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A STUDY ON THE EFFECTIVENESS OF INDRADHANUSH PLAN FOR DEVELOPMENT OF PUBLIC SECTOR BANKS IN INDIA

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Abstract

A stable and sound banking system is inevitable for the healthy growth of an economy. Public Sector Banks (PSBs) in India plays a crucial role in the Indian financial system. According to Economic Survey 2015, Public Sector Banks in India face two fold problems viz; policy issues and structural issues. The profitability of PSBs is lower mainly due to provisioning for restructured projects as well as for Gross Non Performing Assets (NPAs). The profits of most of the PSBs dwindled due to bad loans on its records, which have produced a threat of capital attrition. The major problem of Ballooning NPAs is the biggest impediment that chokes PSBs effective performance and operations. The Government of India unveiled seven point plans to revive the fortunes of PSBs in India. In India, Public Sector Banks expected to make higher provisioning over and above the provisioning made for stressed assets, that they may sell the assets at lower discounts, thus increasing the capital requirements. The Union Government has announced a new plan named as 'Indradhanush 2.0'. The present plan encompasses ₹ 20,000 Crore for immediate capital infusion, creation of a single holding company and minimizing political interference. Indradhanush scheme is a seven-pronged strategy to revamp the Public Sector Banks in India. The present scheme focuses on setting up a transparent and quick-paced hiring mechanism which can allow smooth function of PSBs. The present study is an attempt to establish the effectiveness of Indradhanush strategy introduced by the Union Government. The study was also analysed the performance of Indradhanush for addressing the major issues and challenges faced by the Public Sector Banks in India.

Keywords: BASEL III**,** CAR, GNPAs, IBC, Indradhanush, PSBs, Stressed Assets,

Introduction

Asset quality of banks is one of the main indicators of their financial health. Supervision of banks should focus on defined parameters of soundness, financial, managerial and operational efficiency. Strong banks will enjoy more flexibility and autonomy in various aspects. Capital and quality of assets are the two crucial parameters reflecting the soundness of a bank. Banks have to maintain Capital Adequacy Ratio (CAR) on all advances including NPAs who are having 150 per cent risk weightage, thus triggering a need to raise capital at an additional cost to meet such CAR. The Balance sheet of banks remained stressed with persistent deterioration in the asset quality. The gross NPA ratio of Commercial banks increased to 4.2 per cent as at the end of September 2013 and as on March 2015, it was at 4.62 per cent of the gross advances of the

ISSN:0971-1260
Vol-22-Issue-4-October-December-2019

banks. Banking sector gross NPAs was 7.6 per cent in March 2016, 9.06 per cent in March 2017 and in March 2018 it spiked to 11.6 per cent. The GNPA ratio of all commercial banks may expect to increase from 11.6 per cent to 12.2 per cent by March 2019 under the baseline scenario.

The Government of India announced 'Indradhanush 2.0', a comprehensive plan for recapitalisation of Public Sector Banks. The present plan is envisaged with a view to make sure that they remain solvent and fully comply with the global capital adequacy norms, Basel-III. Indradhanush was announced in August 2015 for the revamp of Public Sector Banks in India. The plan includes setting up of a Bank Board Bureau (BBB) for broad level appointment and a performance based monitoring mechanism.

Review of Literature

Some of the recent work has been conducted on managing Non-performing Assets of banks in India are as follows:

The study conducted by **Anantha Reddy (2013)** states that competition in the housing sector has become intense, the systems and procedures for disbursing loans have been diluted to a large extent in turn affected adversely the quality of assets and borrowers. Overall exposure of banks in the housing loan sector has been growing and today it constitutes a very significant portion of their total credit portfolio and in turn NPAs are also increasing which is a matter of concern. The study also pointed out Increasing NPAs is a drain on the profitability of the concern. It is the reason which prompts HFCs to take bold steps to reduce NPAs drastically and improve their standards.

Siraj K. K. (2014) in his thesis expressed that the major causes of NPAs and the various measures to be taken to enhance the credit risk management system in Indian banking. NPA is managed effectively in Indian banking sector particularly the Public Sector Banks (PSBs) which holds significant share of deposits and advances of Indian banking sector

Sreekumar and Raju G. (2016) expressed that management of NPAs is the biggest challenge before the DCCBs in Kerala. The NPA of all the DCCBs in Kerala is about 9.05 per cent of their gross advances as on 31.03.2013 which is much higher than the commercial banks. If this trend continues it may adversely affect the financing of the rural sector and the survival of these banks.

Objectives of the study

1. To identify the performance of Indradhaush plan for development of Public Sector Banks in India
2. To assess the performance of Indradhanush plan for managing the Non-Performing Assets.
3. To develop a new framework for managing the Assets of Public Sector Banks in India.

Indradhanush – An Overview

The Government of India has announced a new plan named as 'Indradhanush 2.0' for revamping Public Sector Banks in August 2015. The present plan envisaged with a view to

ISSN:0971-1260
Vol-22-Issue-4-October-December-2019

make sure that PSBs remain solvent and fully comply with the Basel III norms. Indradhanush is a 7 pronged plan launched by Government of India to resolve issues faced by Public Sector Banks in India. According to Economic survey 2015, Indian Bank faces twin problems viz:

- **Policy Issues:** Banks face what has been termed as 'double financial depression'- issues with policies of Statutory Liquidity Ratio and Private Sector Lending policies
- **Structural Issues:** Governance issues, rising stressed assets and lack of diverse funding source for infrastructure.

The measure suggested by P. J. Nayak committee on Banking Sector reforms is presented in the Figure 1.01. The Figure shows that '*ABCDEFG'* plan includes Appointment, Banks Board Bureau, Capitalization, De-stressing, Empowerment, Framework of Accountability, and Governance and Reforms.



Figure 1.01 Indradhanush Plan

- **Appointments**

The Government decided to separate the post of Chairman and Managing Director by prescribing that in the subsequent vacancies to be filled up the CEO will get the designation of MD & CEO and there would be another person who would be appointed as non-Executive Chairman of PSBs. This approach is based on global best practices and as per the guidelines in the Companies Act 2013 to ensure appropriate checks and balances. The selection process for both these positions has been transparent and meritocratic. The entire process of selection for MD & CEO was revamped. Private sector candidates were also

ISSN:0971-1260
Vol-22-Issue-4-October-December-2019

allowed to apply for the position of MD & CEO of the five top banks i.e. Punjab National Bank, Bank of Baroda, Bank of India, IDBI Bank and Canara Bank.

After the announcement of Indradhanush scheme, Mr. P. S. Jayakumar is appointed as MD & CEO of Bank of Baroda. Prior to his appointment as MD and CEO of Bank of Baroda, he was the Consumer Banking head of Citi Bank in India and Singapore. Mr. Ravi Venkatesan is appointed as Chairman of Bank of Baroda, previously he was a Chairman of Microsoft India between 2004 and 2011. The Government has appointed Mr. Rakesh Sharma is the MD & CEO of IDBI Bank. Previously, Sharma was the MD & CEO of Lakshmi Vilas Bank in March 2014.

- **Bank Board Bureau (BBB)**

The BBB started functioning from April 01, 2016 as an autonomous recommendatory body. The objective of bureau is to help the banks in the public sector universe to take on the competition. The bureau is engaging with the Public Sector Banks to help build capacity to attract, retain and nurture both talent and technology. BBB constantly engage with the Board of Directors of all the Public Sector Banks to formulate appropriate strategies for their growth and development. While the Bureau is working towards attracting the best personages on the Board, it is these boards which should drive the overall strategy of a bank within its risk capacity and also act as custodians who should reconcile the diverse interests of various stakeholders.

- **Capitalisation**

The Government had injected a total of ₹ 20,000 Crore of capital into debt-laden state banks in fiscal year. Over the four years, the Government planned to inject ₹ 70,000 Crore. This is presented in the Table 1.01. Indradhanush scheme was allocated ₹ 25,000 crore each for financial years 2015-16 and 2016-17. The financial years 2017-18 and 2018-19, the allocation of ₹ 10,000 crore each was fixed. Under the Indradhanush plan for Public Sector Banks, ₹ 20,058 Crore allocated to 13 Public Sector Banks in the financial year. The initial plan had envisaged, out of the total requirements.

Table 1.01 Recapitalisation of Public Sector Banks

Financial Year	**Amount (₹ in Crore)**
2015 – 2016	₹ 25,000
2016 – 2017	₹ 25,000
2017 – 2018	₹ 10,000
2018 – 2019	₹ 10,000
Total	₹ **70,000**

Source: Ministry of Finance

The Government of India will make available ₹ 70,000 Crore out of budgetary allocations for four years. The scheme was allocated ₹ 25,000 crore each for financial years 2015-16 and 2016-17. The financial years 2017-18 and 2018-19, the allocation of ₹ 10,000 crore each was fixed. The reset of ₹ 5000 crore would be allocated based on efficiency criteria. SBI will get the highest ₹ 5531 crore followed by Bank of India at ₹ 2455 crore,

ISSN:0971-1260
Vol-22-Issue-4-October-December-2019

IDBI Bank ₹ 2229 crore, Punjab National Bank at ₹ 1732 crore and India Overseas Bank ₹ 2009 Crore. This is presented in the Table 1.02

Table 1.02 Capital Infusion under Indradhanush Scheme

Sl. No.	Name of Bank	Capital Allocated	
		₹ in Crore	CAR (in %)
1	State Bank of India	5531	12
2	Bank of India	2455	11.2
3	IDBI Bank	2229	11.9
4	Bank of Baroda	1786	13.1
5	Punjab National Bank	1732	12.9
6	Canara Bank	947	10.7
7	Indian Overseas Bank	2009	10.1
8	Union Bank of India	1080	10.2
9	Corporation Bank	857	11.1
10	Andhra Bank	378	10.7
11	Bank of Maharashtra	394	11.9
12	Allahabad Bank	283	10.4
13	Dena Bank	407	10.9
Total		**20,088**	

Source: Ministry of Finance

Government has recently announced decisions to further recapitalize Public Sector Banks to the tune of ₹ 2,11,000 Crore, through recapitalization bonds of ₹ 1,35,000 Crore and budgetary provisions ₹ 18,139 Crore over two years, and the balance through capital raising by banks from the market. Government has so far infused capital of ₹ 59435 Crore in Public Sector Banks under Indradhanush scheme.

- **De-Stressing**

The infrastructure projects are increasingly stressed thus leading to NPA burden on banks. The project promoters' meetings were held to solve the issues in the infrastructure sector to check the problem of stressed assets in banks. The Government has decided to establish new Debt Recovery Tribunals (DRT) at different places in India, to speed up the recovery of bad loans of the banking sector. De-stressing mainly focused to develop vibrant debt market for Public Sector Banks in order to reduce the lending pressure on banks and to strengthen the asset reconstruction companies.

- **Empowerment**

There will be no interference from Government in the functioning of Public Sector Banks. The banks are encouraged to take decisions independently, keeping the commercial interest of the organization in mind. A cleaner distinction between interference and intervention has been made. With autonomy comes accountability. Accordingly Banks have been asked to build robust Grievances Redressal Mechanism for customers as well as staff so that concerns of the affected are addressed effectively in time bound manner. The government will strive to make it easier for PSBs to hire. The Government is looking at introducing Employee Stock Ownership Plan (ESOPs) for the PSU bank managements.

ISSN:0971-1260
Vol-22-Issue-4-October-December-2019

- **Framework of Accountability**

The bank will be assessed on the basis of a new framework of key performance indicators for state-run lenders to boost efficiency in functioning while assuring them of independence in decision making on purely commercial considerations. The new framework is divided into four sections totaling up to 100 marks. 25 marks each are allocated to quantitative indicators relating to efficiency of capital use and diversification of business. 15 marks each are allotted for specific quantitative indicators under the category of NPA management and financial inclusion. The total mark to be allotted for quantitative indicators criteria is 80. The remaining 20 marks are reserved for measurement of qualitative criteria which includes strategic initiatives taken to improve asset quality, efforts made to conserve capital, Human Resource initiatives and improvement in external credit rating.

- **Governance Reforms**

The process of Governance Reforms[57] started with "Gyan Sangam" - a conclave of Public Sector Banks (PSBs) and Financial Institutions (FIs) organized at the beginning of 2015 in Pune which was attended by all stake-holders including Prime Minister, Finance Minister, MoS (Finance), Governor, RBI and CMDs of all PSBs and FIs. There was focus group discussion on six different topics which resulted in specific decisions on optimizing capital, digitizing processes, strengthening risk management, improving managerial performance and financial inclusion.

The Indradhanush plan was too modest to tackle the huge problem of bank's Non-Performing Assets (NPAs). Indradhanush was a good plan, but in the Indian context it did not play out well.

Causes of Non-Performing Assets

There are several reasons for an account becoming NPA.

- Internal factors
- External factors

The internal factors are:

1. Funds borrowed for a particular purpose but not use for the said purpose.
2. Project not completed in time.
3. Poor recovery of receivables.
4. Excess capacities created on non-economic costs.
5. In-ability of the corporate to raise capital through the issue of equity or other debt instrument from capital markets.
6. Business failures.
7. Diversion of funds for expansion\modernization\setting up new projects\ helping or promoting sister concerns.
8. Willful defaults, siphoning of funds, fraud, disputes, management disputes, mis-appropriation etc.,

ISSN:0971-1260
Vol-22-Issue-4-October-December-2019

9. Deficiencies on the part of the banks viz. in credit appraisal, monitoring and follow-ups, delay in settlement of payments\ subsidiaries by government bodies etc.,

The external factors are:

1. Sluggish legal system
2. Scarcity of raw material, power and other resources.
3. Industrial recession.
4. Shortage of raw material, raw material\input price escalation, power shortage, industrial recession, excess capacity, natural calamities like floods, accidents.
5. Failures, non payment\ over dues in other countries, recession in other countries, externalization problems, adverse exchange rates etc.
6. Government policies like excise duty changes, Import duty changes etc.,

Database and Methodology

The present study designed as an analytical and exploratory in nature based on survey and observation method. Secondary Data were gathered from authentic records and reports of various banking related written publications, banks bulletins, journals, Government publications, portals, website thesis, reports, official records, newspapers, interview transcripts and computerized database. The database of Shodhganga, RBI, BIS, IBBI, IMF and World Bank was accessed and used in the present study. Secondary data also gathered from non-written material such as television, radio, voice and video recordings from the parliament of India.

The present study covers a period from 1992 - 93 to 2017 - 18 Financial Years. The study sketches the magnitude of NPAs in different Loans provided by selected PSBs in India. An extensive literature survey was conducted in this stage as part of NPAs management practices analysis.

Result and Discussion

According to the RBI data published in December, 2017 bad loans of PSBs stood at ₹ 7.34 Lakh Crore. The Public Sector Banks have higher Non Performing Assets (NPA) also because they account for about 87 per cent of the total assets of the banking system. Banking sector gross NPAs at 7.6 per cent in March 2016 and in March 2017 it was 9.06 per cent. The NPA ratio has now peaked to 10.21 per cent as on June 2017. The RBI's biannual financial stability report said that Capital to Risk weighted Asset Ratio of the PSBs increased from 13.6 per cent to 13.9 per cent between March and September 2017.

Under the four year Indradhanush road map announced in 2015, the Union Government had announced infusion of ₹ 70,000 Crore out of budgetary allocations to 21 PSBs, which together account for about 70 per cent of the market share. In January 2017, the finance ministry had said that the allocation will be linked to performance with particular reference to greater efficiency, growth of both credit and deposits and reduction in the cost of operations. None of the banks could achieve the said target.

The Indradhanush plan was too modest to tackle the huge problem of bank's Non-Performing Assets (NPA). The Gross NPAs crossed ₹ 8.50 Lakh crore at the end of September

ISSN:0971-1260
Vol-22-Issue-4-October-December-2019

2017. A report from S & P Global Ratings claimed that Indian Banks may need an additional ₹ 1.9 trillion by March 2019 in order to write down losses on Non-Performing Assets and meet regulatory requirements under Basel III.

Strategies for managing Non Performing Assets

1) Credit Portfolio of Public Sector Banks is to be increased for developing the economy of the country. More Capital is to be injected by the Government of India in Public Sector Banks.
2) Public Sector Banks must practice *80 – 20 rule strategy* for increasing profits. The rule states that Public Sector Banks can expect 80 per cent of its profits will come from 20 per cent of its Asset quality.
3) *Central Repository of Information on Small and Medium Credit* (CRISMC) is to be built up by the banking regulatory agencies in India.
4) Full-fledged Insolvency and Bankruptcy Code is to be implemented for speedy resolution of all stressed assets of Public Sector Banks.
5) Bank Board Bureau functioning is to be extended at par with international banking scenario.
6) Appropriate Legislative amendment is to be made in Indian banking scenario for adoption of Global and Indian Accounting Standards.

Conclusion

Lack of adequate recapitalization plan is the Achilles heel of any effort to turn around PSBs grappling with mounting bad loans. Indradhanush was a good plan, but to an end the Indian story differently. We need a much more powerful plan aimed at swiftly for restoring PSBs health. Insolvency and Bankruptcy Code (IBC) has shaped fresh institutional architecture for addressing the Non-Performing Assets (NPA) of the banking industry. It is expected that through new institutional mechanism such as Insolvency and Bankruptcy Code, address the problem of stressed assets and banks' own effort towards the improving the efficiency, credit monitoring and risk management, they will be able to overcome the strains on lending capacity and efficiently perform their role as financial intermediaries.

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ISSN:0971-1260
Vol-22-Issue-4-October-December-2019

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