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THE EFFECT OF THE PROMPT CORRECTIVE ACTION FRAMEWORK ON NON-PERFORMING ASSETS IN SELECTED INDIAN PUBLIC SECTOR BANKS: A COMPREHENSIVE STUDY

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ABSTRACT

Overleveraged balance sheets in the corporate sector in India led to a hype in non-performing loans in the banking sector. NPAs represent 9% of total banking assets, but 12% of all borrowings by the public sector. To reduce high NPAs and strengthen the banking sector, RBI has introduced the Financial Stability Framework as part of the NPA control program. A study focused on whether the Prompt Corrective Action (PCA) Framework led to a reduction in NPAs during the study period of 12 banks (eleven public sector banks and one private sector bank) that were suffering from large NPAs. As per the study, all public sector banks reported a reduction in net NPAs in total GNPAs by allocating huge provisions to NPAs as part of RBI directions. In addition, banks' assets (advances/loans) must be surged through the recovery of loans, not through excessive provisioning, which has a negative impact on their profitability and liquidity. Consequently, the current strategy of clearing bad loans through the allocation of provisions has reduced net NPAs in GNPAs, but not the proportion of gross and net NPAs in gross and net advances.

KEYWORDS: ***NPAs (NPAs), Advances/Loans, Public Sector Banks (PSBs), PCA Framework***

INTRODUCTION

Poor credit appraisal and credit recovery policies result in NPAs (non-performing Assets) in the financial sector. Despite this, the credit to GDP ratio of banks in the Indian economy shot up from 0.29 % in 2004 to 0.54 % in 2008 as a result of the second phase of the financial sector reforms(Hafsal, Suvvari, & Durai, 2020). The bank's loan portfolio with only six industries in 2004-2018, which accounted for one third of total loan funds. This indicates a high concentration of risks for the bank. Infrastructure, metals, textiles, chemicals, engineering, and food processing are six industries subject to high investment risks and requiring huge investments. As a result of the subprime mortgage crisis of 2007-09, as well as drastic economic phenomena at the national and international levels (demonetization in 2016 and GST in 2017)(Gaur & Mohapatra, 2020), this sector has seen a high default rate, putting the banking sector at risk. Due to the over leveraged balance sheet of the corporate sector, the Indian banking sector has a high bad loan or non-performing asset ratio (9% for the entire banking system and 12% for PSBs). In addition to regulating NPAs, the Financial Stability Framework of the Reserve Bank focuses on strengthening the banking sector and reducing high NPAs. The RBI followed the Prompt Correct Actions framework by bringing twelve banks that were suffering from massive NPAs to court (eleven public sector and one private sector bank).

RESEARCH PROBLEM

The issue of non-performing assets has been a major concern for India's banking sector for many years. But after 2009-10, bad loans in the banking sector reached double digits in total advances, particularly in the public sector. That raises concerns about the quality of bank assets. India's banking sector also suffers because of this(Singh, 2016). As part of the RBI's regulatory role to promote financial stability in banks, all public sector banks (affected by massive NPAs) are included in the PCA framework. The PCA framework is used by central banks to

promote financial stability. The RBI implemented the PCA framework for the first time in India's history. In the Indian banking sector, CRAR, NPA, ROA, and leverage ratios are four key variables that trigger the PCA framework. Present NPA limits above ceiling limits are trigger variables for the PCA framework in India. India has ten public-sector banks and one private-sector bank suffering from large NPAs. Private-sector banks were left with limited guidance under the PCA framework while all ten public-sector banks were included. Therefore, the present study evaluated how the PCA framework resolved the bad loan problem in selected public sectors in India over the study period of 2010-2019(Narula & Singla, 2014).

OBJECTIVES OF THE STUDY

To analyze the impact of PCA framework on

- GNPAs to Gross Advances
- Net NPAs to net advances
- Net NPAs to GNPAs
- Provisions to GNPAs.

METHODOLOGY OF THE STUDY

Based on secondary data collected from banks' annual reports and the Reserve Bank of India's annual reports, the present study has been conducted. A total of ten years of the period are covered in the present study, that is, from 2010 to 2019. A combination of statistical and financial tools is employed. Financial tools consist of ratios of selected public sector banks during the study period, while statistical tools consist of % and averages. As a sample size, the RBI chose eleven public sector banks that were brought under the PCA framework. Dena Bank, Allahabad Bank, United Bank of India, Corporation Bank, United Commercial Bank (UCO), Bank of India, Central Bank of India, Indian Overseas Bank (IOB), Oriental Bank of Commerce (OBC), Bank of Maharashtra, and IDBI Bank are among these institutions. Private sector banks are ignored. We examine the effects of the PCA framework on the NPAs during the PCA period of five years, i.e., 2015-19, in comparison to 2010-15(Ng'etich Joseph Collins, 2011).

Data Analysis and Interpretation

In Table 1, we display the gross GNPAs to Gross Advances ratio of selected public sector banks in India from 2010 to 2019. GNPAs refer to the portion of advances that remain due over 90 days after maturity. As per the RBI, this ratio represents the % of banks' advances allocated for provisioning and loss declarations. During a given period, this ratio illustrates the number of bank assets that are considered to be of poor quality. Accordingly, the rising ratio of GNPAs to gross advances indicates falling quality and hyped risk for bank assets. As provision hypes, funds become scarce, profitability and liquidity suffer. A decrease in the ratio indicates hyped profitability, fund availability, liquidity, and bank health. This ratio is calculated as GNPAs/Gross Advances(Mishra & Pawaskar, 2017).

GNPAs at Allahabad Bank were reported to gross advances at an average rate of 3.3 % before PCA, but have worsened further after PCA and reached 13.41 % after PCA. GNPAs were 2.89 % before PCA, but deteriorated to 13.93% after PCA. GNPAs for gross advances were 2.51% before the PCA, but they worsened to 14.83% afterward. As per the CBI, GNPAs accounted for 4.10 % of gross advances before PCA, but 16.98 % afterward. GNPAs averaged 1.68 % before PCA, but they have worsened since then, reaching 12.60%. In a similar manner to DB, GNPA to gross advances averaged 2.19% before PCA, but worsened after PCA, reaching 16.58 %. As per the study, IOB reported GNPAs to gross advances of an average 3.87 % before the PCA, but the ratio further declined afterward, reaching 21.27 % in the post-PCA period. This is the highest average among select public sector banks since the PCA. A similar trend was reported by OBC, which reported gross advances of 2.85 % before PCA, but they worsened after PCA and reached 12.49%. After the PCA, UCO reported GNPAs to gross advances of an average of 3.75 %, but following the PCA, the GNPAs worsened and reached 20.19 %. Moreover, UBI reported GNPAs of 4.87% to gross advances before PCA, but 16.96 % to gross advances after PCA. IDBI reported an average of 2.83 % GNPAs to gross advances before PCA, and 21.50 % following PCA. In spite of that, the study found that the GNPA to gross advances ratio hyped fivefold in the case of all public sector banks after PCA compared with before. Overall, the GNPA to gross advances ratio hyped from 3.14 % before PCA to 16.43% after PCA(Rao & Patel, 2015).

Figure 2 shows the NNPAs to net advances of select public sector banks during 2010-2019. Net NPAs are actual losses incurred by the banks due to customer defaults. NPA net refers to the unrecoverable portion of a bank's net advances, which is the actual loss the bank has incurred. Accordingly, a hype in the ratio of NNPAs to NA indicates a hype in the firm's losses, which will negatively impact the company's net worth, good will, profitability, and liquidity. In terms of financial health and profitability, a decrease in NNPAs to net advances is a good sign. By adjusting the provision for GNPAs, net NPAs are determined. Thus, provision rates directly affect net NPAs. Divide Net NPAs by the number multiplied by 100 to obtain NNPAs to NA ratio.

As per the study, Allahabad's reported NNPAs to NA ratio was 1.95 % before the PCA, but it has since worsened to 6.59 % during the post-PCA period. analogously, BOI has reported NNPAs to NA

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of an average of 1.55 % before PCA, but, thereafter, it has further worsened and reached 6.39 % during post PCA. During the post-PCA period, this is the lowest rating among all select public sector banks. Additionally, BOM reported NNPAs to NA of 1.27 % before PCA, but, thereafter, it has worsened to 7.81 % during post PCA. In addition, CBI reported an average ratio of 2.22 % of NNPAs to NA before PCA, but it worsened to 8.0 % post PCA. In the same vein, CB has reported an average of 1.03 % in NNPAs to NA before PCA, but then worsened to 7.08 % after PCA. DB has reported NNPAs to NA of an average of 1.44 % before PCA, but afterward, it has further deteriorated and reached 8.16 % after PCA. IOB has reported NNPAs to NA of an average of 2.15 % before PCA, but, thereafter, it has worsened to an average of 11.54 % post PCA. There were only a few select public sector banks that had a higher score during the study period. analogously, OBC reported a net NPA ratio of 1.83 % before PCA, but the ratio deteriorated to 7.08 % afterward. Furthermore, UCO reported net NPAs of 2.10 % prior to PCA, but they worsened to 9.03 % following PCA. As per UBI, its net NPA to net advance ratio was 3.01 % before PCA, but it hyped to 10.09 % afterward. IDBI reported net non-performing assets of averaging 1.55 % before PCA, but it worsened thereafter and reached 9.93 % after PCA. In contrast, the study found that in all select public sector banks, the ratio of NNPAs to NA has hyped by five times as compared with before PCA. After PCA, the net NPA to net advance ratio rose from an average of 1.83 % to an average of 8.34 %.

Table 3 shows the provision to NPAs or (provision coverage ratio) PCR of select public sector banks in India between 2010 and 2019. As per RBI guidelines, banks are required to create provisions to cover unforeseen losses. In assessing a bank's asset quality, the PCR is a key indicator. In other words, it measures the extent to which the bank has provided for the weaker parts of its loan portfolio. As a result of a high PCR, further provisions by the bank will be relatively low in the coming years (assuming GNPAs do not rise substantially). Provisions to GNPA ratio is a measure of the % of GNPAs covered by banks on a specific date. It measures the proportion of NPAs written off annually. Another name for this ratio is the PCR. Bad loans are typically protected with a portion of a bank's profits. PCR ratios above 70% indicate that most asset quality issues have been addressed and that the bank is not at risk. For a short period of time, the higher provision ratio can negatively affect profitability, available funds, and capital adequacy. As a result, banks' long-term financial stability can be surged by a significant hype in PCR in a short time. The PCR is computed by dividing the provision for NPAs by the GNPAs. All other categories are not included(Bag & Islam, 2017).

As per the study, Allahabad Bank reported a provision to GNPA ratio of 42.30 % on average before PCA, but it hyped to 44.95 % after PCA. analogously, BOI reported an average provision to GNPA ratio of 46.09 % prior to PCA, but it hyped to 51.51 % following PCA. analogously, DB has reported a PCR of an average of 35.15 % before PCA, but, thereafter, it has further hyped to 45.69 % during post PCA. analogously, OBC reported a provision-to-GNPA ratio of 38.86 % on average prior to PCA, but it hyped to 45.61 % after PCA. analogously, UCO reported an average provision to GNPA ratio of 43.58 % prior to PCA, but it hyped to 51.54 % following PCA. analogously, IDBI reported a provision-to-GNPA ratio of 42.49 % on average prior to PCA, but it hyped to 51.27 % after PCA. On the other hand, BOM has reported a PCR of an average of 51.72 % before PCA, but, thereafter, it has decreased to 44.47 % during post PCA. analogously, CB reported an average provision to GNPA ratio of 43.02 % prior to PCA, but it dropped to 42.0 % after PCA. analogously, IOB reported a provision to GNPA ratio of 45.88 % on average before PCA, but it dropped to 43.52 % after PCA. analogously, UBI reported an average provision to GNPA ratio of 41.20 % prior to PCA, but it has since decreased to 40.54 % post PCA., the study found that in the last year, all banks reported PCRs of more than half and even a fourth of their GNPAs due to the RBI guidelines to clean up their balance sheets by eliminating poor quality assets. However, the study discovered that the provision-to-GNPA ratio of Allahabad Bank, BOI, DB, OBC, UCO, and IDBI hyped after PCA compared to before PCA.In contrast, the provision to GNPA ratio has decreased in the case of BOM, CBI, CB, IOB, and UBI during post PCA compared to before PCA. Overall, the provision-to-GNPA ratio has hyped from 43.75 % on average before PCA to 46.69 % on average after PCA(Bardhan, Sharma, & Mukherjee, 2019; Narula & Singla, 2014).

Table 4 shows the % of Net NPAs to GNPAs of select public sector banks during 2009-2019. The net performing asset is the portion of GNPAs that has been adjusted for provisions/ECGC/DICGC in accordance with RBI guidelines. -performance asset reflects the actual burden on the banks due to the defaults of customers. Net NPAs refer to that part of GNPAs which is called the "actual loss" to the firm during a particular period. The Net NPA to Gross NPA ratio refers to that portion of GNPAs which is actually a loss to the firm and affects its liquidity and profitability. There is a direct relation between gross NPA and net proportion where the provision rate remains constant. A hype in gross NPA leads to a hype in net NPAs during a particular period. The

composition of various NPAs, such as substandard, doubtful, and loss assets, and provision rates affect the net NPAs. PCR is one stream of GNPA, where Net NPAs are the other stream of GNPA. As per the study, BOM reported a net NPAs to GNPAs ratio of 48.28 % on average before PCA, but it hyped to 55.53 % after PCA. analogously, CBI has reported a Net NPAs to GNPAs ratio of an average of 49.01 % before PCA, but, thereafter, it has further hyped to 49.68 % during post PCA. analogously, CB has reported a Net NPAs to GNPAs ratio of an average of 56.98 % before PCA, but, thereafter, it has further hyped to 58.24 % during post PCA. analogously, IOB has reported a Net NPA to Gross NPA ratio of an average of 54.12 % before PCA, but, thereafter, it has further hyped to 56.48 % during post PCA. analogously, UBI has reported a Net NPAs to GNPAs ratio of an average of 58.80 % before PCA, but, thereafter, it has further hyped to 59.46 % during post PCA. AB, on the other hand, reported a net NPAs to GNPAs ratio of 57.50 % on average before PCA, but it dropped to 55.05 % after PCA. analogously, BOI has reported a Net NPAs to GNPAs ratio of an average of 53.91 % before PCA, but, thereafter, it has decreased to 48.49 % during post PCA. analogously, DB has reported a Net NPAs to GNPAs ratio of an average of 64.85 % before PCA, but, thereafter, it has decreased to 54.31 % during post PCA. analogously, OBC has reported a Net NPAs to GNPAs ratio of an average of 61.14 % before PCA, but, thereafter, it has decreased to 54.39 % during post PCA. analogously, UCO has reported a Net NPAs to GNPAs ratio of an average of 56.42 % before PCA, but, thereafter, it has decreased to 48.46 % during post PCA. analogously, IDBI has reported a Net NPAs to GNPAs ratio of an average of 57.51 % before PCA, but, thereafter, it has decreased to 48.73 % during post PCA. However, the study discovered that the net NPAs to GNPAs ratio hyped in the cases of BOM, CBI, CB, IOB, and UBI after PCA versus before PCA. In contrast, the net NPAs to GNPAs ratio has decreased in the cases of AB, BOI, DB, OBC, UCO, and IDBI during post PCA compared to before PCA. Overall, the ratio of Net NPAs to GNPAs decreased from an average of 56.23 % prior to PCA to an average of 53.53 % after PCA(Guleria, 2016).

FINDINGS AND SUGGESTIONS

- Two ratios are used to measure the quality of assets during a particular period: GNPAs to Gross Advances and NNPAs to NA, two ratios used to measure the quality of assets during a particular period. GNPAs and NNPAs are two inter-related variables which have a direct relationship, which means, when provision rates are unchanged, a hype in GNPAs leads to a hype in NNPAs and vice versa. Low Gross NPA to Gross Advances and low NNPAs to NA ratios together indicate high quality of assets and low loss exposure and vice versa. The study discovered that during the pre-PCA period, the GNPAs to gross advances ratio hyped from an average of 2.36 % in 2009-10 to 5.03 % in 2013-14 (a double rate), while the NNPAs to NA ratio hyped from an average of 1.08 % to 3.15 % (a three-fold hype). Similarly, during the post-correction action framework period, the GNPAs to GNPAs ratio hyped from 6.47 % in 2014-15 to 21.93 %, a threefold hype, whereas the NNPAs to net advances ratio hyped from 4.04 % to 7.55 %, a less than double hype.
- The study found that during the pre-PCA period, banks' provision rates were insufficient to cover bad assets, as a result of which the hype in NPAs was higher than the hype in GNPAs. Thereafter, as part of the PCA framework, RBI has issued new hyped provision rates and directed banks to clear less-quality assets by 2017. Consequently, GNPAs and provisions were hyped during the post-reform period, and NNPAs hyped at a rate lower than GNPAs. So, the study reveals that the allocation of adequate provisions is a major factor in determining net NPAs. However, the study suggests that a decrease in net non-performing should be the result of the speedy recovery of bad loans, which shows a positive impact on the profitability and liquidity of the bank. It should not be the result of the allocation of additional provisions which hamper the profitability and liquidity of the bank. The study also discovered a five-fold hype in the average GNPAs to gross advances ratio during the post PCA period compared to the pre-corrective action period, while the NNPAs to NA ratio hyped by an average of 4.55 times during the same period.

- PCR and Net NPA ratio are two opposite streams of gross non-performing assets, and both ratios have an adverse relationship, which means that a hype in PCR leads to a decrease in net NPAs to GNPA ratio and vice versa. It is observed that during the five years of the pre PCA period, the PCR of all selected public banks fell from an average of 49.98 % to an average of 37.27 %, which led to a hype in net NPAs to GNPAs from an average of 50.02 % to 62.64 % during the same period. A decrease in PCR is a positive sign for the profitability of the banks in the short term, but a hype in net NPAs will have a negative impact on profitability and liquidity in the long run. This also indicates that the allocation of low provisions in the initial years demands more in the years to come. In contrast, during the five-year post-PCA study period, the

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PCR hyped from an average of 37.69% to an average of 65.03 %, resulting in a fall in net NPAs to GNPAs from an average of 62.31 % to an average of 34.97 % during the same period.in PCR leads to a decrease in net NPA to GNPAs. However, the hype in PCR shows a negative impact on the banks' profitability in the short term, but the decrease in net NPAs to GNPAs shows a positive impact on profitability and liquidity in the long run. The analysis also reveals that the allocation of huge provision in the initial years leads to a fall in the PCR in coming years.

- The improvement in PCR during the post-PCA period indicates that the selected public banks' loss absorption capacity has surged compared to the pre-PCA period., the study found that in the last year, all banks reported PCRs of more than half and even a fourth of their GNPAs due to the RBI guidelines to clean up their balance sheets through the elimination of poor-quality assets and recapitalization of huge funds by the government during 2017-18 and 2018-19. As part of this, banks create huge provisions out of their operating profits. This study helps to find that in coming days, banks' PCR will come down and profitability will hype substantially.

Table -1: GNPAs to Gross Advances Ratio of Select Public Sector Banks in India during 2010-2019

	Before - PCA Norms						After - PCA Norms					
BANK NAME	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**AVG**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**AVG**
AB	1.71	1.76	1.85	3.97	5.85	3.03	5.58	10.10	13.72	17.47	20.18	13.41
BOI	2.90	2.26	2.60	3.22	3.47	2.89	5.52	13.89	14.20	18.26	17.79	13.93
BOM	3.00	2.50	2.31	1.51	3.22	2.51	6.49	9.66	18.00	21.48	18.54	14.83
CBI	2.33	1.85	4.93	4.92	6.49	4.10	6.30	12.62	19.55	24.36	22.08	16.98
CB	1.03	0.91	1.27	1.73	3.46	1.68	4.90	10.36	12.14	18.53	17.09	12.60
DB	1.81	1.88	1.69	2.21	3.37	2.19	5.57	10.40	17.39	24.95	24.57	16.58
IDBI	1.54	1.77	2.52	3.29	5.04	2.83	6.09	11.52	23.45	32.37	34.08	21.50
IOB	4.57	2.76	2.79	4.12	5.13	3.87	8.69	18.68	24.99	28.82	25.19	21.27
OBC	1.76	2.00	3.20	3.24	4.04	2.85	5.28	9.88	14.49	19.16	13.63	12.49
UCO	2.02	3.18	3.54	5.56	4.43	3.75	6.97	16.61	18.83	28.43	30.09	20.19
UBI	3.24	2.53	3.45	4.30	10.82	4.87	9.82	13.92	16.56	26.49	18.00	16.96
AVG	2.36	2.13	2.74	3.46	5.03	3.14	6.47	12.51	17.57	23.67	21.93	16.43

Source: Computed from Annual reports of Concerned Bank and RBI during 2010-2019.
Note: Values representing in %

Table – 2: NNPAs to NA of Select Public Sector Banks in India during 2010-2019

	Before - PCA Norms						After - PCA Norms					
BANK NAME	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**AVG**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**AVG**
AB	0.79	0.66	0.98	3.19	4.15	1.95	3.99	6.76	8.92	8.04	5.22	6.59
BOI	0.91	1.31	1.47	2.06	2.00	1.55	3.36	7.79	6.90	8.28	5.61	6.39
BOM	1.32	1.64	0.84	0.52	2.03	1.27	4.19	6.35	11.76	11.24	5.52	7.81
CBI	0.65	0.69	3.09	2.90	3.75	2.22	3.61	7.36	10.20	11.10	7.73	8.00
CB	0.46	0.31	0.87	1.19	2.32	1.03	3.08	6.53	8.33	11.74	5.71	7.08
DB	1.22	1.21	1.01	1.39	2.35	1.44	3.82	6.35	10.66	11.95	8.02	8.16
IDBI	1.06	1.02	1.61	1.58	2.48	1.55	2.88	6.78	13.21	16.69	10.11	9.93

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IOB	1.19	2.52	1.35	2.50	3.20	2.15	5.68	11.89	13.99	15.33	10.81	11.54
OBC	0.98	0.87	2.21	2.27	2.82	1.83	3.34	6.70	8.96	10.48	5.93	7.08
UCO	1.17	1.84	1.96	3.17	2.38	2.10	4.30	9.09	8.94	13.10	9.72	9.03
UBI	1.42	1.84	1.72	2.87	7.18	3.01	6.22	9.04	10.02	16.49	8.67	10.09
AVG	1.08	1.20	1.56	2.15	3.15	1.83	4.04	7.69	10.17	12.22	7.55	8.34

Source: Computed from Annual reports of Concerned Bank and RBI during 2010-2019.
Note: Values representing in %

Table – 3: Provisions to GNPAs or PCR of Select Public Sector Banks in India during 2010-2019

	Before - PCA Norms						**After - PCA Norms**					
BANK NAME	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**AVG**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**AVG**
AB	61.49	55.31	46.98	19.66	28.08	42.30	28.46	33.10	35.06	53.96	74.15	44.95
BOI	54.79	59.58	40.62	35.20	40.28	46.09	39.09	43.87	51.38	54.74	68.48	51.51
BOM	45.25	47.26	63.79	65.47	36.82	51.72	35.54	34.22	34.67	47.70	70.24	44.47
CBI	70.42	64.62	36.75	41.01	42.17	50.99	42.67	41.72	47.83	54.43	64.97	50.32
CB	69.69	49.67	31.77	31.10	32.85	43.02	37.17	37.22	31.41	37.63	66.57	42.00
DB	33.41	34.81	40.23	36.85	30.47	35.15	31.39	38.70	38.90	52.09	67.36	45.69
IDBI	33.96	39.75	36.04	51.94	50.78	42.49	52.76	41.13	43.68	48.43	70.34	51.27
IOB	44.75	57.00	51.34	39.06	37.27	45.88	34.24	36.06	43.73	46.57	56.98	43.52
OBC	50.72	51.15	31.32	30.62	30.51	38.86	37.18	32.44	56.55	45.35	56.53	45.61
UCO	42.01	42.08	44.60	42.93	46.29	43.58	38.32	45.26	52.52	53.91	67.71	51.54
UBI	43.26	44.14	50.58	33.54	34.48	41.20	37.72	35.48	39.81	37.68	52.00	40.54
AVG	49.98	49.58	43.09	38.85	37.27	43.75	37.69	38.11	43.23	48.41	65.03	46.69

Source: Computed from Annual reports of Concerned Bank and RBI during 2010-2019.
Note: Values representing in %

Table – 4: Net NPAs to GNPAs Ratio of Select Public Sector Banks in India during 2010-2019

	Before - PCA Norms						**After - PCA Norms**					
BANK NAME	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**AVG**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**AVG**
AB	38.51	44.69	53.02	80.34	70.92	57.50	71.54	66.90	64.94	46.04	25.85	55.05
BOI	45.21	40.42	59.38	64.80	59.72	53.91	60.91	56.13	48.62	45.26	31.52	48.49
BOM	54.75	52.74	36.21	34.53	63.18	48.28	64.46	65.78	65.33	52.30	29.76	55.53
CBI	29.58	35.38	63.25	58.99	57.83	49.01	57.33	58.28	52.17	45.57	35.03	49.68
CB	30.31	50.33	68.23	68.90	67.15	56.98	62.83	62.98	68.59	63.37	33.43	58.24
DB	66.59	65.19	59.77	63.15	69.53	64.85	68.61	61.10	61.30	47.91	32.64	54.31
IDBI	66.04	60.25	63.96	48.06	49.22	57.51	47.24	58.87	56.32	51.57	29.66	48.73
IOB	55.25	43.00	48.66	60.94	62.73	54.12	65.76	63.94	56.27	53.43	43.02	56.48
OBC	49.28	48.85	68.68	69.38	69.49	61.14	62.82	67.56	43.45	54.65	43.47	54.39

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UCO	57.99	57.92	55.40	57.07	53.71	56.42	61.68	54.74	47.48	46.09	32.29	48.46
UBI	56.74	55.86	49.42	66.46	65.52	58.80	62.28	64.52	60.19	62.32	48.00	59.46
AVG	50.02	50.42	56.91	61.15	62.64	56.23	62.31	61.89	56.79	51.68	34.97	53.53

Source: Computed from Annual reports of Concerned Bank and RBI during 2010-2019.
Note: Values representing in %

Table – 5: T-test Results of Hypothesis Examination

Bank	Table Value	Hypothesis-I	Acceptance /Rejection	Hypothesis-II	Acceptance/ Rejection	Hypothesis-III	Acceptance /Rejection
AB	2.306004	4.1415	Accepted	4.23287	Accepted	2.57437	Accepted
BOI	2.306004	5.6591	Accepted	6.04795	Accepted	4.15191	Accepted
BOM	2.306004	5.2788	Accepted	4.58459	Accepted	3.48758	Accepted
CBI	2.306004	4.1764	Accepted	4.28026	Accepted	3.45467	Accepted
CB	2.306004	5.2000	Accepted	4.52691	Accepted	3.34149	Accepted
DB	2.306004	4.6321	Accepted	4.77141	Accepted	3.42494	Accepted
IDBI	2.306004	3.9423	Accepted	3.66162	Accepted	3.26544	Accepted
IOB	2.306004	5.9408	Accepted	6.28819	Accepted	4.42309	Accepted
OBC	2.306004	4.4921	Accepted	4.63636	Accepted	3.65073	Accepted
UCO	2.306004	4.7851	Accepted	5.71434	Accepted	3.64040	Accepted
UBI	2.306004	4.1385	Accepted	3.74211	Accepted	4.06717	Accepted

Acceptance : If calculated value is more than table value Rejection: If calculated value is less than table value

The alternative hypothesis is examined through the T-test at a 95 % confidence level for hypothesis I, "the PCA framework has shown a significant impact on the GNPAs of prompt corrective select public sector banks during the study period.". Table 4.2- Examination of GNPA Hypothesis

Results: Based on the study's findings, a significant impact was seen on the GNPAs of all the selected public sector banks. Accordingly, we accept the alternative hypothesis, and reject the null hypothesis.

Hypothesis II: PCA framework has shown a significant impact on NPAs of prompt corrective select public sector banks during the study period."

Results: The study reveals that the PCA framework has shown a significant impact on the net NPA of all select public sector banks. Hence, overall, the alternative hypothesis is accepted and the null hypothesis is rejected.

Hypothesis III: "Under the PCA framework, select public sector banks have provided PCAs significantly during the study period."

PCA framework has been shown to have a significant impact on public sector provisioning in the study. This rejects the null hypothesis and supports the alternative hypothesis.

CONCLUSION

In India, NPAs triggered the implementation of PCA for the first time by the Reserve Bank of India in history. A total of eleven public sector banks and one private sector bank are brought under the PCA framework by the Reserved Bank of India. As part of this, the present study focused on the impact of the PCA framework on all public sector banks during the PCA period. The study found that, as per RBI directions, all public sector banks cleared NPAs or poor quality assets from their balance sheets by the allocation of huge provisions, which resulted in a reduction of net NPAs in total GNPAs. However, the quality of banks' assets (advances/loans) should be surged through the recovery of loans, not through the huge allocation of provision that adversely affects banks' profitability and liquidity. Therefore, the present strategy of clearing bad loans through the allocation of provisions reduced net NPAs in GNPAs but could not reduce the proportion of gross and net NPAs in gross and net advances. This strategy had a negative impact on the banks' profitability. As a result, loss-suffering banks have merged with other banks in India recently, such as Oriental Bank of Commerce and United Banks of India merged with Punjab National Bank, Allahabad bank merged with Indian bank, syndicate bank merged with Canara bank, and Allahabad bank and corporation bank merged with Union Bank of India.

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