Consortium loans and its effect on NPA with special reference to King Fisher Airlines

***Ms.S.Sangeetha**
****Ms.R.Divya**

*Assistant Professor (Sr.), KCT Business School, Kumaraguru College of Technology, Saravanampatti, Coimbatore, Tamilnadu- 641049, India
**Student,KCT Business School, Kumaraguru College of Technology, Saravanampatti, Coimbatore, Tamilnadu- 641049, India

Abstract

The nerve centre for any economy is the banking system. The Indian banking system proved its strength during the global financial crisis and helped our economy to steer growth as well to sustain stability in highly demanding and competitive global business environment. A strong banking sector is important for a flourishing economy and the best indicator for the health of the banking industry in a country is its level of Non-performing assets (NPAs). In recent years the NPAs seems to be corroding the wellness of the Indian banking industry as a whole. NPA reflects the performance of banks. The issue of mounting non-performing assets is giving jitters to banking sector particularly in Countries like India. The gross NPA during March 2014 was 4.1% which has doubled over a period of time; it had been only to an extent of 2.4% during the year 2011.It is observed that the rise in NPA status had been due to skewed strategy adopted by the banks.. The number of "wilful defaulters" is increasing day by day. This is after effect of the banks provision of loans to big Corporates neglecting SME's to a larger extent. The paper aims at understanding the effect of big consortium loans provided by the banks and its NPA implications reflecting in bad health of banks. It describes the general NPA scenario and vital case of Aviation industry's effect on NPA.

Key words:

CDR, KFA, NPA, public and private sector loans, stressed loans.

Introduction

The Indian Banking Industry seems to stimulate growth by adopting expansion strategy to rural parts of India. As a part of it, RBI provided licence to two financial institutions recently. Banking penetration in rural area is possible with IT support services. It has decided to invest Rs. 47000 crores in 2014. All these effort seems to be much promising. But the bitter side of this industry is that it suffers due to huge NPAs. Though the deterioration in NPAs occurred for both Public Sector Banks and Foreign Banks in recent times, still the proportion is not negligible. In March2014, PSBs' gross NPA stood at 4.7per cent and net NPA ratio at 2.7 per cent. Despite the economic downturn, Private sector banks' gross NPA ratio declined to 1.9 per cent in March 2014from 2.5 per cent in March 2011. Their net NPA ratio has marginally increased to 0.7 per cent in March 2014 from 0.6 per cent in March 2011. Increase in NPA means lower the asset quality of Banks.

India though had turbulent picture of NPA with 12% as on March 2001, still finds itself in comfortable position than across countries. Stringent regulations and high economic growth soothed this position further during June 2008 as the NPA dipped to 2.4%. But the good sign of growth started to darken during the year 2008.The global financial crisis which paved way for dull trade added fuel to NPA issues. Few sectors like power, road and airlines which have consumed huge loans are observed to experience low growth scenario. This led to poor quality of assets which further turned to be nightmare for the Banks who offered loans to these sectors.

Moreover, above 40,000 cases worth of Rs. 1.73 lakh crore are to be recovered yet. As on March 2014, the GNPA in banking system hiked to 4.4 per cent from 3.8 per cent of the total assets in the previous fiscal. The Gross NPA of public sector banks which was Rs. 1.6 Lakh crore shooted up by 39 per cent to Rs. 2.2 lakh crore by March 2014. However, In case of private sector banks, the gross NPAs which was around 20000 crore approximately hyped by 13.76 per cent to Rs.22,740 crore approximately. During the year 2013-14, the public sector banks could recover only Rs. 33,485 crore approximately.

The non-recovery of loans effects not only further availability of credit but also financial soundness of the banks.

- Profitability
- Asset (Credit) contraction
- Liability Management
- Capital Adequacy
- Shareholders' confidence
- Public confidence

Turning point

The banks in general are more comfortable in lending loans to high net worth customers and large corporates. This trend seems to be changing in recent times. The corporate loans accounts to 84% of total advances which includes Industry – manufacturing, services and retail. Though services sectors accounts to 21.2% not all services industries get benefited. Aviation industry, one among the popular service industry has 27% of stressed assets.

KFA is one of the major players in Indian Aviation industry. This concern had availed a consortium/syndicated loan from 17 banks. Recently, one of the lenders has announced KFA as "wilful defaulter". KFA had financial crunch from 2012 onwards. Banks were under stake and could not recover dues from KFA since then. This has led to large NPA accruals to the loan sponsors. Banks like SBI, IDBI and PNB have sponsored huge loans. They have planned to reimburse the amount by disposing the collateral security. This is huge, tough and cumbersome process, which includes both time and cost. Similarly, the possibilities of Spice Jet Aviation Company closing down are becoming stronger**.**

Review of Literature

Zahoor Ahmed and Jagadeeshwaran.M. (2013) in their research study stated that NPA is a major problem and hurdle faced by banking industry. There are various causes for accounts to become NPAs. Some of them are improper processing of loan proposals, wilful defaulting, poor monitoring and so on.

Bhavani Prasad and Veena D (2011) in their study on NPAs in Indian Banking sector stated that PSBs accounted for 78% of total NPAs and this is due to falling revenues from traditional sources.

Meenakshi Rajeev and H P Mahesh (2010) studied banking sector reforms and NPAs in Indian commercial banks to examine the trends of NPAs in India from various dimensions. They identified that recognising and monitoring loan funds have helped in large reduction of NPAs. They also made a comparative study of Indian NPA with other nations.

Vivek Srivastava and Deepak Bansal (2012) in their study on trends of non-performing assets in private banks in India found there exists positive trend and control of NPAs by the private sector banks in India. The data for a period of five years from 2007-2012 from various secondary sources were collected and analysed by average and comparative percentage analysis. They concluded that the level of NPAs is alarming with public sector banks in India and hence banks should take timely action against degradation of good performing assets.

Current scenario

Major sectors contributing to large NPAs are given below. Though these sectors have only 30 per cent of the credit share the Gross non-performing assets in the system have grown to 4.1 per cent in FY*'14 from 3.4 per cent a year ago. The contribution of mandatory priority sector loans to the overall bad assets has come down during the last fiscal.

S.No	Sectors	
1	Infrastructure	6 sectors contributes 36% of overall 4.1% bad assets
2	Metals	
3	Textiles	
4	Chemicals	
5	Engineering	
6	Mining	

The state-run banks are the chief sources of stress. Banks contributed loans largely to the following six sectors viz, Infrastructure, Textiles, Metals and Products, Engineering Industries and Mining & Quarrying and Chemical and Chemical related Products which contributed to 30% of gross NPA against total advances offered by them in total the last year. But this has increased by 6% during the current year. The gross non-performing assets ratio for the non-priority sector grew to 4 per cent as of March 2014 as against 3 per cent in the year ago period. As per RBI reports, the growth of priority sector stood stable at 4.4 per cent. The non-priority sector has contributed more in the deterioration of the loan asset quality of the banking sector in recent years, the contribution of PSL loans to the overall bad loans narrowed to 36 per cent as of FY'14 from 40 per cent in FY'13.The lurking threat is the high growth in restructured assets during the previous fiscal 2012-13.

Objectives

- To understand the overall NPA status of Indian banks.
- To study the sector wise NPA composition over Gross loans.
- To understand the impact of Aviation industry over the NPAs with respect to KFA and its implications of Banks performance.
- To learn the corrective measures and strategies followed by Indian Banks.

Research Methodology

The study is descriptive and analytical as it aims at understanding the existing scenario of NPA and its impact. For the study, secondary data has been collected using annual report of Reserve Bank of India publication including Trend & Progress of banking in India, statistical tables related to Indian banks. Articles and papers relating to NPA published in different business journals, magazines, newspaper, and periodicals were used for this study.

Analysis and Interpretation

Objective 1: To understand the overall NPA status of Indian banks

Evolution of NPAs		
Year	**Gross NPA (%)**	**Net NPA (%)**
2006-07	2.5	1.0
2007-08	2.3	1.0
2008-09	2.3	1.1
2009-10	2.4	1.1
2010-11	2.4	1.0
2011-12	2.9	1.3
2012-13	3.4	1.7
2013-14	4.1	2.2
Source: RBI Reports		

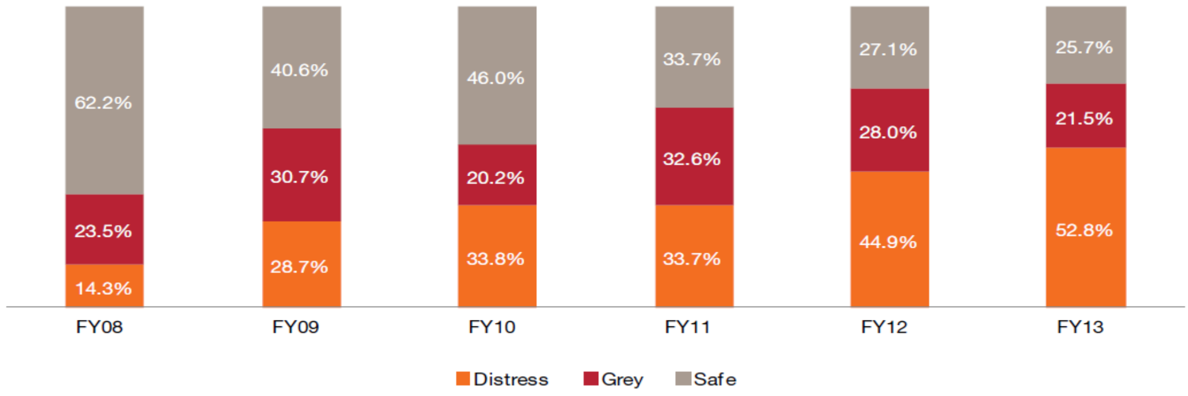
The Gross NPA ratio which had light variations in the early years experienced hiking trend during the years 2012-2014.

Banks with high NPA	
Banks	**NPA (%)**
United bank of India	11
Indian overseas bank	7.19
PNB	6.45
IDBI	6.32
Central bank of India	6.25
Other 12 banks	Ranging between 3% to 5%
Indian bank	4.1
Syndicate bank	3.94
Bank of India	3.93
Canara bank	3.36
Vijaya bank	3.08

Source: business line Nov 20, 2014

Management of asset quality has emerged as one of the major challenges facing banks today as it is the most important factor for the basic viability of the banking system. High level of NPAs not only affects core performance area of the banking system but also raises corporate governance issues. The trends in NPAs since 2007 are furnished below.

Corporate debt failing Z-score levels



Source: Jefferies –Performed on 414 companies out of the BSE 500 Index, making up almost 40% of the total banking system loans

The corporate solvency position seems to be annoying year on year. The distressed companies were only at 14.3% during FY 2008 which hike to 52.8% during the year 2013 this would definitely affect the loan recovery process. The strong credit growth is the synonymous with improvement in asset quality and at the same time the declining credit growth in the system is an indication for asset deterioration and likely to add impaired assets further. Asset Quality concerns persist as the growth in NPAs accelerated and continued to outpace credit growth.

Objective 2: To study the sector wise NPA composition over Gross loans

NPA at public sector banks have surged to 5.32% this year from 4.82 % on September 2013.NPA's at private sector banks have come down to 2.04% from 2.06% last September. It has been observed that public sector banks lagged private ones on asset quality and profitability parameters too.

Summary of Gross and Net NPAs Percentage in Public and Private Sector Banks

Years	Public Sector Bank		Private Sector Bank	
	Gross NPAs (%)	Net NPAs (%)	Gross NPAs (%)	Net NPAs (%)
2001-02	**11.09**	5.82	**9.64**	5.73
2002-03	9.36	4.54	8.08	4.95
2003-04	7.80	3.00	5.85	2.80
2004-05	5.50	2.00	6.00	2.70
2005-06	3.60	1.30	4.40	1.70
2006-07	2.70	1.10	3.10	1.00
2007-08	2.20	1.00	2.30	0.70
2008-09	2.00	0.94	2.36	0.90
2009-10	2.20	1.09	2.32	0.82
2010-11	2.40	1.20	1.97	0.53
2011-12	3.30	1.70	1.80	0.60
2012-13	3.80	2.00	1.90	0.50
2013-14	4.70	2.70	1.90	0.70
2014-15	**5.33**	**3.14**	**2.05**	**0.81**

Source: Trends and progress of banking, RBI

It has been found that Gross NPAs percentage showing decreasing pattern till year 2006. Then after it was more or less remain constant from year 2007 to 2012 in both Public as well as Private Banking Sector respectively, whereas the Net NPAs percentage in Public and Private Sector Banks showing more or less decreasing pattern throughout a decade i.e. from 2001 to 2012.But after 2012 to 2014both Gross and Net NPAs percentages are found to be increasing in both Public and Private sector banks.

Industry wise gross NPA		
Sectors	**Sep 2013**	**Sep 2014**
Coal	7.5	11
Food processing	6.7	7.6
Textiles	7.5	9.7
Chemical & chemical products	7.5	8.3
Cement &cement products	5	10.4
Iron & steel	**6.9**	**6.9**
Gems & jewellery	11.9	14.2
Construction	**6.9**	**5.7**
Infrastructure	1.9	2.4
Aviation	**13.9**	**9**

Source: the hindu-business line dated November 20, 2014

The bad debts in seven key industries registered a surge during the same period. But iron & steel, construction and aviation offered respite. NPA has risen due to the sluggish growth, slowdown in recovery in global economy and uncertainty in the global markets.

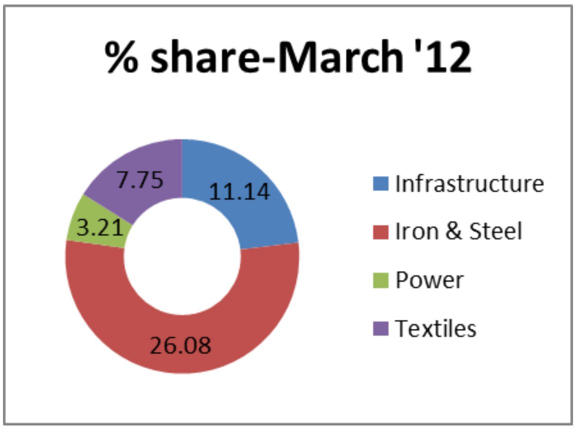
As per RBI's reports as on April 4, 2014, the credit growth of Scheduled Commercial Banks (SCB) on a year on year basis stood at 13.8% which was slightly lower than 13.9% witnessed in FY13. In a Sectoral perspective, Agriculture & Allied activities experienced a credit growth of 13.5% (FY13: 7.9%), Industries at 13.1% (FY13: 15.1%), Services at 16.1% (FY13: 12.6%) and Personal Loans at 15.5% (FY13: 14.7%).

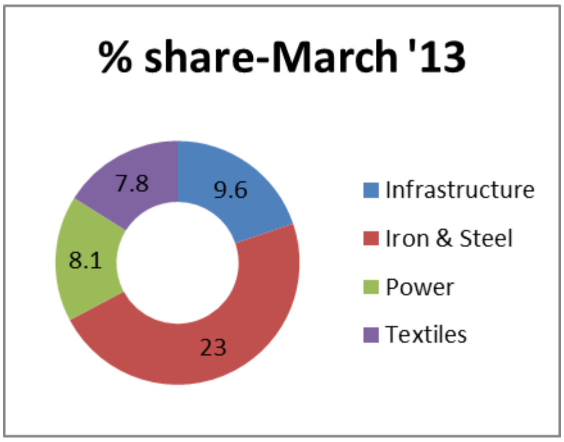
Table showing the credit growth percentage for public sector banks and private banks for the years 2012-2014

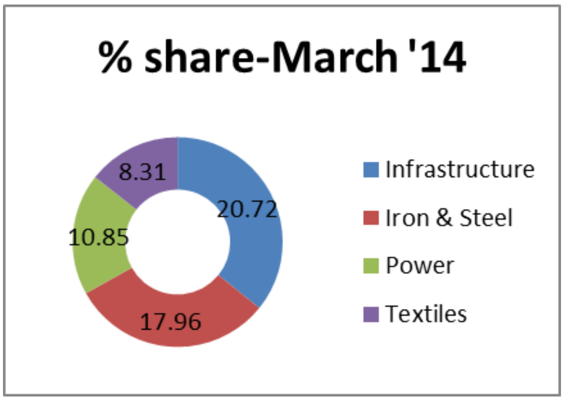
Sector	**Y-o-Y growth (%) of Advances as on March ended**		
	2012	**2013**	**2014**
Overall- Industry	17.84	16.64	14.49
Public Sector Banks	17.25	16.32	14.09
Private Sector Banks	20.44	18.05	16.17

Source: RBI reports

An analysis on the Corporate Debt Restructuring (CDR) during the period March, 2012 to March, 2014, shows that the major sectors which had maximum cases of restructuring approval had been Iron & Steel, Infrastructure, Textiles and Power. The following figures shows the amount approved under CDR for the top four industries during FY12 to FY14 and their percentage share in the total amount approved for CDR.







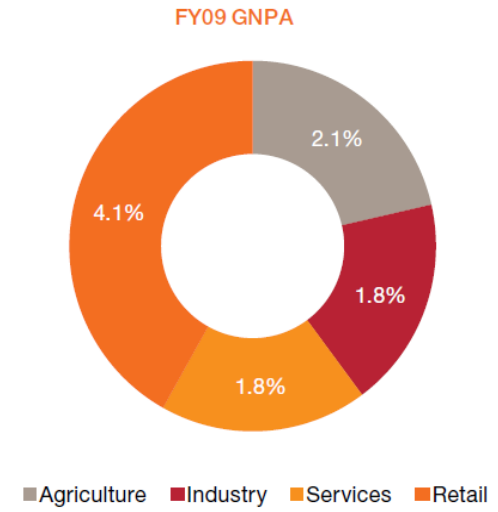
Source: www.cdrindia.org

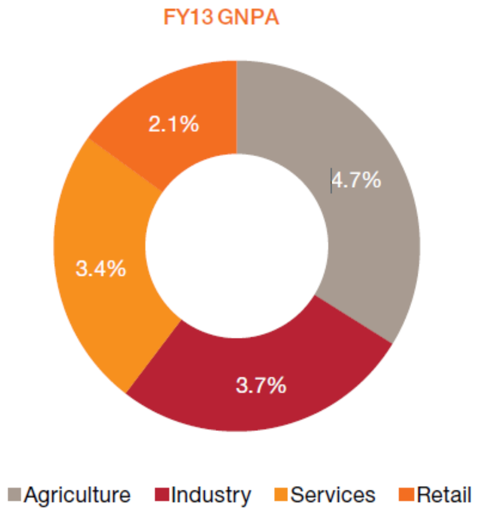
Restructuring is done to improve the health status of the banks. Of the cases referred to CDR, only 49% had been implemented successfully .Comparatively public sector banks are seriously affected as they own large share in the pie; which will turn vigour when business scenario stays unfavourable.

According to India ratings, the aggregate debt of top 500 corporate borrowers accounted the largest debt of 73% of the total bank lending to the manufacturing industries, services and export sectors. Around 82% of them have already been formally tagged as financially distressed asset. The de allocation of coal blocks created a setback to sectors like metal, power and cement companies which questions the repayment capabilities of these sectors.

FY09 vs FY13 sectoral GNPA

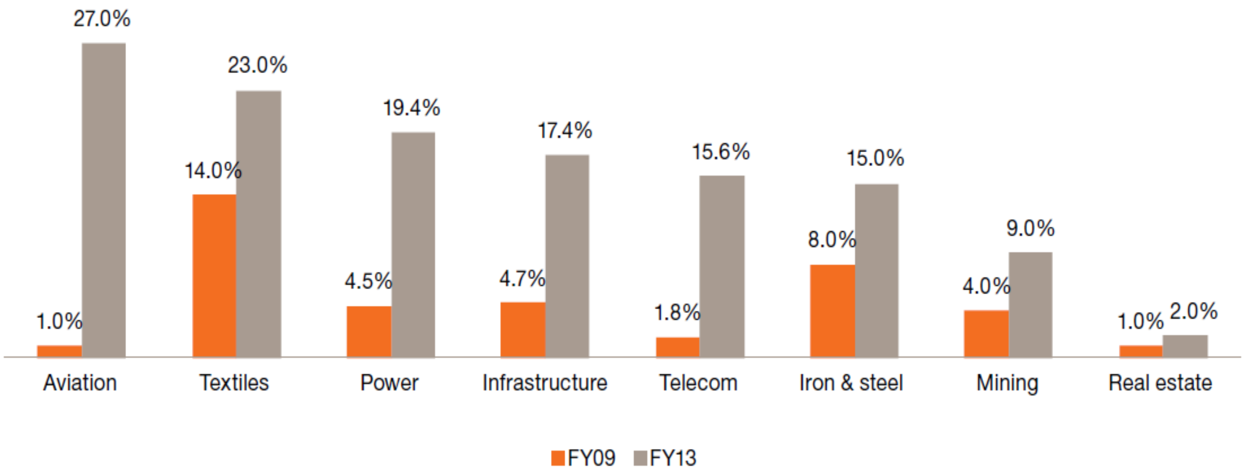
The four broad sectors in the economy where disbursements are taking place are agriculture, industry, services and retail. For most of these sectors (barring retail), stressed asset ratios have increased substantially (and in some cases almost doubled) from FY09 to FY13.





Source: Reserve Bank of India, Jefferies

Sector wise stressed assets for the year 2009 & 2013



Source: Reserve Bank of India, Jefferies

An analysis shows that the majority of stressed assets are in the infrastructure segment, including power and telecom, as well as textile, iron and steel.

Sectors	2009	2013	Effect
Aviation	1%	27%	↑(more than 20 times)
Textiles	14%	23%	↑(one and a half times)
Power	4.5%	19.4%	↑(quadruple)
Infrastructure	4.7%	17.4%	↑(quadruple)
Telecom	1.8%	15.6%	↑(more than 14 times)
Iron & steel	8%	15%	↑(double)
Mining	4%	9%	↑(more than double)
Real estate	1%	2%	↑(double)

According to Fitch, Public sector banks account for 90% of the banking system's stressed assets while suffering from sharply declined earnings and weak capitalisation. In September 2014, PSBs continued to record high levels of stressed advances at 12.9% of their total advances while for private sector banks the stressed advances stood at 4.4%

Objective 3: To understand the impact of Aviation industry over the NPAs with respect to KFA and its implications of Banks performance.

KFA owes over Rs 7,500 crore to a consortium on 17 banks led by State Bank of India and the bankers last year stated that they had lost confidence in the company being able to repay these loans. SBI, which is the lead bank of a lender consortium to the crippled carrier.

Name of the banks	**Loans Disbursed to KFA** **(Rs. in Crores)**
SBI	1,600
IDBI Bank	950
Punjab National Bank	800
Bank of India	650
Bank of Baroda	550
SREI Infrastructure Finance	430
Central Bank of India	410
United Bank of India	350
Uco Bank	320
Corporation Bank	310
State Bank of Mysore	150
Indian Overseas Bank	140
Federal Bank	90
Jammu & Kashmir Bank	80
Punjab & Sind Bank	60
Axis Bank	50
Oriental Bank of Commerce	50

Source: Economic times

According to RBI norms, a wilful defaulter is a person/company who deliberately doesn't honour debt commitments to lenders. Once branded a wilful defaulter, a person or entity cannot access institutional credit. Such a person cannot hold office of director.

- The borrower has the capacity to repay but doesn't
- Diverts funds for other purposes
- Siphons off funds
- Disposes or removes assets furnished as security

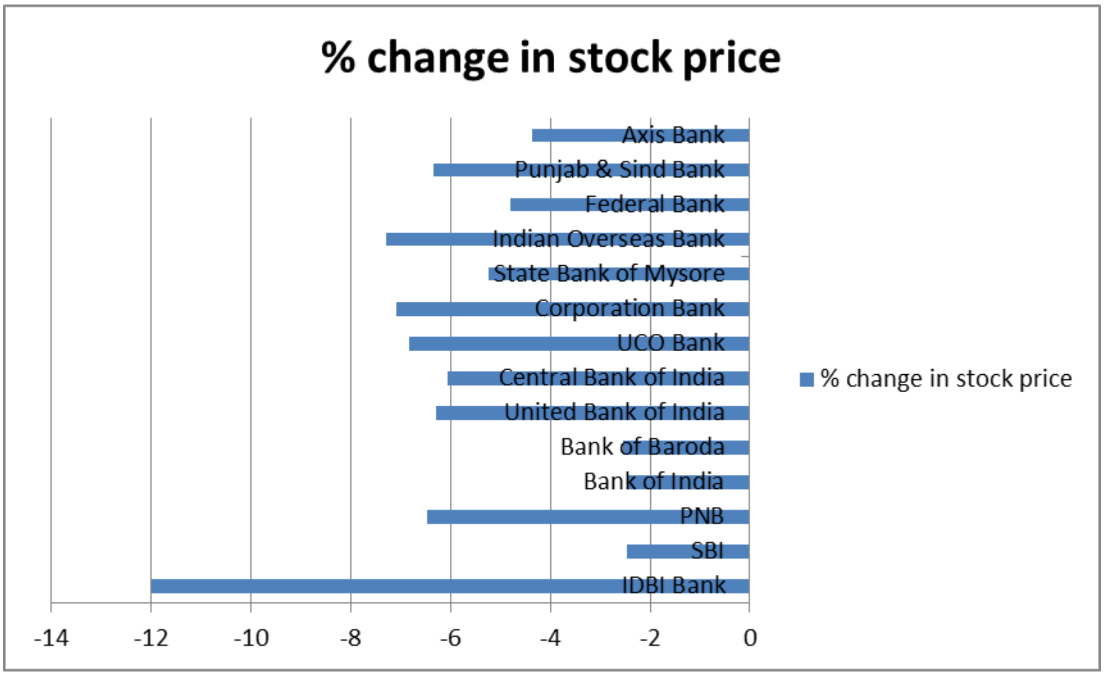
Actions Taken:

United Bank of India (UBI) has declared Vijay Mallya and three directors of Kingfisher Airlines (KFA) as wilful defaulters. The bank had an exposure between Rs.350 crore and Rs.400 crore to KFA, which was sponsored by the UBI. Three major PSU banks SBI, PNB and IDBI may soon initiate the process to declare Kingfisher Airlines and others as wilful defaulters after the firms failed to service their debt.

The consortium led by SBI has also initiated the process of recovery. Last February, the banks decided to sell a portion of the collateral with them, which encompasses shares of United Spirits Ltd , Mangalore Chemicals & Fertilizers Ltd , physical properties of the owner and the Kingfisher brand, which accounted to Rs. 4,000 crore.

The consortium banks viz, State Bank of India, Axis Bank Ltd, Bank of Baroda, Bank of India, Central Bank of India, Corporation Bank, Federal Bank Ltd, IDBI Bank Ltd, Indian Overseas Bank, Jammu & Kashmir Bank Ltd, Punjab & Sind Bank, Punjab National Bank, State Bank of Mysore, UCO Bank, and United Bank of India are seeking for possession and sale of properties.

The stock prices of Loan providers to Kingfisher Airlines in the past five sessions:



Source: economic times dated Aug 12, 2014

Objective 4: To learn the corrective measures and strategies followed by Indian Banks

Lack of credit demand from corporate and bank's reluctance to lend to the sector in the face of rising NPA dragged down the overall credit growth to 1.76%.Bank credit to industry which constitutes about 43% of the total bank credit had a slight dip. The priority sector loans by banks rose 1.4% as banks lent more to agriculture and allied activities and low-cost housing. Agriculture and personal loans showed a higher growth of 11.2 % and 8.8% respectively while industry and services witnessed lower growth of 0.7% and 1.5% respectively in April- October 2014 period.

Credit growth(in crores)		
Segments	**Sep 2013**	**Sep 2014**
Agriculture& allied activities	20,100	55,400
Industry	1,41,300	-8,700
Services	1,03,400	-15,200
Personal loans	67,700	54,000
Priority sector loans	1,04,700	26,900

Source: business line Nov 4, 2014

Public sector banks are coming up with schemes with special attention to the micro, small and medium enterprises (MSMEs). Many Indian banks have come up with the plans to strengthen its loan portfolio under RAM (Retail, Agriculture and MSME) sectors, mobilising CASA (current account, savings account) deposits, expansion of branch and ATM network and alternative delivery channels, expanding the customer base and improvement in asset quality. At present the three sectors where growth on advances is consistent are retail, agriculture and MSME. The deterioration in asset quality is visible across the banking industry. This is due to the slowdown in the manufacturing and services sectors. Timely action on NPAs and improved recovery action are high on the bank's agenda. They have initiated action against the defaulting borrowers by invoking The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002(SARFAESI Act) and resorting to legal action by filing suits in debt recovery tribunals and civil courts.

While a robust mechanism for early detection of distress in the loan accounts has been set up, banks have also strengthened monitoring and follow-up at all levels. Each General Manager at the corporate office has been allotted top NPA accounts for close personal follow-up and monitoring. The banks are stimulating loan recovery process by setting camps in all branches.

Steps taken by Government

With bad debts rising and profit margins depleting, Government of India has already initiated corrective and serious measures on corporate governance. Serious steps are taken up in appointing the Chairman and Managing Director and Executive Directors in public sector banks. Suggestions from the general public as how to improve performance of public sector banks on various parameters are invited which can be given on www.mygov.in. The finance ministry is considering reducing its stake in public sector banks to 52% which informally has been kept at 58%. It has been planned as part of a broader privatisation initiative in the banking sector.

Recommendations and Conclusion

With increased regulatory focus on segregating cases of wilful defaults and ensuring adequate equity participation of promoters in the losses leading to defaults there is a need for greater transparency in carrying out a net economic value impact assessment and audit of big-ticket CDR cases. RBI can help banks reduce the cost of funding to infrastructure projects and minimise the need for restructuring such loans. Since its among the top five sectors that contribute to the level of stresses loans and this can slow down the pace of loans restructured within the sector.

It is responsibility of Government and RBI to help banks to improve their performances, by setting up respective regulatory requirements and policy rates. Setting up of Asset Reconstruction Company and changes in SARFAESI and DRT acts will facilitate smoothened loan recovery mechanism. It also helps to reduce their problems of wilful defaulters as it will facilitate enforcing huge and harsh penalties for wilful defaulters. Banks should not show stepmother care to MSME and individual borrowers and they also have to follow the loan processing mechanism in a prudent and ethical way. Risks could be spread only when varied type of borrowers are focused. It would be high when banks concentrate on large companies alone. Hence the decision of banks to refocus on RAM is appreciable. Though the current NPA recovery process would be time consuming .The refocus strategy will help the banks not to get trapped once again in similar type of issues. Sustainability and profitability will be ensured with strict regulations cum refocused strategy.

Bibliography:

Weblinks:

http://www.allbankingsolutions.com/Articles/NPA-impact-on-Balance-Sheet.htm

http://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/6CHAPT2250614.pdf

http://articles.economictimes.indiatimes.com/2014-08-12/news/52727697_1_rs-800-crore-indian-overseas-bank-idbi-bank

http://articles.economictimes.indiatimes.com/2014-08-10/news/52648258_1_cbi-probe-kfa-cbi

http://www.business-standard.com/article/finance/sbi-classifies-its-kingfisher-airlines-exposure-as-npa-112010600069_1.html

http://www.moneycontrol.com/news/cnbc-tv18-comments/kfas-debt-woes-couplebanks-classify-its-loans-as-npa_645820.html

http://www.governancenow.com/news/banking/bank-defaulters-should-not-be-allowed-contest-elections-aibea-writes-ec

http://rbi.org.in/Scripts/PublicationsView.aspx?Id=14709

http://firstbiz.firstpost.com/corporate/trouble-mounts-for-vijay-mallya-now-sbi-slaps-wilful-defaulter-notice-on-kfa-98501.html

http://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/RBIARE210814_FULL.pdfRBI says 36% of total bad loans are from six key sectors | Business LineNPA - Impact on Balance Sheet

http://www.ijarcsms.com/docs/paper/volume2/issue1/V2I1-0015.pdfReserve Bank of India

http://www.ijmrbs.com/ijmrbsadmin/upload/IJMRBS_53ba7d95b1bab.pdf

http://www.pwc.in/en_IN/in/assets/pdfs/publications/2014/growing-npas-in-banks.pdfTrouble mounts for Vijay Mallya: Now SBI slaps wilful defaulter notice on KFA - Firstbiz

http://csis.org/files/publication/140401_Gynedi_IndiaNonperformingAssets_Web.pdf

http://www.careratings.com/upload/NewsFiles/SplAnalysis/Banking_Study_Report_FY14.pdf http://hrmars.com/hrmars_papers/Non_Performing_Assets_An_Indian_Perspective.pdfTop 14 Kingfisher lenders face tough times; stocks plunge upto 12% in five sessions - Economic Times

http://www.thehindubusinessline.com/companies/retail-farm-sme-sectors-offer-good-growth-potential-corporation-bank-cmd/article5649865.ece

http://articles.economictimes.indiatimes.com/2013-07-08/news/40443326_1_ss-mundra-business-confidence-baroda

http://www.moneycontrol.com/smementor/interview/finance-capital/looking-to-up-loans-to-agri-sme-bank-of-barodas-mundra-844244.html

http://www.smetimes.in/smetimes/news/top-stories/2014/Jul/14/steps-initiated-to-tighten-npa-of-banks-gs-sandhu631292.html#sthash.KsvevCBV.dpuf

http://www.thehindubusinessline.com/economy/bill-to-check-wilful-loan-defaults-likely-in-winter-session-of-parliament/article6388086.ece