



Business Ecosystem: Interplay of Key Dimensions

Editor

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**B.K. School of Business Management
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CONTENTS

- ❖ *Foreword*
- ❖ *Acknowledgements*
- ❖ *Prologue*

Section I: Government, Policies and Goals: The Support Mechanism

1. **Information Technology for Sustainable World** 1 - 6
Amrita Harjani
2. **Learnings for India from South Korea: Reforms and Policies for Sustained Growth** 7 - 16
Devansh Saraswat & Rishika Srivastava
3. **Innovative Technology: Inclusive and Sustainable Development in India** 17 - 21
Mohd Azhar Ud Din Malik
4. **An Insightful Analysis of Economic Growth and Poverty Reduction in Emerging and Transition Economies** 22 - 28
Dauda Alusine Kuyateh

Section II: Entrepreneurial Development: The Real Game Changer

5. **Perceived Barriers to Entrepreneurship among the Educated Youths of Manipur** 29 - 35
Kangjam Mukhara Devi & W.C. Singh
6. **Make in India – Comparative Advantage for North-East India** 36 - 43
Monu Singh & Dr. Abhigyan Bhattacharjee
7. **Can Business Angels Contribute towards Sustainability of Start-ups?: A Review** 44 - 52
Niyati Dave
8. **Joint Ventures in Indian Oil Sector** 53 - 58
Diveta Rathore
9. **Women Entrepreneurs and the Fashion Boutique Business** 59 - 66
Bijal Mehta & Paragi Shah
10. **Accessibility to Formal Financing: A Study of MSMEs and Banks** 67 - 75
Dr. Nilam Panchal & M. Shanti Devi

Section III: Corporate Corridor: Sustainable Business Models

11. **Steeple Analysis of Internet Banking Sector with Reference to Gujarat Region** 76 - 85
Ms. Nita Meghani & Dr. Anjali Gokhru
12. **A Study on Identifying Key Factors Responsible for Selection of Organized Retail Stores** 86 - 96
Ms. Pratima Shukla & Mr. Nikunj Thakkar
13. **Human Resource Accounting Disclosures in Selected Indian IT Sector Company** 97 - 103
Mr. J.D. Mistry & Mr. Kamal D. Patel
14. **Bank of Baroda and Non-performing Assets – An Analysis in Retail Loans Segment** 104 - 113
Minakshi Gupta & Dr. Nilam Panchal
15. **Significance of HR Department in Start-up Firms** 114 - 118
Ms. Anita Ahuja & Ms. Ranna Bhatt
16. **Case Study on Flipkart: Virtual Issues with Big Billion Day** 119 - 130
Dr. Bijal Zaveri & Dr. Prashant D. Amin
17. **Asset Quality – A Hurdle in Growth of Public Sector Bank: Evidence from 2010 to 2017 in India** 131 - 137
Mr. Baibhav Sundarka & Dr. Nilam Panchal
18. **Examining the Effectiveness of Promotional Strategies for Bollywood Movie Promotions: A Cluster Analysis** 138 - 148
Kalgi Shah & Dr. Mamta Brahmhatt
19. **Adapting Servqual Scale to Gujarati Food Restaurants in Ahmedabad City: An Empirical Investigation** 149 - 156
Dr. Mamta Brahmhatt
20. **Supply Chain Management Practices: A Study of Select Food Processing Units in Manipur** 157 - 172
Thokchom Suranjoy Singh & Dr. Sunildro L.S. Akoijam

Bank of Baroda and Non-performing Assets - An Analysis in Retail Loans Segment

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ABSTRACT

All around the world retail lending has been an established market; however its rise in emerging economies like India has been of recent origin. If recent statistics on consumer finance are any indication, the last few years have been trend setting. The traditional debt-averse, middle-class Indians who lived within their thrifty means, never to venture beyond their means, seem to have given way to a new middle-class that is free from all inhibitions regarding conspicuous consumption. Unlike its predecessors, the middle-class of today has donned a new attitude; it attaches no social-stigma to taking loans for spending.

Rise in NPA has now become major issue with all the banks. Bank of Baroda is facing the same problem as it has shown historic figures of increased NPA and declined profit this year.

Defaults in retail loans have impacted such high NPA figures at a lower level but it is a neglected sector when preventive measures are taken for reducing NPA so this research is focused on NPA of retail sector and other issues discussed and analysed in the report are related to the huge rise in overall NPA in 2016 and its impact on profitability of Banks specially Bank of Baroda.

Keywords: Retail Loans, Non-performing Assets, Bank of Baroda.

INTRODUCTION

India cannot have a healthy economy without a sound and effective banking system. The banking system should be hassle free and able to meet the new challenges posed by technology and other factors both internal and external. In the past three decades, India's banking system has earned several outstanding achievements to its credit. The most striking is its extensive reach. It is no longer confined to metropolises or cities in India. In fact, Indian banking system has reached even to the remote corners of the country. This is one of the main aspects of India's growth story. The government's regulatory policy for banks has paid rich dividends with the nationalization of 14 major private banks in 1969. Banking today has become convenient and instant, with the account holder not having to wait for hours at the bank counter for getting a draft or for withdrawing money from his account.

The structure of the Indian banking system that developed during the pre-independence period was without any purposive control and direction. There were no comprehensive banking laws except the Bank Charter Act, 1876 which regulated the three presidency bank and the Indian companies Act, 1913 provided some safeguards against bank failures. In India the British Government started a central Bank called the Reserve Bank of India as a Private sector in 1935. After Independence, the new National Government nationalized it by passing the Reserve Bank of India Act in 1949 has some provisions to foster a sound and healthy banking system in India. To regulate the banking business the Act vested enormous powers of supervision and control in the hands of the reserve bank of India.

Reserve Bank is the banker to the banks – commercial, co-operative and Regional Rural Banks. This relationship is established once the name of a bank is included in the second schedule to the Reserve Bank of India Act, 1934. Such banks, called the scheduled banks, are entitled to avail of the facilities of refinance from the Reserve Bank.

Bank of Baroda (BOB) was established on 20th July, 1908 in the princely state of Baroda by the great visionary, Sir Sayajirao Gaekwad III. BOB was amongst the first few banks to venture overseas by opening a branch at Mombassa in 1953. Today it has significant international presence with a network of 72 offices in 25 countries. Bank of Baroda has 100 years of glorious performance and an uninterrupted profit record, serving generation after generation around the globe. Bank of Baroda has 5468 Branches including 107 overseas branches, 13 Zonal offices and 74 regional offices.

REVIEW OF LITERATURE

A large number of researchers have been studied to the issue of non-performing asset (NPA) in banking industry. A review of the relevant literature has been described as under: Non-performing Assets engender negative impact on banking stability and growth. Issue of NPA and its impact on erosion of profit and quality of asset was not seriously considered in Indian banking prior to 1991. There are many reasons cited for the alarming level of NPA in Indian banking sector. Asset quality was not prime concern in Indian banking sector till 1991, but was mainly focused on performance objectives such as opening wide networks/branches, development of rural areas, priority sector lending, higher employment generation, etc. The accounting treatment also failed to project the problem of NPA, as interest on loan accounts were accounted on accrual basis (Siraj K.K. and P. Sudarsanan Pillai, 2012).

A Committee on Banking Sector Reforms known as Narasimham Committee was set up by RBI to study the problems faced by Indian banking sector and to suggest measures revitalize the sector. The committee identified NPA as a major threat and recommended prudential measures for income recognition, asset classification and provisioning requirements. These measures embarked on transformation of the Indian banking sector into a viable, competitive and vibrant sector. The committee recommended measures to improve “operational flexibility” and “functional autonomy” so as to enhance “efficiency, productivity and profitability” (Chaudhary & Singh, 2012).

The main cause of mounting NPAs in public sector banks is malfunctioning of the banks. Narasimham Committee identified the NPAs as one of the possible effects of malfunctioning of public sector banks (Ramu, N., 2009). It has been examined that the reason behind the falling revenues from traditional sources is 78% of the total NPAs accounted in public sector banks (Bhavani Prasad, G. and Veena, V.D., 2011).

An evaluation of the Indian experience in Financial Sector Reforms Published in the RBI Bulletin gives stress to the view that the sustained improvement of the economic activity and growth is greatly enhanced by the existence of a financial system developed in terms of both operational and allocation efficiency in mobilizing savings and in channelizing them among competing demands (G. Rangarajan, 1997). It has been observed that the current banking Scenario and the need for the policy change opines that a major concern addressed by the banking sector reform is the improvement of the financial health of banks. The introduction of prudential norms is better financial discipline by ensuring that the banks are alert to the risk profile of their loan portfolios (S.P. Talwar (1998)).

The Reserve Bank of India has also conducted a study to ascertain the contributing factors for the high level of NPAs in the banks covering 800 top NPA accounts in 33 banks (RBI Bulletin, July 1999). The study has found that the proportion of problem loans in case of Indian banking sector always been very high. The problem loans of these banks, in fact, formed 17.91 per cent of their gross advances as on March 31, 1989. This proportion did not include the amounts locked up in sick industrial units. Hence, the proportion of problem loans indeed was higher. However, the NPAs of Indian Banks declined to 17.44 per cent as on March 31, 1997 after introduction of prudential norms. In case of many of the banks, the decline in ratio of NPAs was mainly due to proportionately much higher rise in advances and a lower level of NPAs accretion after 1992.

The study also revealed that the major factors contributing to loans becoming NPAs include diversion of funds for expansion, diversification, modernization, undertaking new projects and for helping associate concerns. This is coupled with recessionary trend and failure to tap funds in the capital and debt markets, business failure (product, marketing, etc.), inefficient management, strained labour relations, inappropriate technology/technical problems, product obsolescence, recession impact, power shortage, price escalation, accidents, natural calamities, Government policies like changes in excise duties, pollution control orders, etc. (Parul Khanna, 2012).

OBJECTIVE OF THE STUDY

These are the various objectives of the study-

- To establishing relationship between NPA, profit and solvency ratio of BOB and comparing them with those of other public sector banks.
- To analyse different types of retail loans offered by Bank of Baroda.
- To identify the types of retail loans which have brought least and most percentage of NPA to the advance given?
- To perform size wise analysis of retail loans' NPA.

RELEVANCE

This Study can be helpful to understand the concept of Retail loans, the procedure involved in the approval or rejection of the loans in Bank of Baroda and defaults (NPA). This study can provide competitive advantage to Bank of Baroda over its competitors and peer banks in retail loan segment of India.

SCOPE

The scope of the study is limited to overall NPA data of last four years and Retail loans data of the current year. Study does not include NPA data and analysis of other segments like Agriculture, MSME, Large and medium and overseas.

RESEARCH METHODOLOGY

- 1. Research Type:** This study is mainly descriptive in nature. In this study secondary data is collected and inferences are drawn from the available data.
- 2. Data:** In this study mainly secondary data is used. Data is collected from various secondary resources like magazines, papers, annual reports, Books/Articles/Blogs/Papers/other available sources on internet and sites of various banks and from website of RBI. In this study data of six years viz- 2011 to 2016 is analysed.
- 3. Statistical Methods:** Here descriptive analysis is used in this study.
- 4. Data Representation and Analysis**

Analysis of Gross NPA, Solvency Ratio and Net Profit of Public Banks

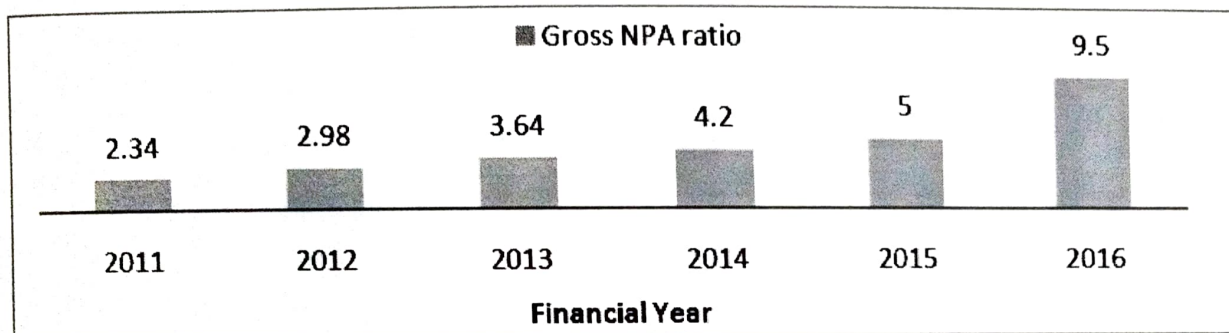


Figure 1: Year Wise Comparison of Gross NPA ratio of Public Sector Banks

In Figure-1 Aggregated and averaged data of 25 public sectors bank is analysed. Graph-1 shows year wise Gross NPA ratio of all those public banks. NPA is getting increased from last 6 years. The process was gradual in the initial years while in 2015-2016 it has witnessed a sudden and sharp increase.

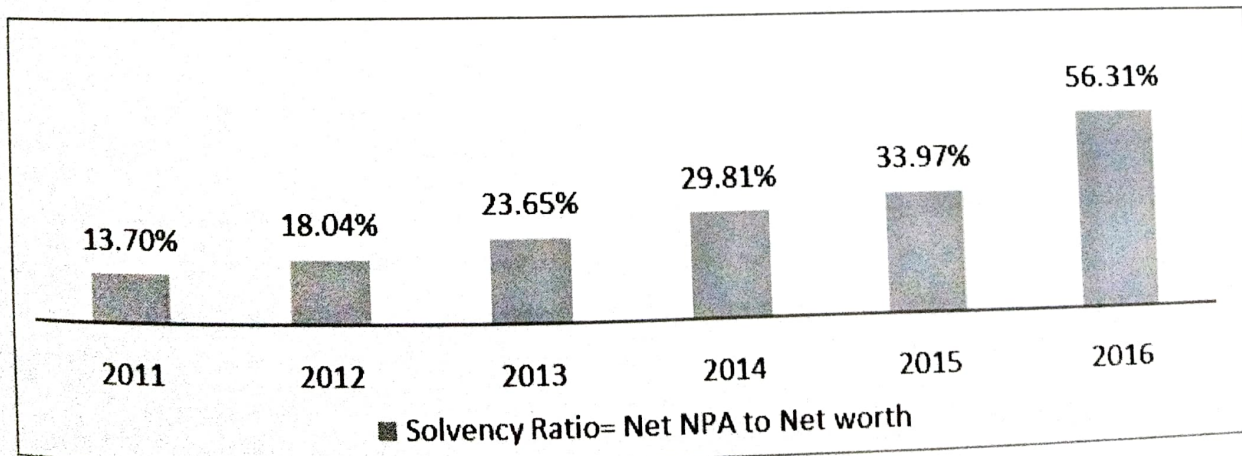


Figure 2: Year Wise Data of Solvency Ratio of Public Sector Banks

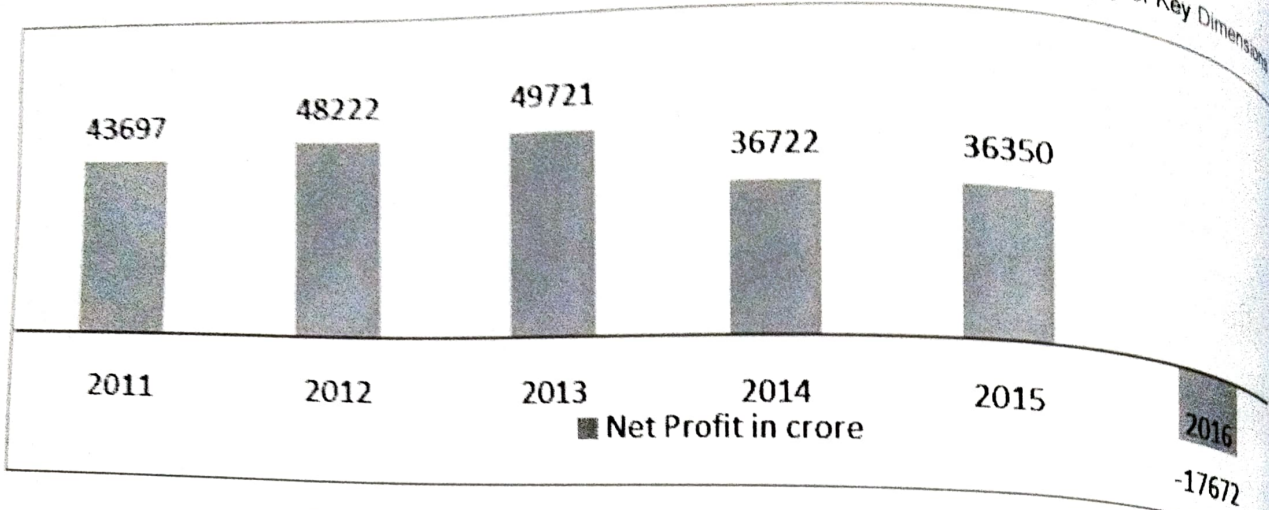


Figure 3: Year Wise Data of Net Profit of Public Sector Banks

In Figure-2 Solvency Ratio ($\text{Net NPA} \times 100 / \text{NET worth}$) is calculated and graph shows that solvency ratio is also increasing in same way as that of NPA as discussed in Graph-1. It is showing upward trend. In the year 2011 solvency ratio was 13.70 per cent that reached to 56.31 per cent in the year 2016.

Figure-3 shows that net profit is also declining in these years and has turned to huge losses in 2016. In the 2016 total losses were of ₹ 17672 crores in aggregate in all the public banks.

Analysis of Gross NPA, Net NPA, Solvency Ratio and Net profit of BOB

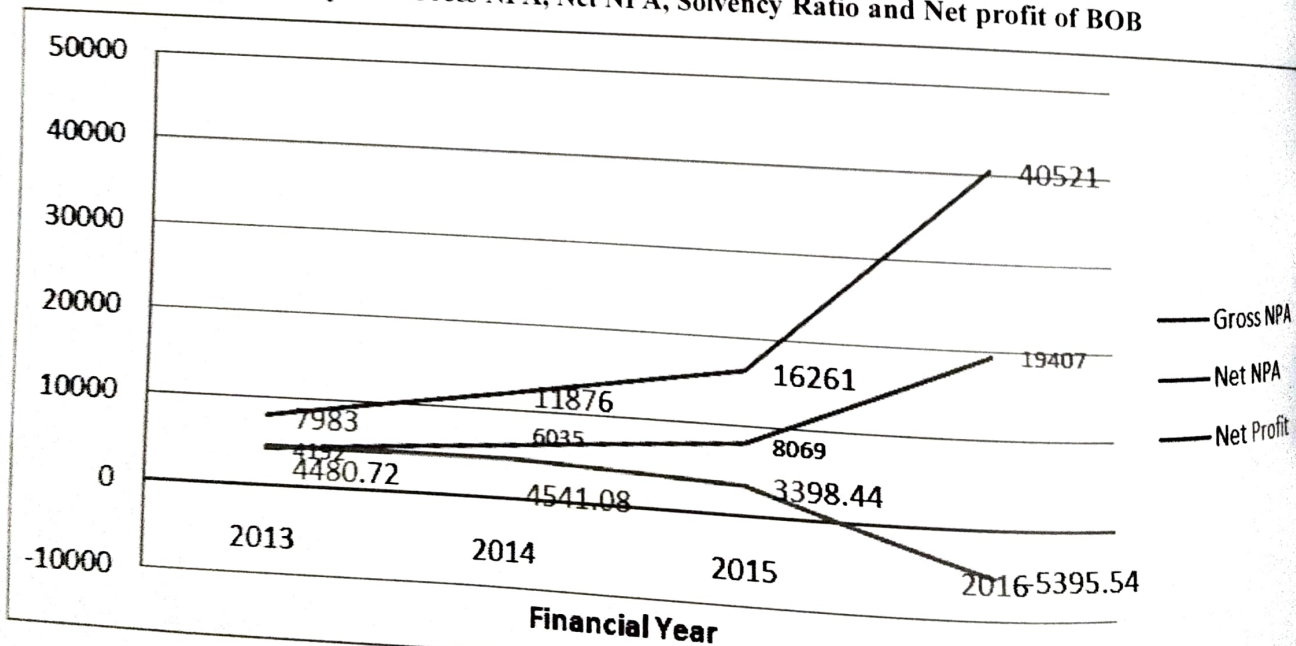


Figure 4: Year Wise Analysis of NPA and Profit of BOB

The given figure-4 shows the actual Net and Gross NPA amount of Bank of Baroda and the comparison with profit of 4 years. It is observed that the same pattern as shown by all the private banks in case of NPA, solvency ratio, and net profit is visible in case of Bank of Baroda as well. The pattern of increment in NPA ratio and solvency ratio with decline in net profit was found in the case of Bank of Baroda too in last 4 years.

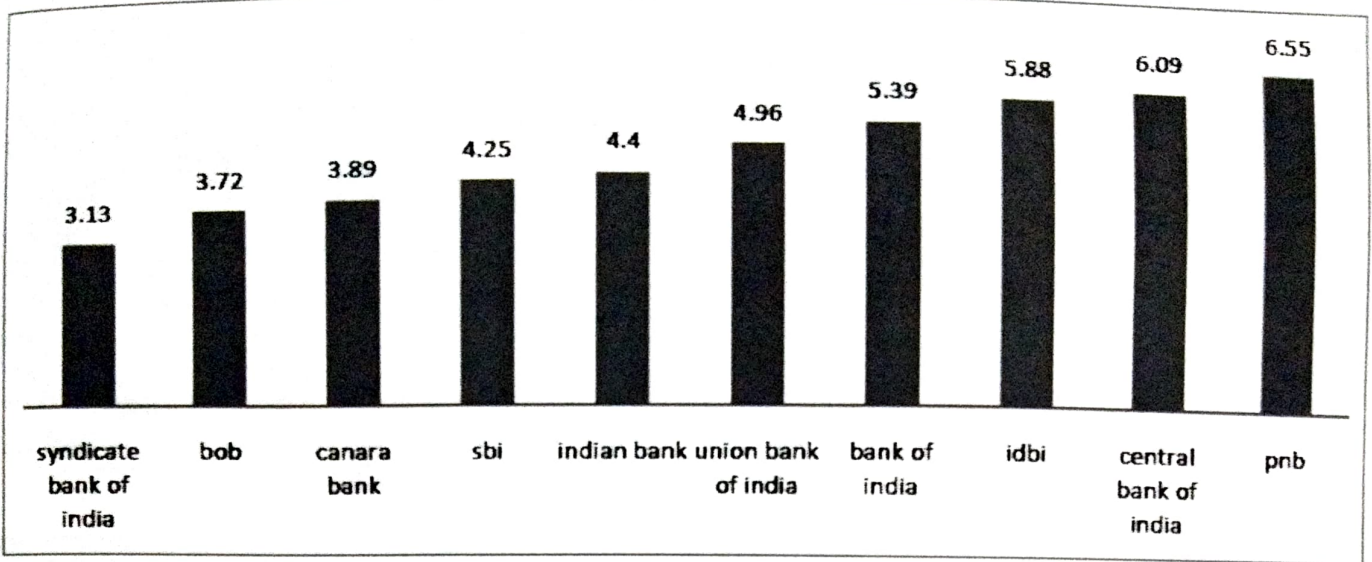


Figure 5: Comparison of Gross NPA Ratio of Public Sector Banks (FY-2015)

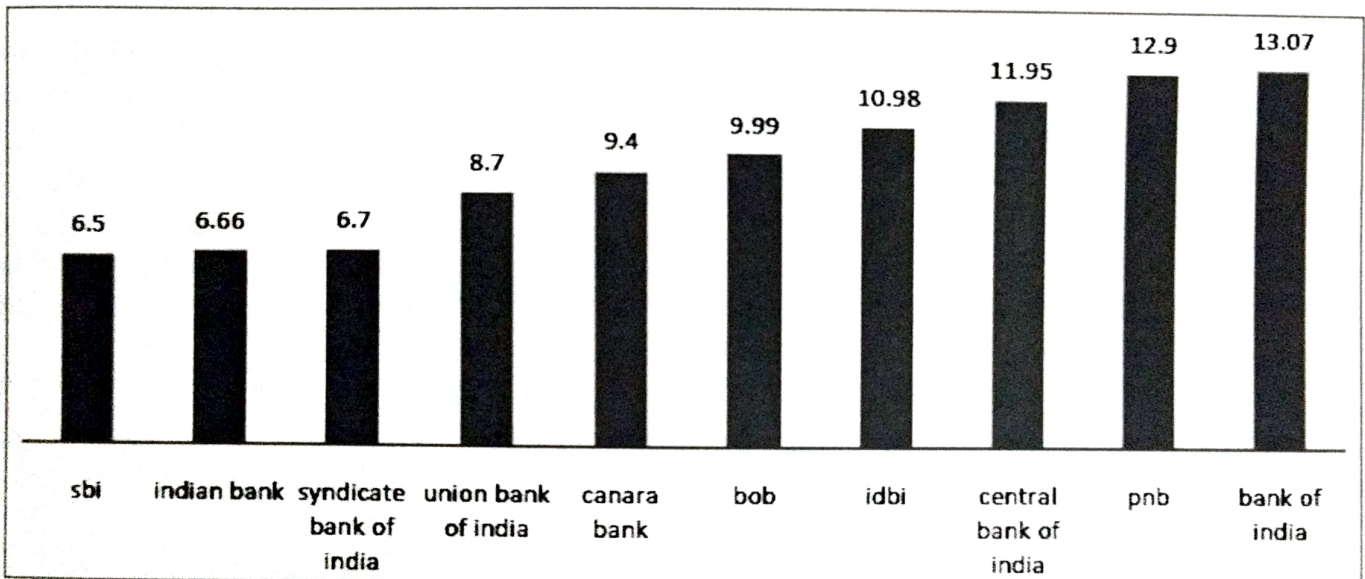


Figure 6: Comparison of Gross NPA Ratio of Public Sector Banks (FY-2016)

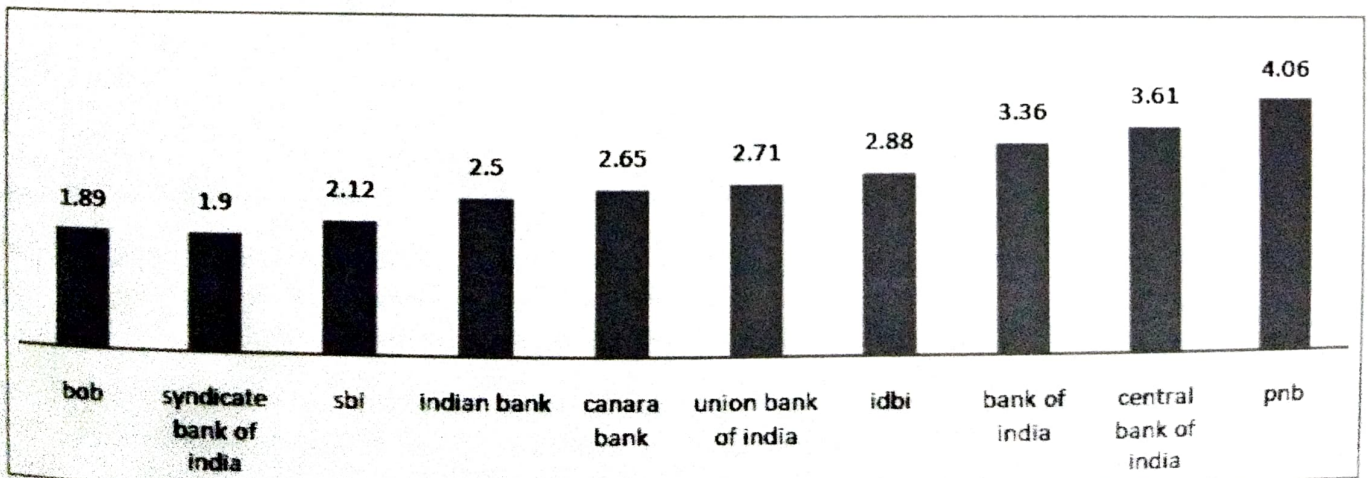


Figure 7: Comparison of Net NPA Ratio of Public Sector Banks (FY-2016)

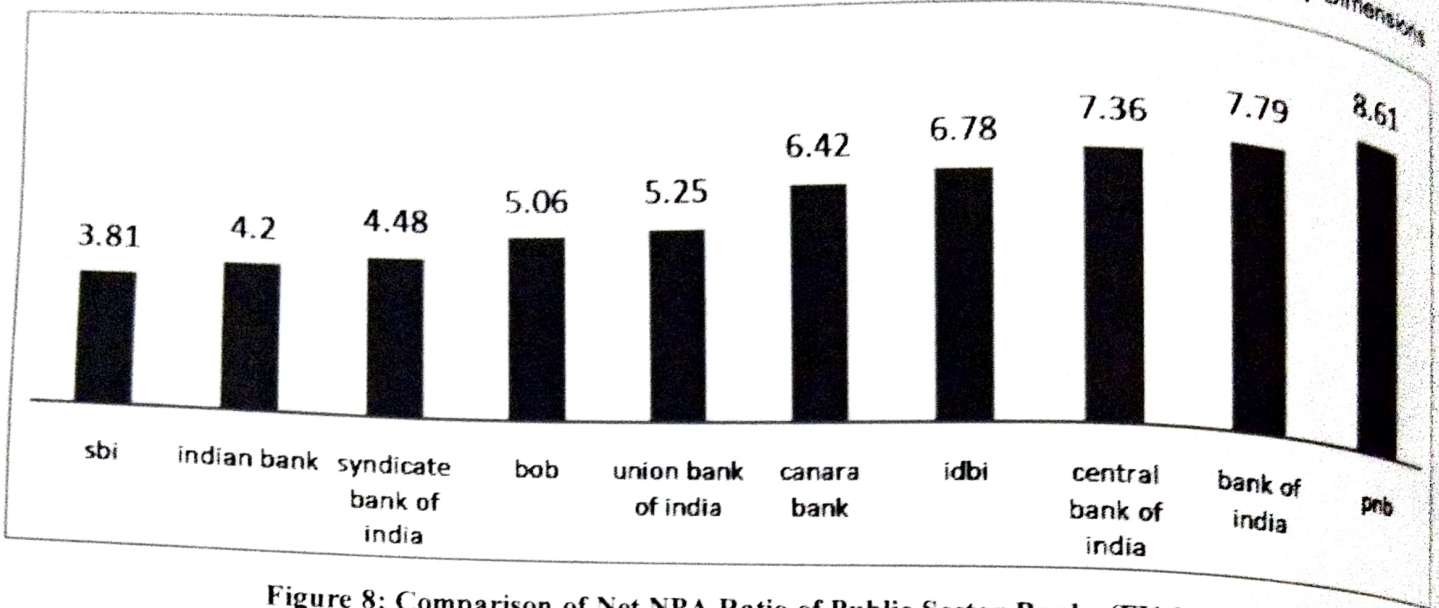


Figure 8: Comparison of Net NPA Ratio of Public Sector Banks (FY-2016)

These graphs show the position of Bank of Baroda in case of gross and net NPA ratio while comparing with other top 9 public sector banks. BOB is always seen on 2nd position (after SBI) across all the public sector banks this was true in case of NPA ratio too in 2015. BOB was having second lowest gross NPA ratio in 2015 (Figure-5) while lowest net NPA ratio in 2015 (Figure-7) but in 2016, the in case of Gross NPA ratio, it went to 6th position from 2nd position (Figure-6) and for Net NPA it went to 4th position from 1st position(Figure-8).

Figure-9 shows sector wise net NPA % in year 2015 and 2016, where in 2015, overseas sector had the least Net NPA ratio and Agriculture had the highest Net NPA ratio but in 2016, Retail sector had the least and Large and Medium sector had the highest Net NPA ratio.

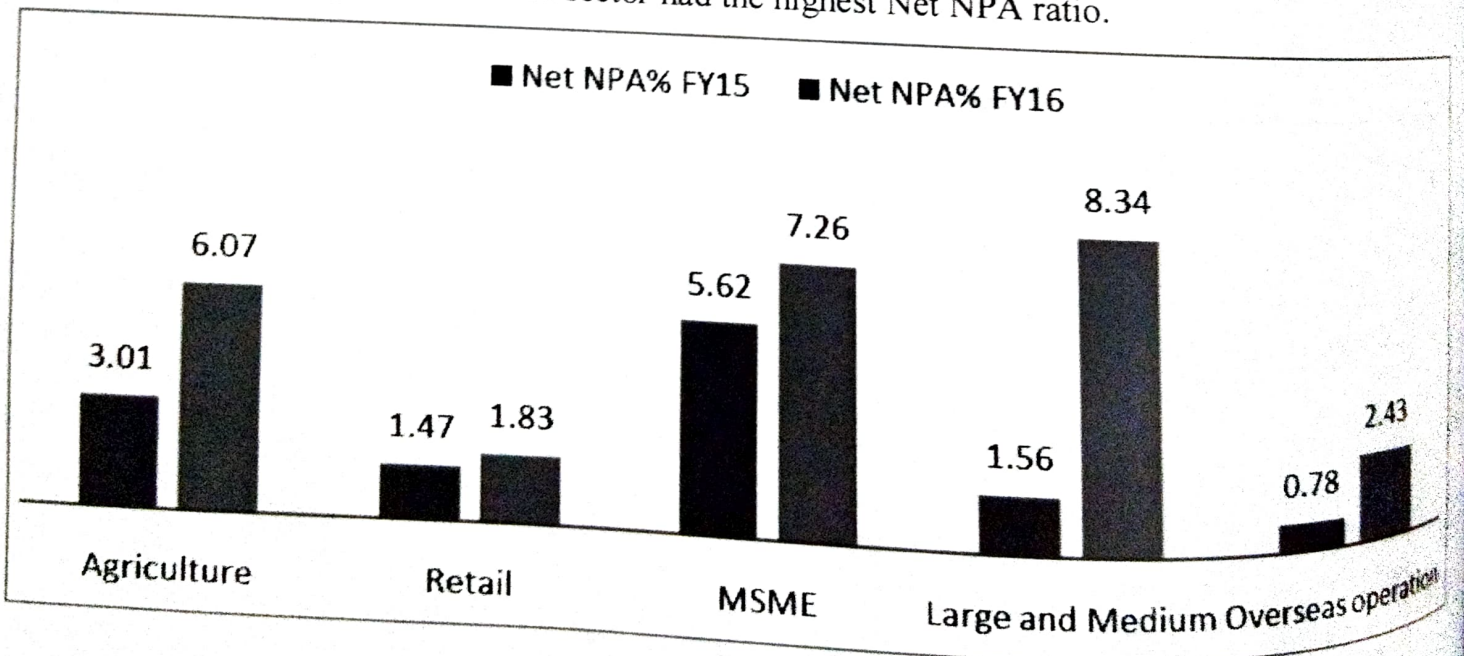


Figure 9: Sector Wise NPA for 2015 and 2016 by BOB

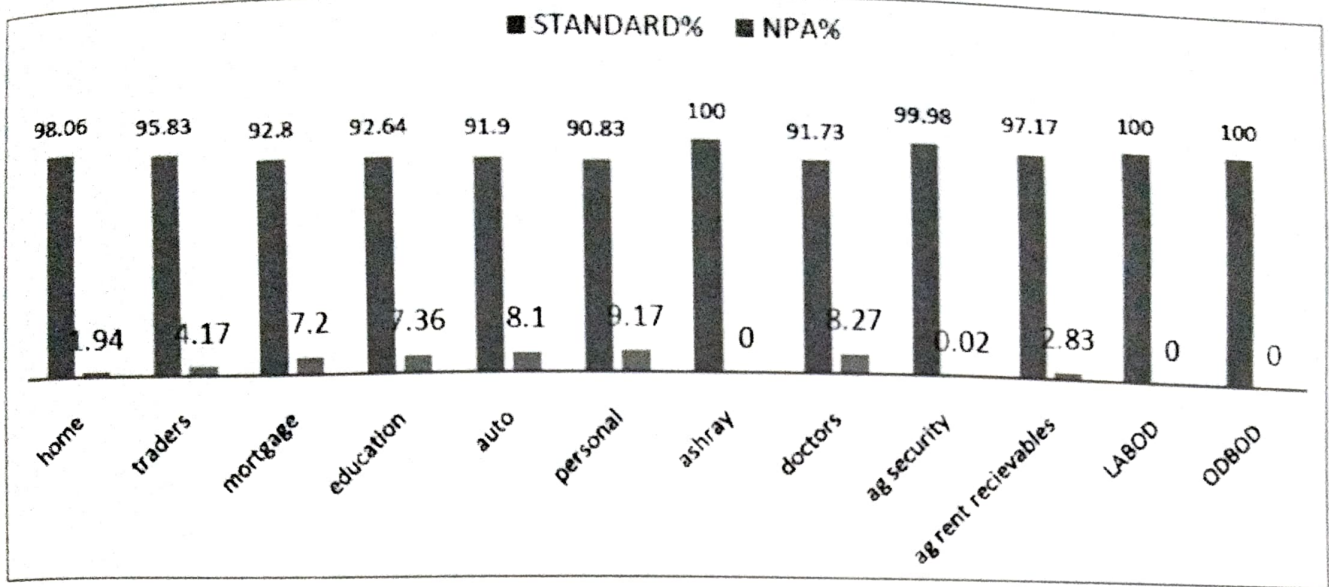


Figure 10: Standard and NPA % to Advance Given

Figure-10 shows the different types of retail loan and for each type, the composition and segregation of NPA and the standard assets. Personal loan had highest NPA to loan ratio followed by doctor's loan and auto loan while there was no NPA in Ashray, LABOD and ODBOD.

NPA is classified into 3 types of assets-Substandard, doubtful and loss so this graph shows segregation of such NPA into these assets for each type. Personal loan followed by education loan are having highest loss assets.

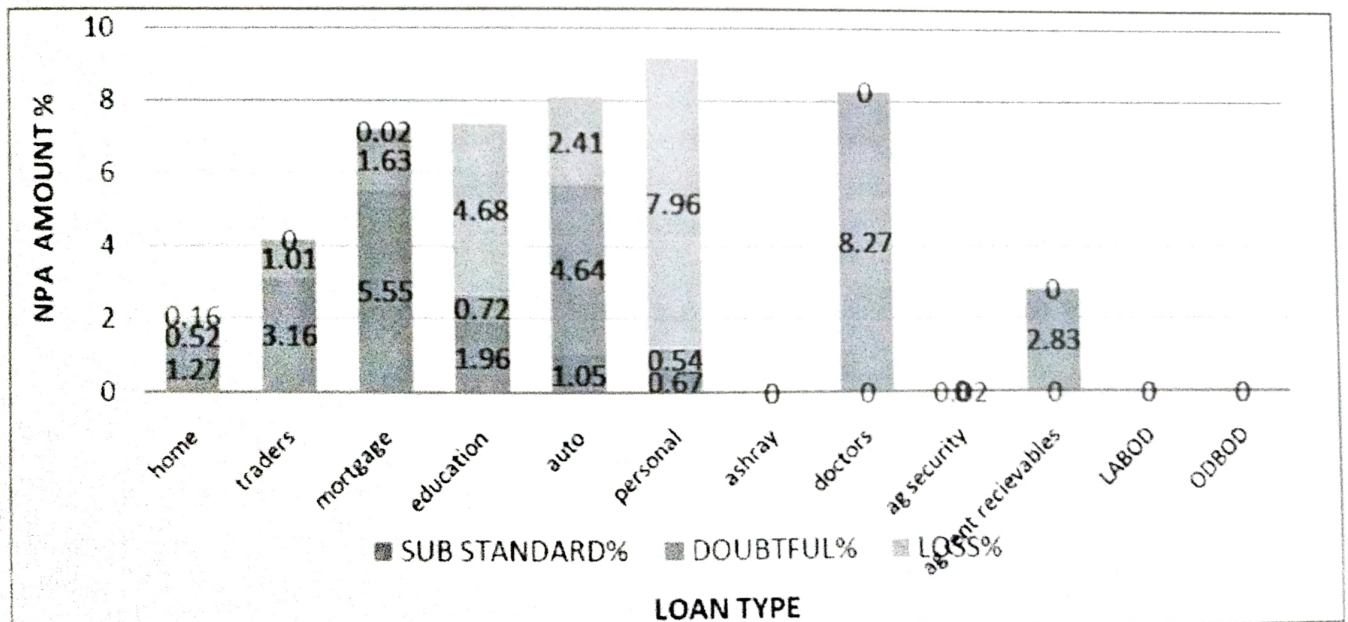


Figure 11: Category Wise NPA % in BOB

Figure-12 shows representation of NPA according to the size of the loan given. Loans of more than ₹ 100000 had the highest NPA% followed by those of less than ₹ 25000.

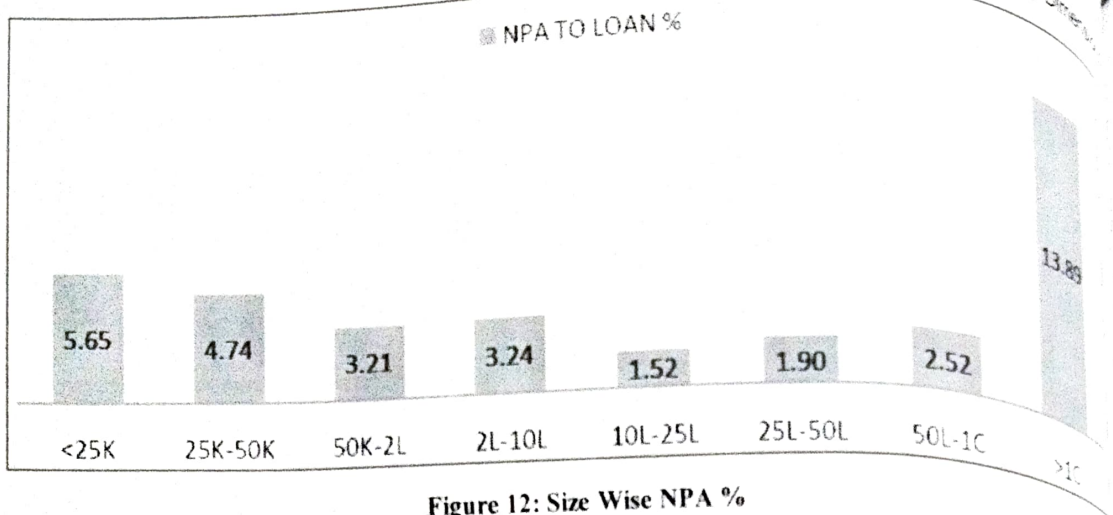


Figure 12: Size Wise NPA %

FINDINGS

- Public sector banks especially Bank of Baroda has extremely increased NPA, solvency ratio and declined profit in the year 2016 which is not good for Indian economy and for Bank of Baroda.
- Bank of Baroda is losing its top position among the top public sector banks in context of NPA which eventually can harm bank's reputation and market share.
- From all the sectors, retail sector loans do not contribute the major portion of NPA. Retail, Personal loan is the most NPA contributing type with highest loss assets.
- Loans of ₹ 10000000 and more and less than ₹ 25000 are the most sensitive towards converting to NPA.

SUGGESTIONS

- Advances provided by banks should go through proper pre-sanctioning evaluation, selection of borrowers and post disbursement control and follow ups required to get the payment.
- Public sector banks including BOB can use better and advanced technologies in the whole procedure, starting from giving loan to recovery of NPA.
- Early diagnosis of non-payments should be done.
- Industry wise exposure limits should be set to diversify profile and minimize risk.
- Account Tracking Centres should be set up to prevent accounts slipping into NPA category.
- A system of Tele-calling/personal contact/SMS alert/sending notices etc. should be more aggressive followed on default of overdue instalments/irregularity in accounts.

CONCLUSIONS

NPAs reflect the overall performance of the banks. The NPAs have always been a big worry for the banks in India. The Indian banking sector faced a serious problem of NPAs. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and liquidity of banks. The extent of NPAs has comparatively higher in public sectors banks. To improve the efficiency and profitability, the NPAs have to be scheduled. Various steps have been taken

government to reduce the NPAs. It is highly impossible to have zero percentage NPAs. But at least Indian banks should take care to ensure that they give loans to creditworthy customers.

LIMITATION

The scope of data analysis in NPA is wide but due to content and time restriction only retail sector's advance and overall NPA comparison is done.

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She is passionate about teaching, research and training and has been engaging in enabling individuals and organizations through coaching, training, learning and development. She has taught course at MDI. She is Co-ordinator of Post Graduate Diploma Programme in Finance Management for the Management Academy, Gujarat University. Dr. Nilam started FMDP Cell in the Gujarat University and has been conducting Management Development Programmes (MDPs) for Middle-level executives, Faculty Development Programmes for the Management Faculties and Student Development Programmes for students of Management. Besides, she has been member of Editorial Boards of various national and international journals. She is acting as a Vice-Chairman – ISTD – Ahmedabad Chapter. She has been Visiting/Guest Faculty at MDI-Murshidabad, Nirma University, MIMS-Manipur University, Centre for Entrepreneurship and Skills Development – Manipur University, KCG.

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