

# Study on Non-Performing Assets Management of SIDBI



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*Small Industries development bank of India is the principal institutions for filling the financial and non-financial gap in way of direct and indirect credit. This study is basically based on secondary information. The study was aimed at finding the management system adopted by SIDBI to tackle NPA's. Major findings of this study shows us that bank follows stock & flow approach and is divided in three levels/phases. The CAR maintained by bank is very high than the international norms due to high risk in direct credit, and level of Net & Gross NPA have increased dramatically in past years.*

## 1. Introduction

Non-Performing Assets in banking industry is one of the major challenges faced by this sector in current scenario. Nearly each and every and every public and private sector bank is suffering from the problem of mounting NPAs. The problem of NPA not only decreases the profitability of the bank/financial institution but also reduces the credit lending facility of the bank and thus affecting the overall health of the bank. So it becomes very important for every bank/ financial institution to manage the non-performing assets so that loss can be reduced and additional slippages of account can be prevented.

According to the master circular on Prudential Norms on Income recognition, Assets classification and Provisioning pertaining to advances an asset will be classified as non-performing when

- Interest and / or installment of principal remains overdue for a period more than 90 days.
- The account remains out of order in case of Overdraft / Cash Credit.
- The bills Remains overdue for a period of more than 90 days in case of bills purchased/discounted.
- Installment of principal/interest thereon remains overdue for two crop season for short duration crop.
- Installment of principal or interest thereon remains overdue for one crop season for long duration crops.
- The amount of liquidity facility remains outstanding for a period more than 90 days in respect of securitization transaction. Under the guidelines on securitization dated February 1, 2006.
- In respect of derivative transaction the overdue receivables representing positive mark to market value of derivative contracts, if these remains unpaid for a period of 90 days from the specified due date for payment.

If a loan assets fall under any of this category it will be classified as non-performing because it ceases to generate income for the bank and it is required to take corrective action according to the situation.

Management of NPAs is a very complex task and require lots of knowledge and skills to be implemented in order to tackle them wisely. NPA management have two main aspects i.e. prevention of additional build of NPAs as well as handling and tackling the existing NPA accounts of the bank, managing NPAs is one of the most important and complex process in today's banking industry because it represents the overall health of the and the quality of credit in the economy.

Non-Performing Assets can be broadly classified in two categories in order to get a better understanding and they are as follows:-

1. Gross Non-Performing Assets (GNPA)
2. Net Non-Performing Assets (NNPA)

**Gross Non-Performing Assets:** -Gross Non-Performing Assets refers to the total amount of loan that are classified as non-performing according to the norms of RBI. In other words we can say that it is equal to the sum total of loss, doubtful, and sub-standard assets.

Gross NPA Ratio = Gross Non-Performing Assets/ Gross Advances

**Net Non-Performing Assets:** -Net Non-Performing Assets refers to those amounts of NPA from which the provisions of the year according to RBI norms have been deducted.

Net NPA = [Gross NPA- Provisions] / [Gross Advances-Provision]

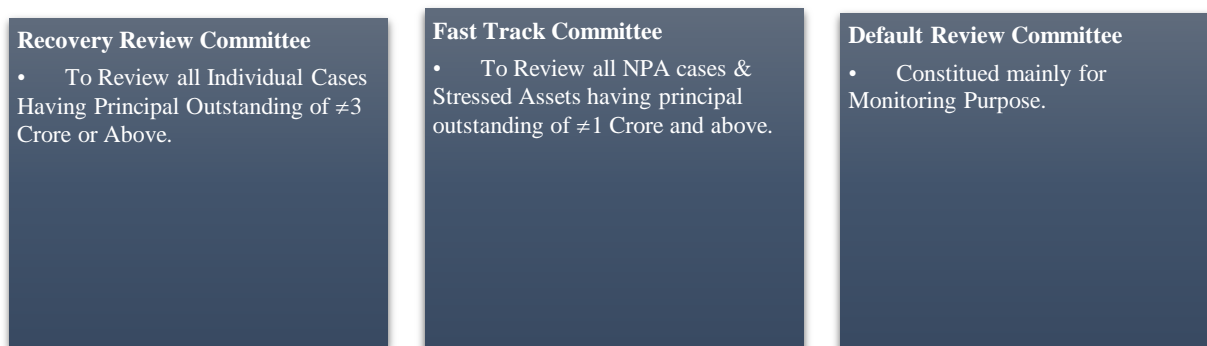
## 2. Objective of Study

This study was aimed at following two points

- To know about how Small Industries Development Bank of India (SIDBI) manages its Non-Performing Assets (NPA).
- To analyze the trend of NPA indicators form 2012-2016.

### 3. NPA Management of SIDBI

The bank in order to manage NPA follows the strategy of preventing further slippages into NPA category and also tries to maximize the recovery from NPAs with the help of various recovery tools as required in the particular NPA case. The bank follows committee approach to monitor and tackle the NPAs in the bank. SIDBI have formed three committees at three different level of management, in order to monitor, tackle and manage the NPA accounts. A board level Recovery Review committee has been formed by the bank to review all NPA accounts having a principal outstanding of 3 crore and above, another committee has been constituted by bank called Fast Track committee to review NPA accounts and stressed accounts having outstanding of 1 crore rupees and above, at operating offices level the bank have Default Review Committee to monitor stressed and NPA accounts.



Beside the committee approach to monitoring the management system of the bank can be concluded into two broad categories

- Pre NPA Management
- Post NPA Management

#### Pre NPA Management

Under this stage bank focuses that none of its accounts slips in the category of stressed or NPA category for this purpose branch offices adopts a recovery orientation right from the time when the loan is sanctioned to the client in order to maintain a healthy loan portfolio. SIDBI has a strong operational audit mechanism to ensure that operational transactions and other transaction are carried out as per the guidelines of the bank. Bank in order to avoid the time and cost overrun of assisted projects/activities monitor and verifies the end use of funds so that it can be ensured that to there is no further slippages in NPA category, bank also verify the progress report with the help of site visits and thus close monitoring, project implementation and completion is ensured by the bank and if there is any problem identified by the bank officer than timely corrective measures are taken.

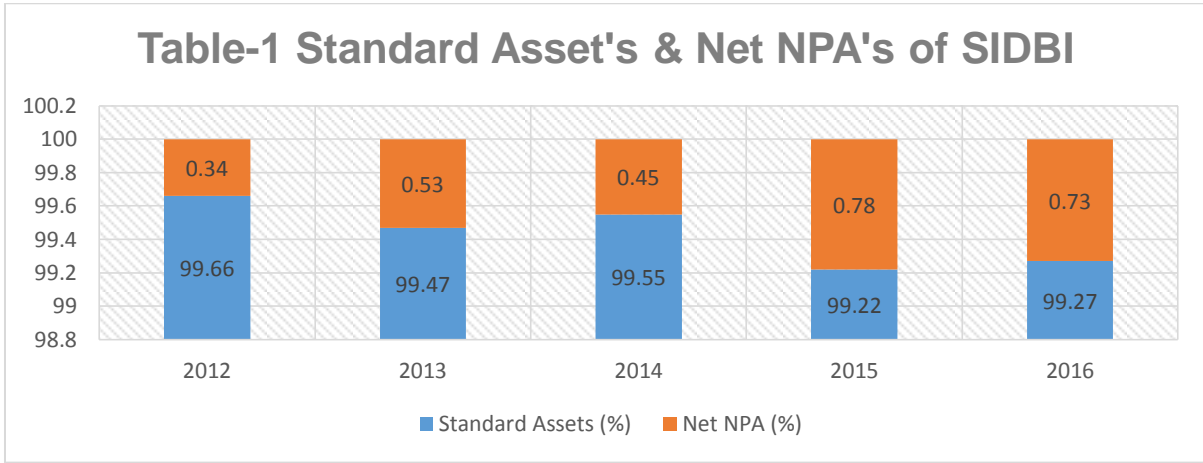
SIDBI had developed a strong and automated Management Information System (MIS) to facilitate easier Monitoring. Efficient use of system based facilities would be made to keep track developments in all accounts for improving recovery. The Recovery & NPA Management Software (RNMS) is move to provide integrated solutions with direct linkage to the accounting functions. The data capturing is linked to business processes and its flow is kept automatic to the extent possible. Branch offices ensure that all relevant information is fed into the concerned system on real time basis to facilitate proper and correct reporting. Systems alerts on stressed / SMAs/ NPA accounts are being sent weekly to BOs/ROs and HO verticals.

#### Post NPA Management

When a bank account becomes NPA the bank follows a stock and flow approach, stock approach means a periodical cleansing of balance sheet whereas a flow approach means to prevent further slippages. While monitoring, follow up, credit rating, risk management etc. are other tools for post NPA management.

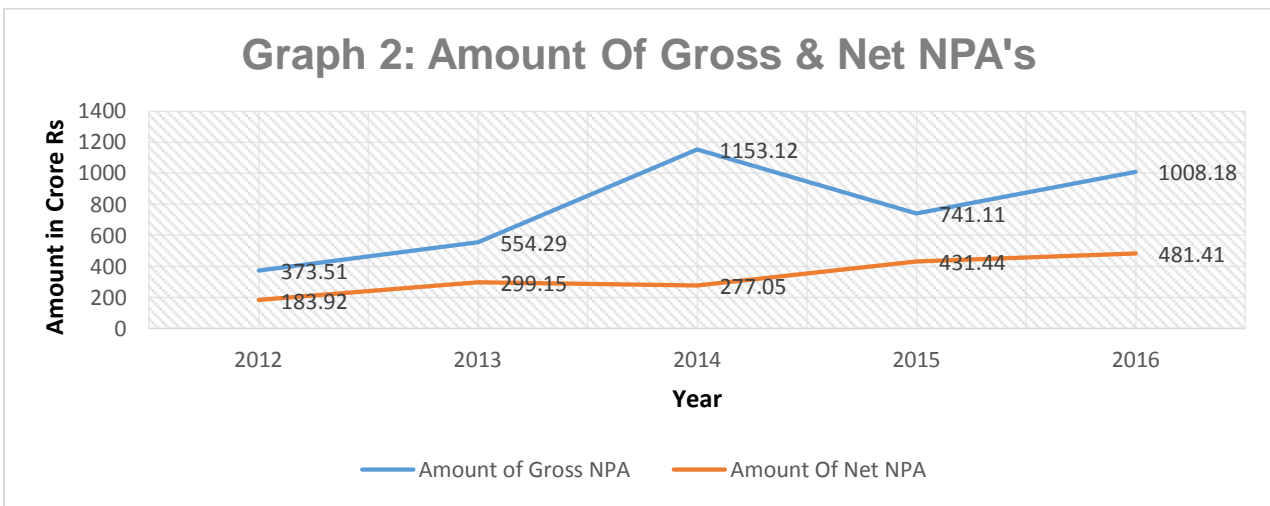
Bank considers time as essence in ensuring the assets quality and maximizing recovery, necessary action is taken by bank immediately after an account turns NPA. This could be in the form of a visit to the unit and collateral security, discussions with the working capital banker and if necessary writing to the banker advising status of the account etc. The recovery strategy of the bank lays emphasis on restructuring of NPAs considered viable and forging compromise settlements for early recovery of dues. Legal action are also initiated in time bound manner, only after application of other recovery tools has not yielded, or is not perceived to yield the desired results. Committee Approach is adopted by SIDBI for consideration of all recovery related proposals. Accordingly all proposals for restructuring, fresh assistance to NPAs, compromise settlement etc. would be approved by settlement committees at RO/HO levels and by Board as per the extant Delegation of power.

### 4. Data Interpretation

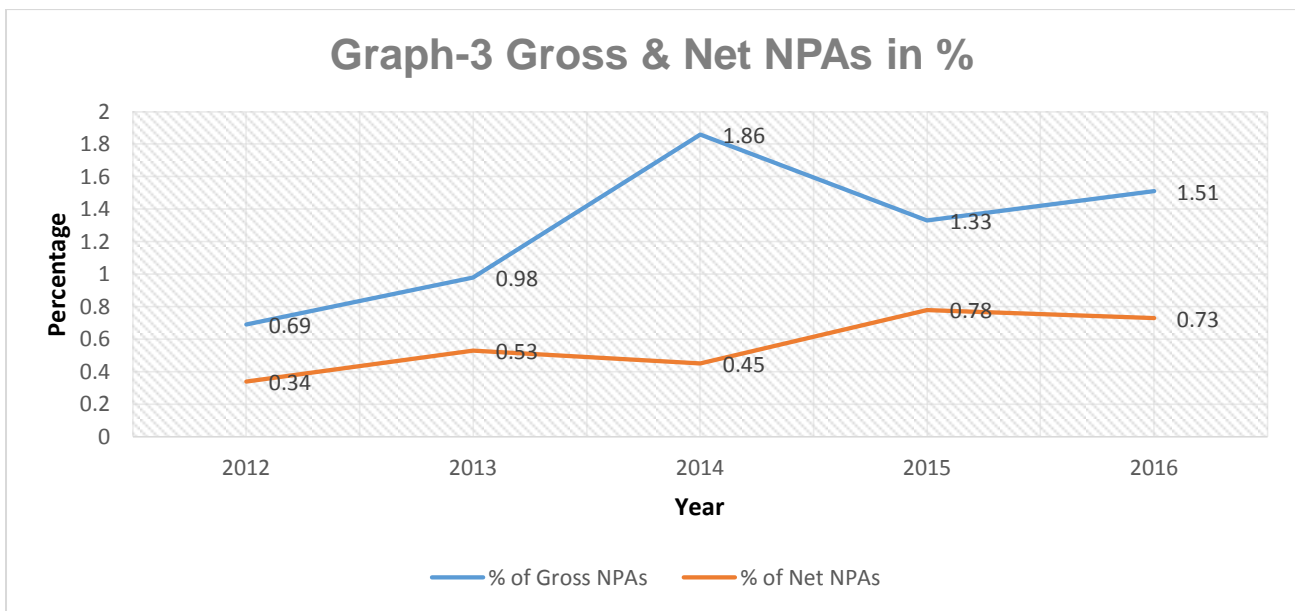


(Source: Annual Report 2012-2016)

The amount standard assets of bank is at 99% approx. in past five years and a slight increase in net NPAs can be seen from 0.34% in 2012 to 0.73% in 2016.

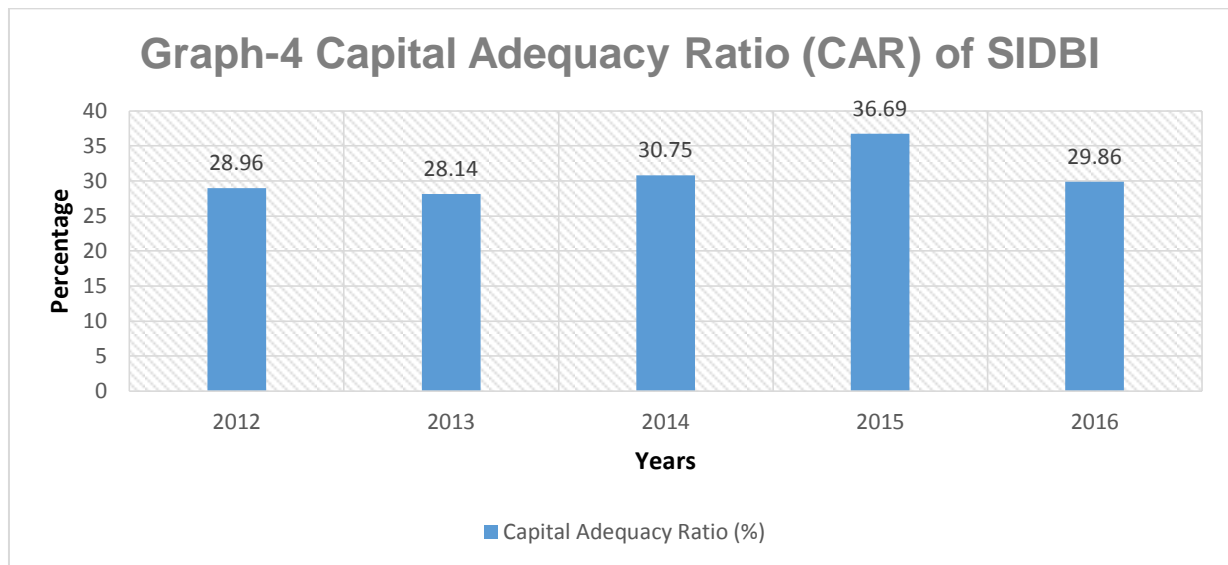


(Source: Annual Report 2012-2016)



(Source: Annual Report 2012-2016)

The amount of gross and net NPA have has increased in past years considerably when analyzed it can also be seen that the amount of provisioning has also gradually increased. When seen in percentage form the change in past five years seems to be low but when seen into rupees form then the amount of net and gross NPA has increased gradually.



(Source: Annual Report 2012-2016)

The Capital Adequacy Ratio of SIDBI is maintained ranging at 28% to 36%, which is at comfortable level against the prescribed by RBI. Such high level of CAR indicates that bank have adequate amount of idle funds but this can be justified because of high risk in direct credit portfolio.

### 5. Conclusion

In banking industry the problem of Non-Performing Assets is at the peak of all other problems and government is also taking several steps in order to overcome this problem. Under this study an attempt was made to know about the SIDBI's NPA management system. SIDBI is the principal financial institution to finance, support and develop the MSME sector of the economy, so it becomes of vital important that bank manages its NPA efficiently and effectively. From the above study we can conclude that bank have three level NPA management system and follows a committee based approach in order to cope up with non-performing assets, this system of managing NPA seems to be very efficient because net NPA is kept under 1% in past five years which seems to be quiet satisfying.

The bank's loan portfolio is divided into two category i.e. direct credit and indirect credit. Direct credit refers to those assistance which have been provided to the customers directly whereas indirect portfolio refers to the financing support provided to SFCs, NBFCs etc. the Capital adequacy ratio maintained by the bank is above the RBI norms around 30% approx. due to the fact that there is high risk in direct loan portfolio when financing to projects.