ABSTRACT

Indian banking system is unique and significantly different from other Asian nations. The study is on the analysis of health of the public sector banks due to overdrawn exposures made by the financial segment of the country by unduly favouring the business tycoons. (With reference to the case study of Business baron Vijay Mallya) The present study brought forward the repeated blunders made by the PSBs and other few private sector counterparts in converting the then treasures and riches to rags. The study is completely based on secondary data collected from all journals, websites, magazines, articles since the inception of the Mallya’s empire. The research has been taken up to critically study the deteriorating asset quality of Indian Banks due to their disproportionate disbursements of hard earned public money to the willful defaulters and thereby gradually weakening the capital base of nation. Cascading Non Performing Assets (NPAs) of the banking sectors, mass restructuring of distressed assets, over provisioning, compulsory hair cut measures are the outcomes of the Banking segment’s relentless, unmonitored loan sanctioning schemes. The study, based on the observation of practical cases, has recommended measures to control such violations in the broader interest of the Banking sector’s future competitive survival and the economy as a whole.

.Keywords: health, willful defaulters, survival, NPAs

INTRODUCTION

Banks are the pillars of success. Presently the entire banking sector is reeling under the pressure of mounting NPAs impacting the profitability ratios and tells upon the efficiency of the organization. To speak prominently, the public sector is much more affected than its private sector competitors. Several attempts are being made since its inception but none of them are full proof.

The Banking sector underwent financial storms since global slowdown. Recent rising NPAs accompanied by crimes and malpractices brought to the fore that the Indian banking sector is floated with crisis which led the banks to bear the burns of the financial downpour. Non-performing assets (NPAs) has increased from ₹205054 cr in September 2015 to ₹400000 cr in April 2016. The present study has linked the deterioration of asset quality of the Indian Public sector banks with the cascading dues of the favoured corporate against whom the financial exposure out bounded intentionally. Such one of them is the case of the business baron Vijay Mallya.

Summary: Vijay Mallya was one of the most talked about and prominent business personalities of India who owned India’s biggest liquor company, a private jet, an Airbus and many other riches such as a fleet of luxury and private yatch.
In 2005, Vijay Mallya launched Kingfisher Airlines (KFA). In 2006, Kingfisher announced to offer its passengers with live in-flight entertainment which was first of its kind.

In the end of 2007 Kingfisher Airlines had acquired 46% of Deccan Aviation in Air Deccan. Year 2008 was a good year for the airlines as things went well.

In 2009 Kingfisher Airlines continued to be nation’s largest passenger carrier with a market share 22.9% with 11 Million passengers. During this time, KFA won numerous awards and was rated as India's five star airlines. By the end of 2010, the KFA mounted huge losses and the net worth turned out as negative.

In 2011, the cash flows became inconsistent and in 2012, it declared finally NPA. After incurring huge losses it was grounded up in October 2012, and in December 2012, the KFA license got cancelled. The reasons attributable to this dynastic failure are high operational costs, frequent changes in the business model, lack of proper strategy and delegation, impact of recession and separate treatment to Air Deccan and so on.

Along with health of KFA, the banking sector also tarnished its own public image and financial stability by chronologically funding the then sick unit due to favouritism and political influences, the binding factors.

The research is a purely analytical and contemporary. Secondary data is considered from related sources to constitute the objectives and suggestions.

LITRATURE REVIEW

Sweety Gupta, 2017, “Banks NPA and the downfall of the Vijay Mallya’s empire is due to the diversion of the basic rules of lending made by the banks and the strategic lacunae of the business baron in maintaining its airlines”.

Vivek Kaul, 2017, “The real problem in Indian banking lies in their attitude to trace the big corporate defaulters , instead favoured the growth of their failure and welcomed the mal consequences of financial destruction like voluminous writing offs, negligible recovery”.

Jasleen Kaur, 2016, “Indian banks not having an easy road ahead as the total default of Vijay Mallya is ₹ 7000 crore, more than the out-standings in priority sector, education sector. Picture turns different towards lending to the poor farmers and young venturists and start up units”.

Dinesh Unnikrishnan, 2015, “Judiciary can play more tactfully to encourage the bankers in dealing with the crony promoters. Despite defaults and allegedly defrauding the banks the long arm of the law did not catch Mallya and made him to further bring down the values of the lendings”.

Vishwanath Nair, 2017, “ Banks have taken their first steps to recover their loans worth ₹9000 crore or more by initiating his extradition process in UK and there by setting a standard for other equivalent defaulters who would think twice before dragging the legitimate bank dues.

Deepak Narang, 2016, “Takeaways for the banks are various like they should monitor the cash flow pattern phase wise before its next planned disbursement, compulsory forensic audit, empowering the presiding officers at Debt Recovery Tribunal (DRT) to impound the passport of the wilful defaulters. More-so the banks can convert debt to equity only if it gets a controlling stake as per stipulation of debt restructuring schemes.

Pulapre Balakrishnan, 2017, “The case of Vijay Mallya is set forward as an example of crony socialism instead of crony capitalism. Public sector banks transparency in the days of technology and vibrant excel spreadsheet is just a click away. Feckless lending of the public funds by the public banks can be checked by moving gradually to a system of whetting loan application through committees allowing joint responsibilities to play.”
RESEARCH GAPS

Researches were being conducted on NPA analysis and its consequences on the performance of the banking segment, but no research being taken up so far by critically relating the factors responsible for such open crimes made by the educated bankers and professionals.

OBJECTIVES OF THE STUDY:

1. To study the hidden reasons apart from the traditionally defined ones for deterioration of asset quality of select Indian banks over a period of time.
2. To critically study the cause-effect analysis of deliberate disbursements of the public fund by the banks.
3. To study the adoption of various Hair- cut measures to control the devastation.

RESEARCH DESIGN AND METHODOLOGY

The paper is purely based on secondary data analysis. Secondary data is collected from various websites, journals, articles, newspapers, magazines.

LIMITATIONS OF THE STUDY:

1. The research is based on secondary data only.
2. The study is restricted to one case study analysis in the context of Indian banks.

DATA ANALYSIS AND INTERPRETATION

Nationalization of banks during 1969 took place to protect the funds of the small scale depositors but in a decade of 4 years it turned opposite by being responsible for the predicament in which they are in at present. Different leading nationalized banks separately lent to the dubious and unscrupulous borrowers who are already unofficially defaulters but forcefully trying to establish to settle in this competitive industry.

KFA Owings to Banks: As on 14th March 2016 (Indian Express)

<table>
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<tr>
<th>BANKS</th>
<th>₹ in Crores</th>
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<tr>
<td>SBI</td>
<td>1600</td>
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<tr>
<td>IDBI</td>
<td>800</td>
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<td>Punjab&amp;S Sind Bank</td>
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<td>Axis Bank</td>
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Under troubled asset relief program (TARP), the Government bought out the distressed asset of the public sector banks which being disposed off at a profit later on in order to rescue the Indian financial system from drowning. Indian banks found themselves saddled with loans made by them to the flamboyants businessmen with negative net worth. Total Owings almost amounting to ₹7000 crore

As on March 2017, total out-standings came up to ₹8000 crore out of which only a fraction was recovered by banks. During 2017, only ₹155 crore was recovered via online mega auction, by selling from seized properties from defaulting borrowers. In an internal assessment made by the senior SBI official, it was revealed that SBI, the biggest lender to KFA, had expected a loss of ₹900 crore as per the loss assessment prepared by Govind Subbanna on 7th December 2016.

The chairman of SBI was questioned in detail in May 2017 as to why the losses peaked at its highest by funding knowingly this beleaguered airline.

From 2009 to 2012, almost 17 banks contributed in this lending ceremony, and in this period KFA deteriorated sharply. In 2010, totally 14 banks formed consortium and in December 21st, they signed a Master Debt Recast Agreement (MDRA) with KFA. MDRA merged all out standings into one and pooled out into this all the collaterals including corporate guarantee United Breweries (UB), a parent to KFA.

As of SBI is concerned the trade mark was the collateral issued by the company but post default the Bank struggled to dispose the same which was valued at ₹4111 crore in 2009 standing at ₹6 crores only in 2016.

BOI granted the loan on the basis of pledging of unsubstantial items like AC, Tractor, folding chairs issued as collateral and these current assets not even fetched a fraction of the dues from the sale.

IOB lent ₹100 crore against two helicopters not in working conditions and similarly the other banks were also in difficulty to recover their lending.

The corporate giant was financed at its peak by the SBI major and followed by many other Public sector banks. Private partners are present but to a limited extent.

It is evident from above analysis that the public sector banks themselves are tremendously responsible for their own disaster as the banks being a regulator need to decide the solvency and credit worthiness of the borrower. Banks from 2005 to 2012, till it reached liquidation, continuously backed up the KFA. And since inception till date almost negligible recovery took place.

No proper action being initiated against this defaulter and the process of extradition started in April 18th, 2017. In the ocean of corporate defaulters he is a small fish because in comparing the total gross NPAs or bad loans of Indian Banks as on 31st December 2016, the figure stood at ₹723323 crore. The gross NPAs of public sector banks to whom Vijay Mallya owes stood at ₹646199 crores. Apart from the case of Mallya the other defaulters are Winsome diamonds, Bhushan Steel are notable defaulters created religiously by Indian Banking sector without taking the lessons of severe financial suffering from the default made by Mallya.

The economic survey report states that stressed companies with less than one interest coverage ratio owe a little more than 40% of the loans given out by Indian Banks.

It shows cases that Indian banks are unidirectional in their loan sanctioning approach in the midst of the outcry of the common mass.
RECOMMENDATIONS

Prevention is better than cure; therefore the flamboyant businessman defrauded the major public sector banks as his pledging are not even amounting to a fraction of the stake.

Question arises, why the banks did not become alert at the point of repeated disbursements and invited the growing NPAs in their balance sheet.

A variety of measures taken up to restructure the distressed assets, hair-cut measures, havoc provisioning schemes to do away with the piling bad loans of Indian banks but the root cause analysis depicts that the Disease to be diagnosed from its point of emergence.

If a country is flooded by political bias, external influences then the remedial therapies are only for theoretical incorporation but no fruitful solutions.

If the Government really wants to clean up the mess of Public sector Banks, the rate of recovery should be drastically accelerated which can’t be constituted in a day and more so, the banks need to vigorously chase the defaulter which is still in dormancy.

The Government of India would have taken relentless measures to retrieve the lent out social fund. The perceived willful defaulter should be provided exemplary treatment and not to give the chance to cook the book and settle the dues less than actual Owings to the banks at large.

Immediate revocation of the passport of the defaulter would have been a great move to reorganize the recovery process. On a whole the ease of doing business mastered by the Indian Government must be compensated by the difficulty of evading the law.

The fear of scrutinisation by the team of Central Vigilance has petrified the public sector banks officials into inactivity. It’s a shame that public sector banks lend funds to unsound projects without proper checks and balances and reuse to do the same in the needful sectors on the grounds of retrospective scrutiny.

FUTURE STUDY

Future researches can be drawn towards the volume of wastage in public fund meticulously conducted by the public sector banks could have resulted in enormous welfare of the nation by curing the inherent deficiencies in major macro-economic factors.

CONCLUSION

The downfall of the KLA is only due to the wrong decision of merging with the low cost airlines and other internal strategic issues, functional and managerial bottlenecks but also the Country wide financial systems “Banks” deserve special mention.

Banks are equally or rather more responsible towards this attack as they never monitored post disbursement, the utilization of loans. No proper record maintenances towards the return proposed and earned.

Disproportionate lending to the Multi billionaire is fuelled by his inflated Business image and strong political influence which made them violate the loan sanctioning rules.

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