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FINANCIAL SUSTAINABILITY OF INDIAN BANKING SECTOR

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INTRODUCTION:

Indian banking system is plagued by the surge in Non-Performing Assets (NPAs) since 2009, post global financial crisis. Repeated measures taken by the Government and Reserve Bank of India (RBI) collaboratively or individually did not bring the expected outcomes and more-so it exacerbated to the core and heightened the level of deterioration of asset quality of Indian banks. Prominently the public sector banks are worse hit than its private counterparts, though the latter made entry into the world of devastation in the recent years and thereby added to the ceremonial growth of stressed assets. The paper has attempted to focus on the vulnerability of the Indian banks, both public and private sector towards its burgeoning NPAs post 2008. The study revealed that the sustainability of the Indian banking sector became troublesome as disadvantages in uncontrollable asset quality deterioration; growth outpaces the advantage of the remedial measures.

The banking sector underwent paramount transformations since decades. It dates back to post first phase of Economic Liberalization of 1991 and NPA emerged as an upsetting intimidation in the nation sending adverse signals on the sustainability and insurability of the debt burden banks. Among many desirable well-functioning characteristics of the financial system, management of NPA is a significant one. The aggravation in the asset quality deterioration of the Indian banking sector came to the lime light gradually post financial crisis 2008 and by virtue of time span it touched the peak level. The story not being new, Government and RBI initiated multiple steps to curb down the upsurge in NPA, but did not result expectedly. The two concepts of Gross NPA (GNPA) and Net NPA (NNPA) are indicative of further slippages. Higher slippages can be compensated by proper provisioning norms and these being higher the profitability becomes a question. As NPA can't be completely removed from the financial system, its furtherance should be resisted at the earliest to overcome excessive future financial erosion of capital. Gross NPA of gross advances which stood at `13 lakh crore as on March 2012, have increased by a whopping 438.46% to `57 lakh crore as on December 2016. The paper has focused on select eight public sector banks and four private sector banks who were sampled (in a group of 38 banks) for scrutiny and revealed that the upward trend in NPA is persistently strong, eroding the profitability of the banks.

REVIEW OF LITERATURE:

SikdarPallab, (2013), the paper identified the credit risk from the existing level of bank's NPA. It also indicated the steps for recovery of loans and advances made by the public and private banks. The research was based on extensive study of annual reports and annual publications of public and private sector banks by Indian Banks Association (IBA). The NPA problem can be tackled with proper credit assessment and risk management mechanism. The author concluded that the Problem of NPA can be taken to be resisted at its nascent stage, to avoid fresh addition to the stock of NPA, because during the regime of mounting NPA, the willingness to lend forward may impact the asset quality of the banks.

Care Ratings, (2017), NPA mess of the Indian banking sector, more prominently the public sector banks have drastically shredded the profitability due to unparallel growth in stressed assets, especially in the last June 2016 to June 2017. NPA ratio has gone up from 8.42% in June 2016 to 10.21% in June 2017, highest in last six quarters. The performance of the public sector banks are worst than their private partners, though it was expected that the stressed loan book problem would get over by March 2017, but the scenario turned opposite. Various measures have been attempted to address the issue with IBC, being the latest one, where some of the larger NPAs would have been referred for speedy resolution.

Nishant Raj, (2017), the author focussed on the NPA management as an urgent need. The article emphasized on definition of NPA, factors of NPA, impact of NPA, steps to tackle NPA. The paper mentioned as a need of the hour how technology and analytics to identify the early warning signals, measures to extract hidden NPA, development of internal skills for credits assessment , applying forensic audit to investigate the borrowers intention.

Urjit Patel, (2017), The GNPA ratio is at 9.6% and the stressed advances ratio at 12% as on March 2017. Almost 86.5% of the Public sector banks are worst hit in this alarming scenario as the chunk of bad loans is due to the large corporate borrowers with aggregate exposure of Rs.5 crores or above. To resolve this issue the Government and regulators are playing key roles to restructure the capital of the banking sectors, reorganize recoveries from different channels at the cost of present cost and pains for a desired end game.

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T.R. Radhakrishnan, (2016), the effective remedy of resisting the foul growth of NPA in banking sector is to eliminate the root cause of cancer NPA and removing it. The blame is to be given the banking entities rather than the corporate and industrialists tagged as willful defaulters off late. The article highlights the pertinence of early application of preventive measures before it turn out to be completely bad and in the whole process to exercise skill, care, transparency, diligence to make the banking system more robust and efficient.

RESEARCH METHODOLOGY:

- **Need of the study:** The study emphasizes on the fragility of the Indian banking sector, questionable sustainability and the need for the implementation of sound revival measures.
- **Scope of the study:** The present study includes only select public sector banks and private sector banks who are most exposed to the NPA crisis. The lists of public sector banks considered for the study are IDBI, UCO Bank, UBI, Bank of Maharashtra, Overseas Bank, Dena Bank, Corporation Bank and Central Bank of India. The list of private sector banks is Axis bank, ICICI bank, Yes bank, Indus Land bank.
- **Objectives of the study:**
  - To critically analyze the India's hard hit eight public sector banks and select private sector banks plagued by NPA.
  - To offer suitable competitive sustainable solutions to overcome the NPA shocks.
- **Period of the study:** The study period covers from post 2008 to 2017. Pre-crisis period is ignored in this research.
- **Data collection:** The data collected for the study is fully from secondary sources, compiling extracts from magazines, articles, journals.
- **Limitation of the study:** The study has taken into consideration solely the public sector banks and for the above mentioned period.

DATA ANALYSIS AND INTERPRETATION:

Eight public sector banks which are hard hit in NPAs are taken for the study and the two important variables GNPA and NNPA are considered from the period 2012 to 2017 to examine their directional movement and the same is pictorially presented below:

Tabular Analysis of Public Sector Banks (GNPA Ratio):

GNPA (%) in the years							
Sr. No.	**Banks**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
1.	Bank of Maharashtra	2.28	1.49	3.16	6.33	9.34	16.93
2.	Central Bank of India	**4.83**	4.80	6.27	6.09	11.95	17.81
3.	Corporation Bank	1.26	1.72	3.42	4.81	9.98	11.70
4.	Dena Bank	1.67	2.19	3.33	5.45	9.98	16.27
5.	IDBI Bank	2.49	3.22	4.90	5.88	10.98	21.25
6.	Indian Overseas Bank	2.74	4.02	4.98	8.33	17.40	**22.39**
7.	United Commercial Bank	3.48	**5.42**	4.32	6.76	**15.43**	17.12
8.	Union Bank of India	3.41	4.25	**10.47**	**9.49**	13.26	15.53

Source: www.moneycontrol.com

GNPA Ratio of Public Sector Banks:

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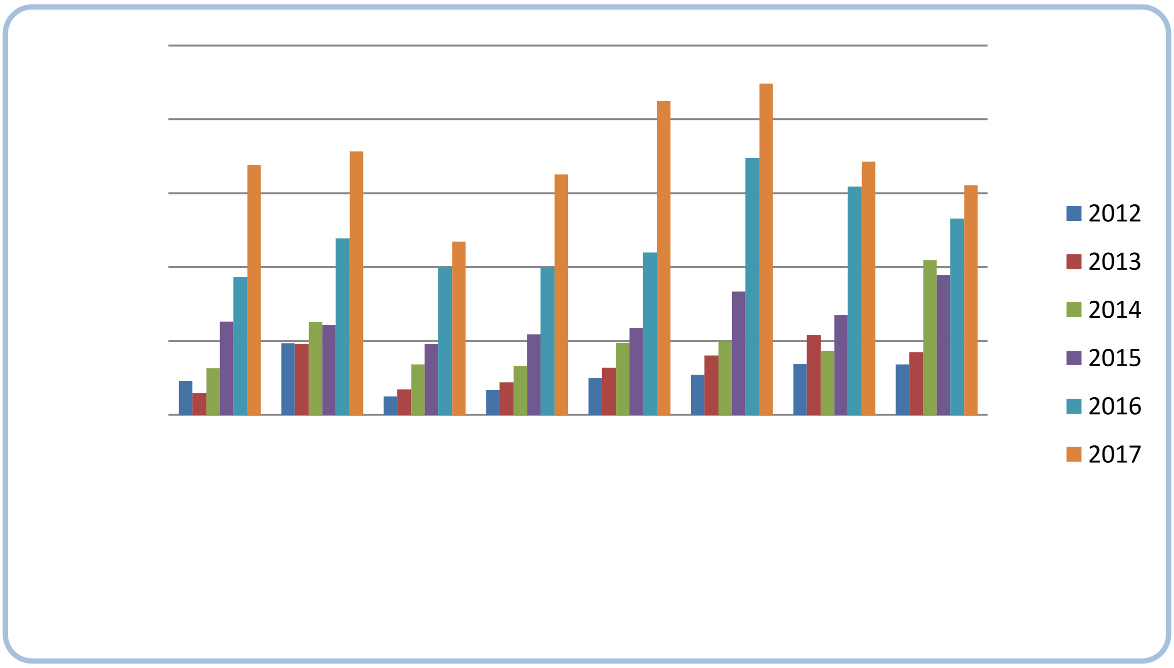

Tabular Analysis of Public Sector Banks (NNPA Ratio):

NNPA (%) in the years							
Sr. No.	**Banks**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
1.	Bank of Maharashtra	0.84	0.52	2.03	4.19	6.35	11.76
2.	Central Bank of India	**3.09**	2.90	3.75	3.61	7.36	10.20
3.	Corporation Bank	0.87	1.19	2.32	3.08	6.53	8.33
4.	Dena Bank	1.01	1.39	2.35	3.82	6.35	10.66
5.	IDBI Bank	1.61	1.58	2.48	2.88	6.78	13.21
6.	Indian Overseas Bank	1.35	**3.50**	3.20	5.68	**11.89**	**13.99**
7.	United Commercial Bank	1.96	3.17	2.38	4.30	9.09	8.94
8.	Union Bank of India	1.72	2.87	**7.18**	**6.22**	9.04	10.02

Source: www.moneycontrol.com

NNPA Ratio of Public Sector Banks:

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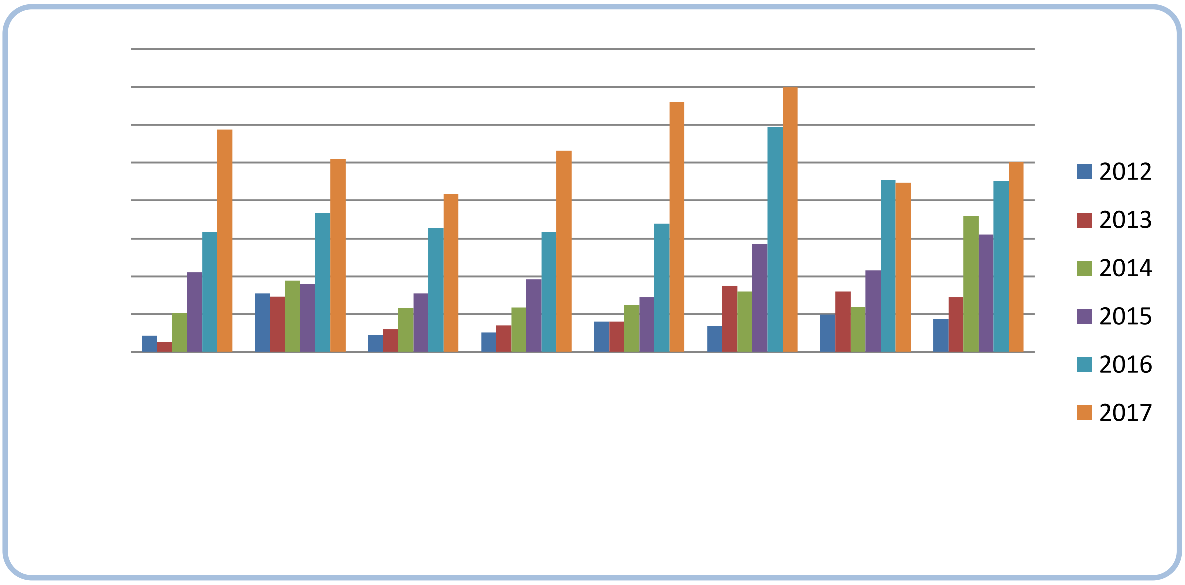

DISCUSSION ON PUBLIC SECTOR BANKS:

The data considered above clearly shows that the increasing trend of the NPA continuously from 2013 to 2017. Both GNPA and NNPA increased. NNPA denotes the quantum of provision being made to provide sufficient cushion for bad loans from GNPA figure. To name specifically, IOB got worst hit, soaring NPA up to 22.39% as on March 2017. From the analysis of various financial parameters of annual reports of the above group of banks, it can be stated that the relentless growth in NPA is due to multiplicity of factors like aggressive lending, irresponsible expansion, big appetite for risk and focus on immediate future, lack of proper checks and balances of customer's credit history, negligence in recovery process. UCO bank's spectacular increase is due to relentless disbursements in the industries like construction, textiles, mining, and food processing, metal and metal products. These banks are also under the surveillance of RBI who mandated the implementation of Prevention of Corruption Act (PCA), 1988. The impact of this NPA is not only bank centric but also on macro economic factors like loss of national capital, loss of public confidence, doubtful sustainability.

TABULAR ANALYSIS OF PRIVATE SECTOR BANKS:

Private Sector Banks (GNPA Ratio):

GNPA (%) in the years							
Sr. No.	**Banks**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
1.	AXIS Bank	1.18	1.19	1.29	1.21	**5.22**	5.04
2.	ICICI Bank	**3.62**	**3.22**	**3.03**	**3.78**	5.21	**7.89**
3.	Yes Bank	0.22	0.20	0.31	0.41	0.76	1.52
4.	IndusInd Bank	0.98	1.03	1.12	0.81	0.87	0.93

Source: www.moneycontrol.com

GNPA Ratio of Public Sector Banks:

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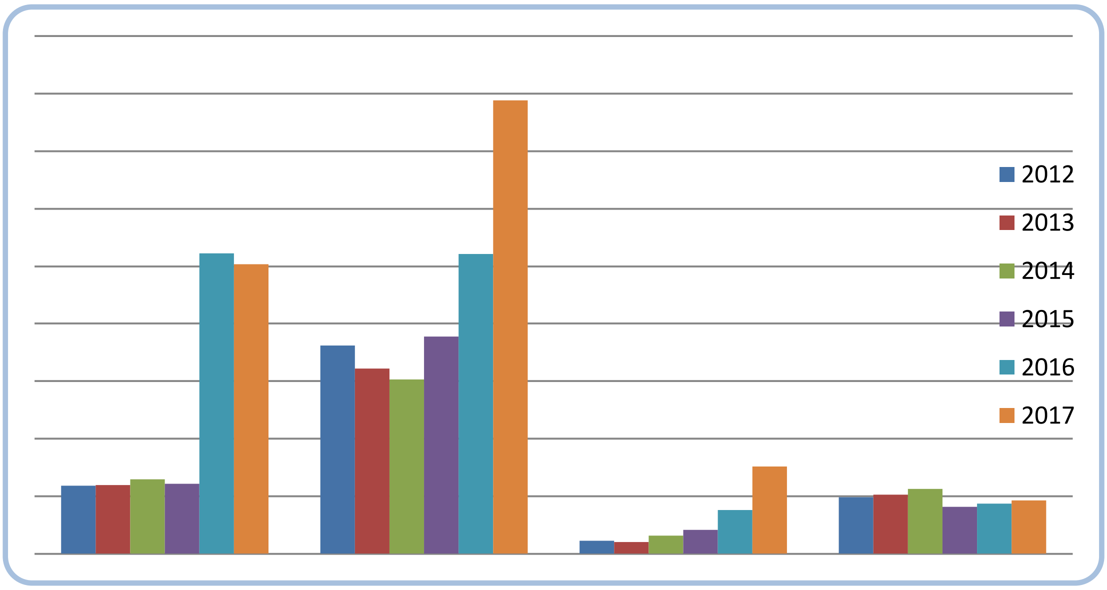
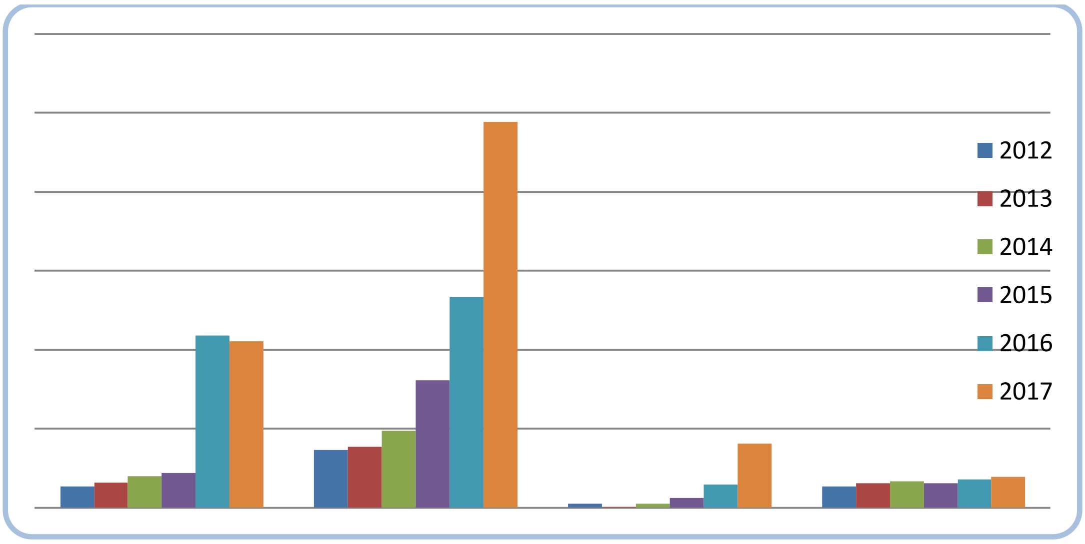


Private Sector Banks (NNPA Ratio):

NNPA (%) in the years							
Sr. No.	**Banks**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
1.	AXIS Bank	0.27	0.32	0.40	0.44	**2.18**	2.11
2.	ICICI Bank	0.73	0.77	0.97	1.61	2.67	**4.89**
3.	Yes Bank	0.05	0.01	0.05	0.12	0.29	0.81
4.	IndusInd Bank	0.27	0.31	0.33	0.31	0.36	0.39

Source: www.moneycontrol.com

GNPA Ratio of Public Sector Banks:



DISCUSSION ON PRIVATE SECTOR BANKS:

The myth of better performance of private sector banks is also busting. The reasons are attributable to understatement of stressed assets, comparative lower credit growth, and low disbursements, low interest margins. Apart from economic factors, blame can be also forwarded to internal inefficiency, mismanagement, influence of political dictates. Analysts predict that the trend in private banks outpacing the system growth to continue even in coming quarters.

On a whole both set of private and public banks without fail need vigorous rescue measures to revive its sustainability. To achieve this, RBI and Government of India (GOI) already adopted various mechanisms which did not work in wonderstruck so some of the innovative techniques should be materialized and initiated for better banking future.

SUGGESTIONS AND RECOMMENDATIONS:

Some of the recommendations are provided below:

- As per RBI mandate 2015, Forensic audit to trace the intention of the defaulters and to draw a line to their incessant loops in the repayment process can be a step in curing the NPAs.
- To unveil the political ceiling to execute smooth bank dealings, to promote transparency and real accountability.
- Appointment of professional experts like Cost and Management Accountants (CMAs) who can pioneer the control of NPA shocks, as the CMAs are having their expertise in analytical and strategic business decision making techniques coupled with logistics and risk analysis and thereby play a very key role in determining the actual costing method of the banking industry.
- Public sector banks should stop the disorganized and whimsical lending ceremony to the favoured corporate without validating the justified Return on Investment (ROI). More so even if for the performing banking entities too, financial check up of the health before it becomes ailing and non-performing is a must and such proactive and preventive measures can only prevent or minimize the future disaster.
- Like countries namely China, USA and such advanced countries, India should also follow strengthening of banks, spearheading reforms of state owned enterprises by reducing their level of debt, proper asset backed securitization, implementation of incentives like tax break norms , exemption from administrative fees and clear cut asset valuation norms.
- Adequate capitalization is a must for the revival and sustainability of the banking sector as in 2017 only $17 billion is being infused in the system in contrast with US Fed injected $2.27 trillion post 2008 and China $127 billion during 2004-07.
- Adequate disclosures of NPA status, as hiding the fact can turmoil the image of the banking sector.
- The banks should follow adequate provisioning measures with complete transparency as demanded by the RBI norms, subduing which can lead to de-growth and lower profitability. For example the projects like infrastructure, steel, power, mining and such allied sectors with fluctuating earning potentials.

SUMMARY AND CONCLUSIONS:

The need of the hour is to infuse in the financial system the strong market players to keep the banking organization floating otherwise in the next 20 years there will be no competition in the banking sector. The entire financial system will be inefficient unless followed up by the structural changes in the thinking of the Government and RBI rules and policies. The total bad loans amounted to almost Rs. 700000 crore, significant amount to deal with. The hard hit public sector banks are surrounded by the NPAs which got heightened in the past one year.

In comparing with the BRIC countries the burgeoning NPAs demand immediate sustainable approaches to figure out its existence down the line 2020 and onwards. Merging of public sector banks is time consuming and will be having tremendous initial hiccups due to multiple bottle necks. It may be detrimental to the public, there can be political glitches in general too as private sectors also don't generate any major extra earnings through higher rate of interests or so. Priority sector lending is also mostly maintained by the public sectors; therefore Government should correctly devise a roadmap for the concerned banks to merge.

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