

The Neelkantha of Economy

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Received on 04.01.2020

Accepted on 25.04.2020

Abstract

Neelkantha is the name given to Lord Shiva when he drank the venom which came after churning of Sea (Samudra Manthan) so that benefits of samudra Manthan can be given to the world and world can be saved from the venom's deadly effect. The economy of the country is also churning and its venomous effect in form of NPA has started gulping the banks like Yes Bank after gulping many companies. To negate this venomous effect, the largest Bank of India, the Backbone of Indian Economy, State Bank of India stepped in as Neelkantha. The Government of India had again trusted upon expertise of a Public Sector Bank to turnaround a turbulent private Bank. This article tries to explain what may have prompted Government to trust a Public Sector Bank and its executives to turn around a Private Bank when critics were questioning the ability of Public sector Banks (PSBs) to control NPA.

Keywords: NPA, SBI, YES Bank, ARC, Recovery, NPA recovery

INTRODUCTON

When the Sun was preparing to go down on the Horizon at the western coast of India's financial capital and small spells of the rain were lashing the political capital of India, bringing the darkness and cold to Geography of India, at the same time news of moratorium of Yes Bank rattled the market, its depositors, customers and experts. In this troubled time of darkness, the Ray of hope and light came from the NEELKANTHA of Indian Economy, a public sector bank, State Bank of India. The Elephant of Indian banking sector stepped in to protect the depositors, image and structural stability of the Indian banking sector, bringing joy and hope to lakhs of Indian citizens.

In current economic downturn many events have unfolded. This time, one of blue eyed Bank of Indian Banking Sector i.e. Yes Bank, who was publicly praised by many market experts including regulators in the past for its initiatives and market strategies was on the verge of collapse due to mounting NPA. The Government trusted the abilities of a top executive of public sector Bank for administrating the stressed Yes Bank to bring confidence among public.

Shri Prashant Kumar, Ex DMD SBI, is the latest name in the list of Top Executives of SBI, who have been given the responsibility of other Banks by the Government of India, in the recent past. This appointment was also unique in the sense that earlier SBI executives were given responsibility of public sector banks but this time it was a private bank.

Following is the list of Top executive of SBI who have been appointed at various Banks in recent past to run other banks.

Table 1: List of Top executive of SBI

1	Shri Sanjiv Chaddha	DMD SBI	MD and CEO Bank of Baroda	Feb 2020
2	Shri Mrutyunjay Mahapatra	DMD SBI	MD and CEO of Syndicate Bank	Sep 2018
3	Smt Padmaja Chundururu	DMD SBI	MD and CEO Indian Bank	Sep 2018
4	Shri Pallav Mohapatra	DMD SBI/ CEO SBI Cards	MD and CEO Central Bank	Sep 2018
5	Shri J. Packirisamy	DMD SBI	MD and CEO Andhra Bank	Sep 2018
6	Shri Karnam Shekhar	DMD SBI	MD and CEO Dena Bank	Sep 2018

Source: Economic Times

Among many other things, the appointment of SBI top executive to Yes Bank for turnaround came as a surprise to some critics of Industry, who, in the past, advocated that to improve the efficiency of Public Sector Banks (PSBs), top Management in PSBs should be recruited directly from market amongst the people having experience of Private Sector Banks (PVBs).

In past, a section of Critics had gone to the extent of advising the Government that government should privatise PSBs because of their inefficiencies which as per them were evident on account of Increasing NPA.

In current market scenario, the experts were assessing the performance of the Bank on the basis of NPA position of a bank.

In past, PVBs had shown lower NPA percentage than PSBs and this had given the impression that they have managed the default risk better than PSBs. Following data of RBI also supports this presumption.

As per this data, in last 10 years PVB has low NPA % than PSBs.

Table 2: NPA Percentage

F.Y.	NPA Percentage				
	ALL SCB	PSB	PVB	FB	SBI
2010	2.5	2.3	3	4.4	3.05
2011	2.4	2.3	2.5	2.6	3.28
2012	2.9	3.2	2.1	2.8	4.44
2013	3.2	3.6	1.8	3	4.75
2014	3.8	4.4	1.8	3.9	4.95
2015	4.3	5	2.1	3.2	4.25
2016	7.5	9.3	2.8	4.2	6.5
2017	9.3	11.7	4.1	4	6.9
2018	11.2	14.6	4.7	3.8	10.91
2019	9.08	11.6	5.3	3	7.53

Source: Various RBI data reports published from Time to time

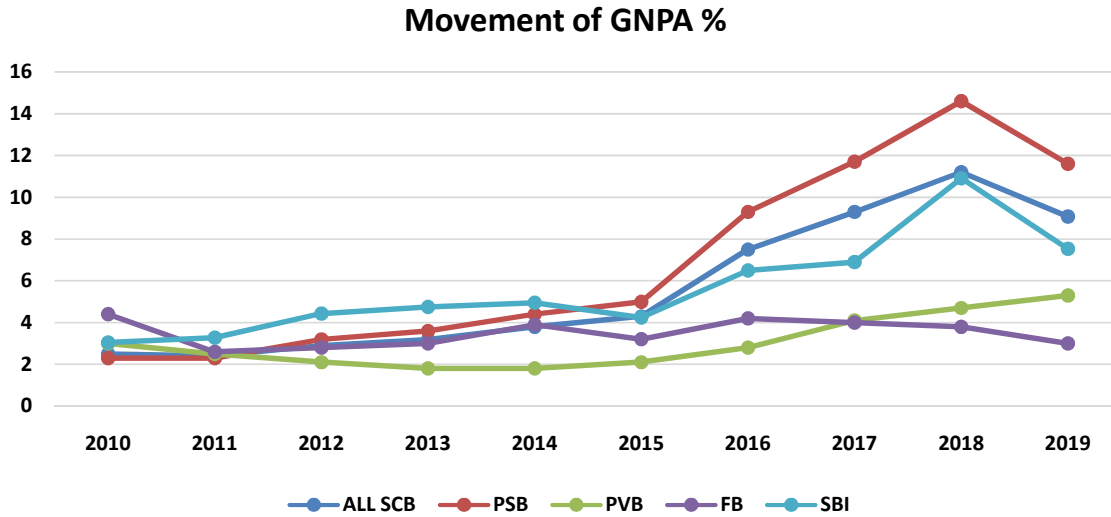


Figure 1: Movement of GNPA

Source: Various RBI data reports published from Time to time

So why did Government trusted upon expertise of SBI Executive for running a troubled private Bank and not any private Sector executive despite of higher NPA percentage than PVBs? Before we try to find out the answer, let us understand what is happening in the world economy and how it is affecting NPA position in India.

GLOBAL SLOW DOWN

The global economy has been slowing down due to escalation in trade tensions, elevated financial vulnerabilities, geo-political risks and associated policy uncertainties. Across the globe the most of the economies are facing down turn.

The chart below specifies how the world economies have been facing slowdown in the last few years.

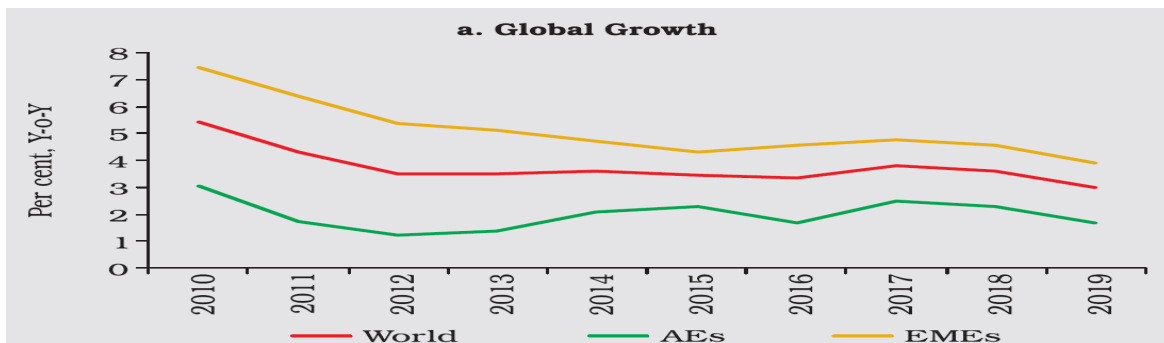


Figure 2: Global Growth

Source: RBI, Report on Trend and Progress of Banking in India 2018-19, World Economic outlook Data Base.

India is also not an exception to the global economic slowdown and this slow down has affected the Indian industries and banks in turn.

As per Financial soundness Indicator of IMF, in 2018, among the Major emerging economies India has 2nd highest place in NPA which is just behind the Russia. The Chart below explains the position of NPA in various economies.

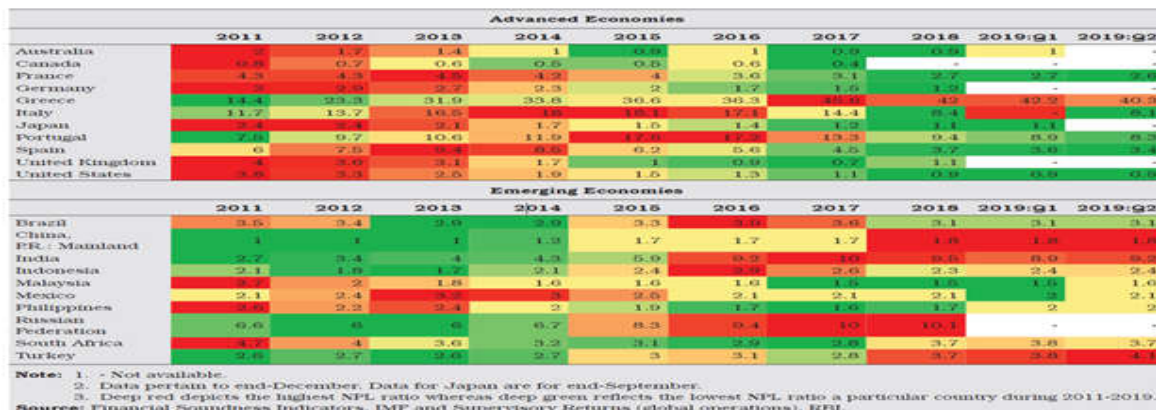


Figure 3:

However it is not the worst NPA situation

Though Banking Industry is facing the worst NPA crisis of the decade, it is certainly not facing it first time and in past (1996-2000) the NPA percentage was higher than what it is today.

GNPA POSITION OF INDIAN BANKING INDUSTRY

Table 3: GNPA Position of Indian Banking Industry

Year (End-March)	Advances		Non-Performing Assets	
	Gross Amount	Amount	As Percentage of Gross Advances	
2018-19	10290923	936474	9.1	
2017-18	9266210	1039679	11.2	
2016-17	8476705	791791	9.3	
2015-16	8171114	611607	7.5	
2014-15	7560666	322916	4.3	
2013-14	6875748	263015	3.8	
2012-13	5971820	192769	3.2	
2011-12	4648808	136968	2.9	
2010-11	3995982	93997	2.4	
2009-10	3262079	81718	2.5	
2008-09	3024652	69954	2.3	
2007-08	2503431	56606	2.2	
2006-07	2007413	50517	2.5	
2005-06	1545730	51753	3.3	
2004-05	1167684	57396	4.9	
2003-04	902026	64812	7.2	
2002-03	778043	68717	8.8	
2001-02	680958	70861	10.4	
2000-01	558766	63741	11.4	
1999-00	475113	60408	12.7	
1998-99	399436	58722	14.7	
1997-98	352696	50815	14.4	
1996-97	301698	47300	15.7	

Source: Various RBI data reports published from Time to time

The above table depicts the amount of Gross Advances, Gross NPA and the percentage of Gross NPA during the period of 1996-97 to 2018-19. The amount of advances of has increased from Rs. 301698 crores in 1996-97 to Rs **10290923 crores** in 2018-19. The amount of gross NPA has increased from Rs. 47300 crores in 1996-97 to Rs. 936474 crores in 2018-19.

Similarly, NPA percentage is also showing the rising trend from 2.9 in 2011-12 to 11.12 in 2018.

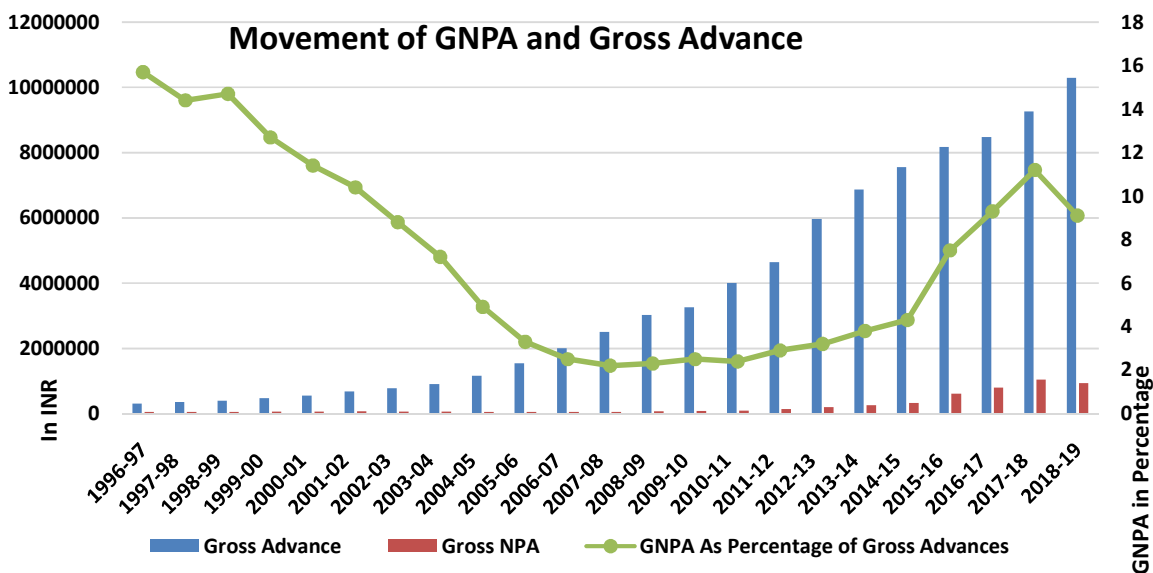


Figure 4: Movement of GNPA and Gross Advance

So situation of NPA is not as grim as it was painted and banks have handled their NPA better than before in percentage terms.

REASON OF HIGH NPA IN PSBS AND LOW NPA IN PVBS

Public Sector Banks, which are holding majority of the market share and financed the most of the capital intensive and high value projects due to their Risk bearing capacity, national duty to support industries, inability of PVBs in funding certain projects, Government persuasion for economic growth and past experience of financing these type of projects found themselves on the wrong foot when world economy faced downward trend.

The business started failing and NPA started increasing. So PSBs, who hold the Lion’s share of business also faced the lion’s share of NPAs.

Government seems to understand that PVBs do not have capacity to handle NPAs and usually take flight mode instead of fight mode while handling NPAs.

The data in RBI report reveals that PVBs are selling most of their NPAs to ARCs. In last 5 years 50% - 70% of GNPA have been sold by PVBs to ARCs by which they have able to show the low NPAs. In comparison, PSBs have sold less than 10% of their NPAs to ARCs. Following chart shows the comparison of Percentage GNPA sold by various Banking segment in last 5 years.

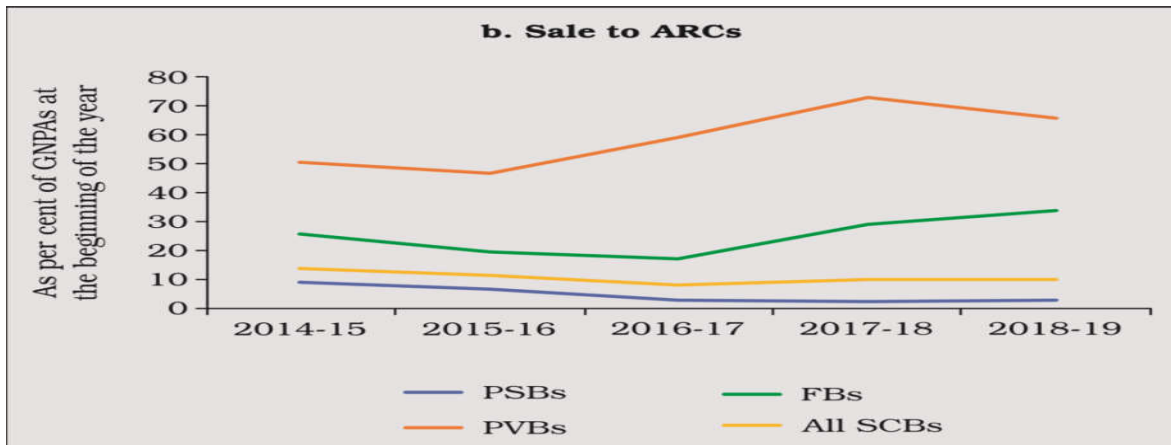


Figure 5: Sale to ARC

Source: RBI report

Data from RBI report also reveals that PVBs are usually aggressive in writing off Bad loans vis a vis their PSBs peers and has written off almost near to 33 % of their GNPA (in last 6 years).

In its comparison PSB has written off almost near to 20 % of their GNPA (in last 6 years). Which means in Percentage terms PVBs has written off 60-65% more than PSBs.

Following chart shows the comparison of GNPA written off by various Banking segment in last 6 years.

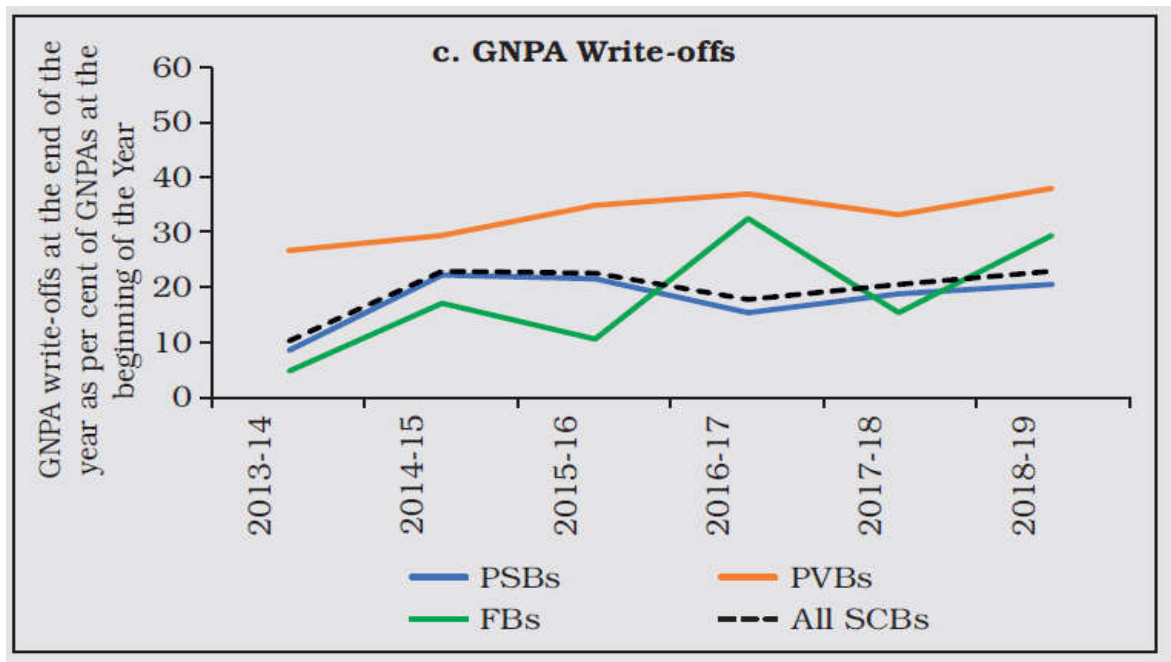


Figure 6: GNPA write-offs

Source: RBI report

These methods resulted in low NPA percentage perception; however same is now noticed by the Industry.

This inexperience of PVBs in handling NPA may have left the government with no option but to use the expertise of SBI executives to turnaround NPA affected yes Bank.

CONCLUSION

The world economy was on a downward trend during last 10 years and the same has affected the Industries and Banks in India. Indian Banking Industry has seen higher percentage of NPA in past than it is facing today so situation is not as grim as projected and Banks have been able to control NPA better than last NPA cycle. Since 2015, banking giant SBI has performed better in handling NPA than overall banking Industry and gap between NPA percentage of SBI and PVBs has been shrinking rapidly.

PVBs have suffered NPAs however they have used loan write offs and Sale to ARC as a mode to clean their balance sheet and thus have been able to show better NPA percentage. This inexperience of PVBs in handling NPAs may have prompted the Government to trust upon the expertise of SBI to turnaround a Private stressed Bank.

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