Comparison of Social Good versus NPA of Indian Banks

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Abstract

As the Indian economy has been going through various fluctuations due to the current government reforms as well as structural reforms across various levels, Indian banks have been facing a lot of pressures. Though the Indian banking sector are well known for their financial and healthy stability, however, due to policy issues at the structural there has been several concerns. Issues such as Net Performance Assets (NPA) were further exposed which led to additional pressures. The aim of the present paper is to compare the social good of these banks with respect to their NPA ratio. The researchers are comparing the social good, measured in terms of Corporate Social Responsibility (CSR) Spend and the NPA Ratio, measured in terms of the total number of wilful defaulters and the total amount which has been wilfully defaulted. The financial performance evaluation was based on various financial metrics like profitability and liquidity. The researchers evaluated the financial performance in addition to NPAs for these banks. The NPAs were evaluated using various aspects of bank's financial parameters like Net profit, Loans, Advances, Net NPA (NNPA), Gross NPA (GNPA), Enterprise value, Book value, Deposits, market capitalisation, Deposits (CAGR%), CASA deposits, and Return on Assets (ROA). The Social

Good is evaluated by the CSR Spend of the company for that particular year. All these parameters were extracted from CMIE Prowess database. The study has employed on a sample size data of 28 banks, where all of these banks are a combination of private and government

owned banks and the data has been collected over a period of three years from 2016 to 2018. The researchers also performed an extensive literature review to review the comparison of NPA ratio versus social good. As the researchers looked at the NPA ratios they not only looked at the number of wilful defaulters but also the total amount of wilful defaulted.

Keywords

Banks, Net Performance Asset (NPA), Corporate Social Responsibility (CSR), Wilful Default

Introduction

Corporate Social Responsibility is a term introduced earlier but gained the importance only in the 21st century (Murphy 2013). Bowen defines corporate social responsibilities previously as "the obligations of business men to make those decisions, follow those policies and take those lines of action which are desirable in terms of the objectives and values of the society" (Bowen 1953).

The most important one of the last decade in corporate trends are the development in activities associated with the Corporate Social Responsibility (CSR). The definitions of CSR vary, generally the term CSR refers to actions taken by the companies with respect to their employees, the environment, their employees and the communities which is required for the firm what is legally required (McWilliams et al. 2006) (Barnea and Rubin 2010).

In India, the CSR mandate provides an opportunity to look into the social good through the lens of CSR. Many firms are trying to strengthen their reputation through transparency and ultimately enhance their social reputation. Though there are only few empirical research specific to these studies in India (Kansal et al, 2016). There are also certain studies which contribute to the enhancement towards policy and development by looking into government owned enterprises in India, like the Central Public Sector Enterprises (CPSEs), (Subramaniam et al., 2015). Yet a few other researchers looked at the opportunities, the risks and the challenges that are available for service providers to implement efficient CSR projects (Subramaniam et al., 2019).

The efficiency of the economic transaction increases when the banking system works efficiently and has significant positive externalities (Mahesh 2008). The determinants of profitability of banks are indicated by Gross NPAs, Net NPAs, Loans and Advances, Market share in advances, Net Profits, Deposits, Market share in deposits. (Bodla 2006). An asset which does not earn any income to the bank is known as Non Performing Asset (Banambar 2016). The most critical elements to the Indian banking system is non performing system (Saez 2001).

India has complex system of credit. It not only consists of formal organisations of private and public banks like National Housing Bank (NHB), National Bank for Agricultural and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI) but also quasi-formal and informal banking systems Nidhis (Acharya 2013), Chit funds (Aziz 2008) and Badla financiers (Claessens 2013), Gold Saving Companies, Pawnbrokers and many other companies.

Reserve Bank of India circular defines the loan taker as a wilful defaulter on four grounds – default if not paid even if there is capacity to repay, default even if there is capacity to repay but diverted the fund, default even if there is capacity to repay and siphoned off the money, or default even if there is capacity to repay and also disposed off guarantees without the knowledge of the bank / lender. (Sinha 2018)

Review of Literature

Corporate Social Responsibility is an ethical theory of that a firm either corporate, government, organisation has a responsibility at large towards its society. This responsibility can be either "negative", meaning that can be a liability, or it can be "positive," meaning there is a act beneficently (proactive stance) (Bedi 2009).

Strong social performance is an indicator that a firm possesses higher management talent (Alexander and Bucholtz, 1978; Bowman and Haire, 1975) that makes the firms to understand how to improve the external and internal relationships through the social activities (Moskowitz, 1972) (Barnett & Salomon 2006).

The social responsibility in commercial life over the years in the modern era has pressurised to play and concentrate explicitly in the welfare of the society. Even though the topic rose in (Carroll 1979; Wartick and Cochran 1985), the initial publication specifically dates back to 1953, with Bowen's "Social responsibilities of the businessman". Bowen argues in this work that the form or an industry has an obligation "to make the decisions for society's welfare, to pursue the policies, to follow the lines of actions which are desirable to reach the objectives and values of the community" (Bowen 1953; Epstein 1987; Balabanis et al., 1998).

'Wilful default' in developing country like India, is defined as where the borrower under reports his or its true financial position and defaults wilfully (Bhardhan and Mukharjee 2013).

A shift in market philosophy of banks is clearly visible from the services provided to the customers (Bodla 2007). All this led to increase in resource productivity, increasing levels of deposits, credits and profitability and decrease in non performing assets (NPAs) (Charan Singh 2002). NPAs are caused due to the negligence at some levels of the bank, right controlling to the disbursing of the money that includes the CMD and executive director (ED) on which they relied. They just threw the caution in the air for which it will be impossible that there are bad loans or no defaulters A fault in a branch or two can be explained but not in whole country branches which runs in thousands of crores rupees The fault lies with the supervising departments like audit committee, information technology, advances, systems (Kini 2014).

Todays biggest challenge in India is the asset quality problems. According to India ratings and research the total quantum of stressed assets are expected to increase to 14-15% of bank credit, the public sector banks impaired asset ratio stood at 15.4% by September 2015. In the previous years the banks have been converting the stressed loans to standard assets with the help of restructuring and conversion of debt to equity. The new NPA accretion by some banks are yet to be recovered which have been lowered to half of it. There is a significant decline in recovery rates in the low rated banks indicating a long time to resolve the NPA problem (Bhattacharya 2016).

Like other businesses, the bank business is also subjected to business risk i.e., default risk. So the risk cannot be totally eliminated but can be managed by regular monitoring within the limit. But, rising NPAs have destressing effect on the economy of the country. The consequences under causing NPAs may be i) the banks profitability effects severely as the banks do not earn any income from NPAs, rather they have future losses which incur costs for their maintenance. It is reported that even SBI which is the largest bank of public sector banks fell by 26.8 percent to Rs. 37017 crores that includes the Rs. 2 lakhs as per the previous estimations. The banking industry inspite of making provision of crores is still incurring losses of minimum Rs. 20,000 crores. Due to non-realisation of NPAs the credit flow to the required or needy people is held up. In order to compensate the interest rate in NPAs (Banambar 2016).

Objectives

- The NPA of the companies in banking industry are effected highly due to wilful defaulters
- Are The companies are socially responsible irrespective of their NPAs?

Methodology

Banking industry is selected as it consists of formal organisations which give sanction loans and provide credits majorly talks about the wilful defaulter. The companies in the banking industry are selected on the basis of defaulters and records the banks have got from 2016 to 2018. The data is collected through the prowess database for

three years. Also the financial parameters like Net Profit, NNPA, GNPA, ROA, deposits, Loans and advances, ROE, ROA are considered to understand the financial performance of the banks.

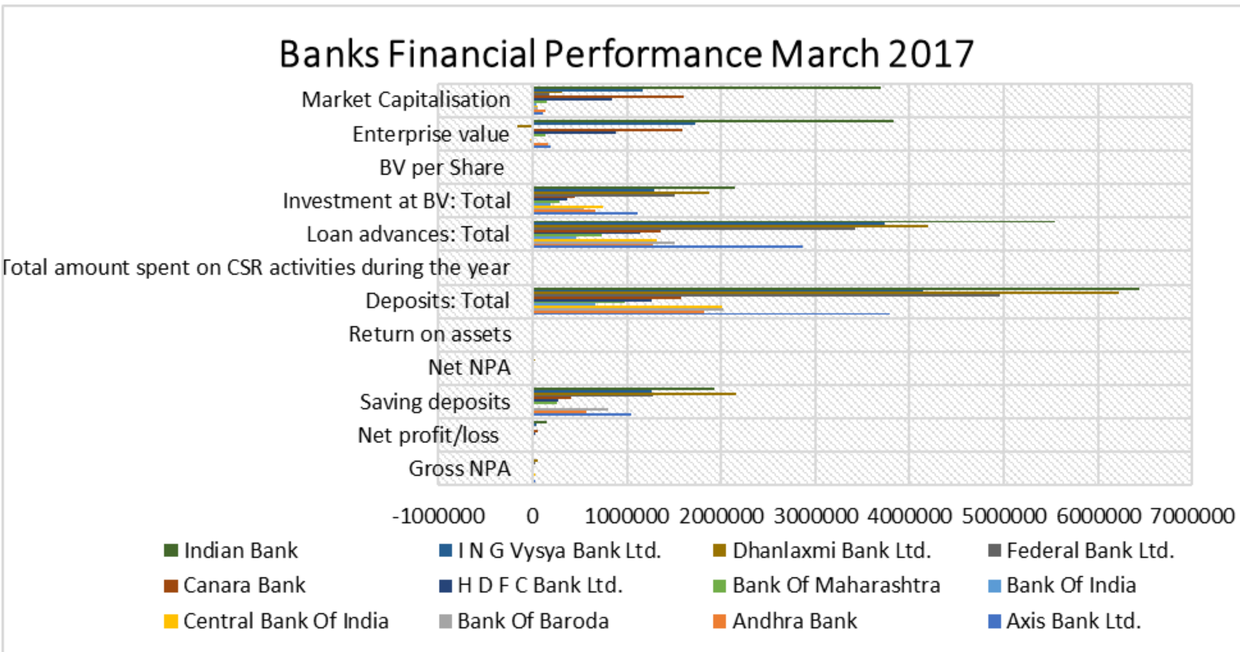

Figure 1. Financial performance of the banks for the year 2017

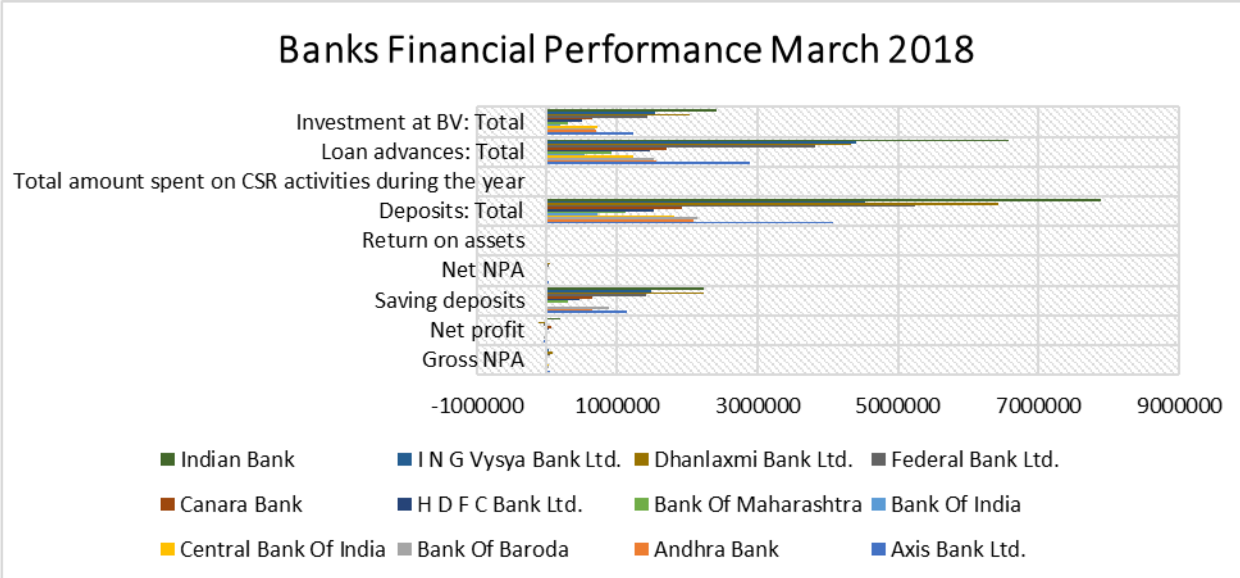

Figure 2. Financial Performance of the banks for the year 2018

The sample size of 12 banks are taken on the availability of their CSR spent amount in the financial statements for the year 2017 and 2018. The variables considered to understand the financial performance are gross NPA, net profit, saving deposits, net NPA, return on assets, total deposits, CSR spent, loan advances, book value, enterprise value

market capitalisation. The comparison of net NPA, CSR spent and the outstanding amount of wilfully defaulted which is collected from the CIBIL database website is shown in detail.

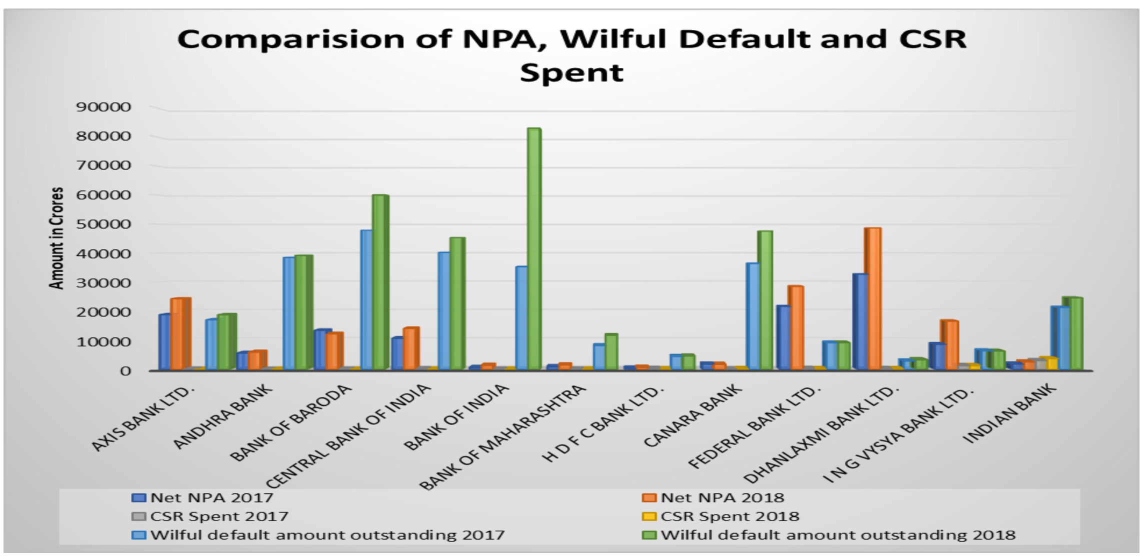

Figure 3. Comparision of NPA, CSR spent and Default amount of 2017 and 2018

The data is collected for NPA and CSR spent through financial statements of the bank and wilful default amount recorded by the banks is collected through the source of CIBIL database. The comparison is done using the graphical representation through bar diagram. The CSR spent details of most of the banks are not openly available which is of the reason behind the small sample.

Findings

The comparison of the data through bar diagram has a clear representation that the banks are socially responsible inspite of having the net performance asset (NPA) by spending on social activities which is highly known as the spending towards Corporate Social Responsibility.

The NPA is increasing as the default amount is increasing for the previous two years 2017 and 2018 which clearly shows the increase in NPA is highly due to defaulted amount.

Conclusion

The increase productivity in banks is clearly due to the kind of services provided to the customers with increasing levels of deposits, profitability and lending and decrease in NPAs. NPAs are caused due to the non monitoring and disbursement of money at the right levels. A fault in single branch can be regulated but not in the whole country which runs in thousands of crores of rupees. In the previous years the stressed credits are converted to assets with the help of restructuring. There has been a significant decrease in recovery rates and resolve the NPA problem.

There is a destressing effect on the economy is due to rising NPAs. The causes of NPA may effect the profitability of the banks as they do not earn any income from the NPAs, rather they have costs for their maintenance. But, rising NPAs have destressing effect on the economy of the country. The consequences under causing NPAs maybe i) the banks profitability effects severely as the banks do not earn any income from NPAs, rather they have future losses which incur costs for their maintenance. Banks are also subjected to risks like other businesses which cannot be eliminated but can be monitored regularly within the limit.

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