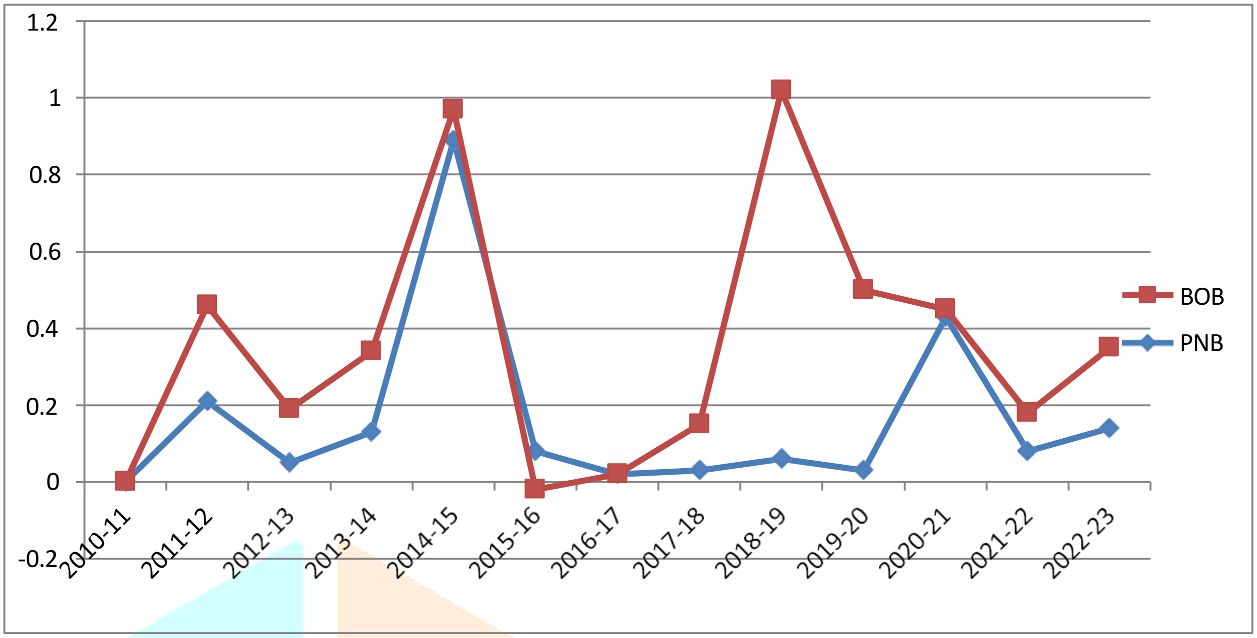
CORRELATION BETWEEN GNPAs AND ADVANCES

BANK	PNB	BOB
Correlation	0.79	0.66

The above table shows that the GNPAs of the banks have a positively correlated to the advances. This shows that the banks' GNPAs have direct and positive relationship with the advances. This shows that the more the advances are made, the more GNPAs are created.

The following graph shows the relative growth in advances of these two banks. The graph shows that the growth in advances by the BOB has been a roller coaster, but has seen many hikes than the PNB. This shows that the credit creation by the former has been more than the latter.

Figure 1C GRAPH OF ADVANCES MADE BY BANKS



Source:Author Generated

2. NET NPAs ANALYSIS OF THE BANKS

Net NPAs are calculated by deducting the provisions made for NPAs from the GNPAs. They show the level of NPAs not covered by the provisions and thus depict a risky situation for the banks and their profitability. The provisioning is required to cover the NPAs, but this provisioning decreases the profitability of the banks, thus hampering the financial as well as operational performance of the banks.

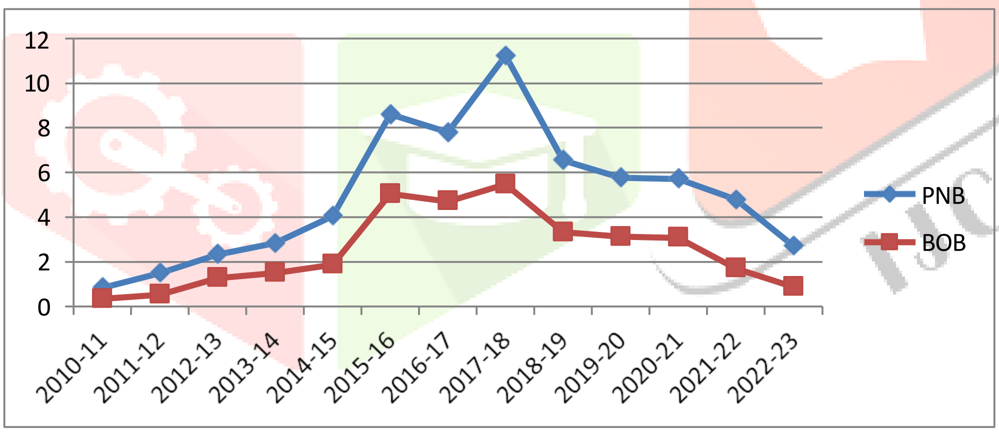
The following table shows the absolute position of both the banks as well as the relative position of the NPAs in respect advances in form of percentage. The following table has been supported to show the real position of net NPAs of these banks.

Table 2A

NET NPAS AND RATIO OF NET NPAS TO ADVANCES

BANK	Punjab National Bank			Bank of Baroda		
	Net NPA (in Rs. Cr.)	Net NPA (%)	Net NPA To Advances (%)	Net NPA (in Rs. Cr.)	Net NPA (%)	Net NPA To Advances (%)
2010-11	2,038.63	0.85	1.00	790.88	0.35	0.00
2011-12	4,454.23	1.52	2.00	1,543.64	0.54	1.00
2012-13	7,236.50	2.35	2.00	4,192.03	1.28	1.00
2013-14	9,916.99	2.85	3.00	6,034.76	1.52	2.00
2014-15	15,396.50	4.06	4.00	8,069.49	1.89	2.00
2015-16	35,422.56	8.61	9.00	19,046.46	5.06	5.00
2016-17	32,702.10	7.81	8.00	18,080.00	4.72	5.00
2017-18	48,684.29	11.24	11.00	23,483.00	5.49	5.00
2018-19	30,037.66	6.56	7.00	15,609.50	3.33	3.00
2019-20	27,218.90	5.78	6.00	21,576.60	3.13	3.00
2020-21	38,575.70	5.73	6.00	21,800.00	3.09	3.00
2021-22	34,908.73	4.80	5.00	13,364.64	1.72	2.00
2022-23	22,585.00	2.72	3.00	8,384	0.89	1.00

Figure- 2A



Source: Author Generated

Regarding Net NPAs as a proportion of advances, the graph above demonstrates that the BOB has been in a far better situation. Before the IBC was passed, the proportion of net non- performing assets as advances was rising. Then, there was decrease in the NNPAs after the IBC. This shows that the IBC has been an effective tool in checking the creation of NPAs of these banks. However, even after being the second largest public sector bank, the graph of BOB shows it has been more effective in managing and checking NPAs than the PNB. This could be owed to the fact that the policies of credit management of the BOB are stricter and more effective than the PNB.

CONCLUSION

From the above findings, this can be concluded that the IBC has been somewhat successful in managing the impact of the banks. Therefore, after the enactment of the code the GNPAs and NNPAs have been consistently declining and credit creation has been more.

The problem of NPAs can be managed only by leveraging the advantages of the code with the concerted efforts by the individual banks in managing the credit lending and management policies. Only then complete respite from the menace of NPAs is possible.

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