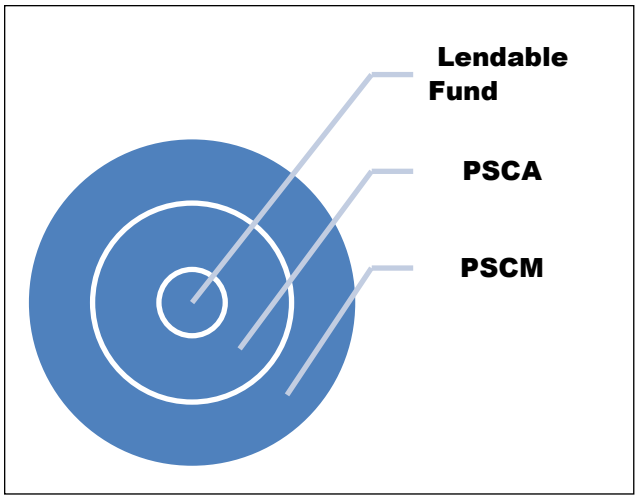
LOAN DEFAULT RISK: A DIAGNOSTIC STUDY

Dr. M. S. Ali*

Dr. V. S. Kaveri**

As per the Financial Stability Report - December 2017, there is a rising trend of Gross Non-Performing Advances (GNPAs)/gross advances ratio of Scheduled Commercial Banks (SCBs) from 9.6 percent to 10.2 percent and also of stressed assets (GNPAs, restructured standard advances and written off advances/total advances) ratio marginally moving up from 12.1 percent to 12.2 percent between March 2017 and September 2017. In particular, as on September end 2017, Public Sector Banks (PSBs) registered an unprecedented rise in GNPA ratio at 13.5 percent and stressed advances ratio at 16.2 percent[1]. Thus, the present scenario of the banking industry in India is witnessing a stress of piling of bad loans[(2-4)]. Performance of a bank is measured in terms of the percentage of stressed assets to total advances and, therefore, a higher level of stressed assets indicates a bad image of the bank. Due to high slippage in the loan asset quality during the recent past, banks are worried about the mounting stressed loans on account of willful default by borrowers on one hand and factors being beyond their control on the other hand. These factors influencing NPAs may be originated during the two stages of Loan Cycle viz., Pre-Sanction Credit Appraisal (PSCA) and Post-Sanction Credit Monitoring (PSCM), revolving around the bank's lendable fund as shown below:

Figure 1 - Life Cycle of Loan



It is also observed during the recent years that wilful defaults are on the rise. It would be an interesting exercise to know the modus operandi. Towards this end, the present article focusses on how borrowers are mainly responsible for converting a good account into non performing account by carrying out a diagnostic study and analyzing developments in the case during the PSCA and PSCM stages.

Case Study:

I Background:

M/s. Premier Infrastructure Private Limited (PIPL) was incorporated on 7th July, 2010 as a family unit. Initially, PIPL was established as a private limited company and put up a crushing plant at Vill-Kanchanpur under Tahsil of Champua in the District of Keonjhar of Odisha state under the leasehold land of the State Government. PIPL is a small company manufacturing Stone Chips Crushing and crushing of Iron ores with an annual installed capacity of 57,000 MT for a double shift and for 25 working days in a month. But during the year 2011, the

* Chief Manager, Central Bank Officers' Training College, Kolkata.

** Former Professor, National Institute of Bank Management, Pune.

State Government banned crushing of Iron ores. Therefore, the company diversified its activities by converting PIPL into a Limited Company as Premier Infrastructure Limited (PIL) on 19.08.2011 for Stone Chips Crushing and other activities like construction of road and infrastructure for Government and private parties. But registration of the charge with Registrar of Companies (ROC) was not made in the name of the new company viz., Premier Infrastructure Limited. The authorized capital of the company was ₹1 crore in the year 2010-11 as per Memorandum of Association. The share holding pattern shows that one of the shareholders is Hindu Undivided Family (HUF)and the other one is a group company i.e. M/s. Sun Infrastructure Private Limited (SIPL) having a shareholding of more than 5 percent in addition to other individual shareholders. The promoters' of PIL were well familiar regarding the banking matters with National Bank enjoying Cash Credit Limit of ₹112 lakh and Term Loan of ₹130 lakhs since 2004 and operations in the account were satisfactory. The Company had repaid the entire Term Loan amount with interest and continued the cash credit facility. PIL also opened a Current Account with National Bank in the month of August 2011.

Bank sanctioned WC limits and Term Loan to the Company for manufacturing of stone crushing. Within a very short span of three months, starting from November 2011, the company completed the project and started commercial operations by availing the first release of Working Capital limit in December 2011 and the last trench of disbursement of Term Loan in January 2012. In the year 2011-12 and onwards, performance of the company was very miserable which was evident from continuous decline in gross sales. The company's activity stopped for non-compliance of the bank's sanction terms which include: (i) failure to raise capital (ii) not depositing the promoter's contribution (iii) undertaking other activities not specified earlier (iv) failure to submit statutory approvals / audited financial statements because of which the bank was compelled to conduct short term review of the account several times to arrest the slippage into NPA, and (v) diversion of funds etc. This non-compliance of the terms of loan sanction led the account to become NPA on 31st March, 2016. Consequently, the bank had to bear more haircuts in settlement of dues. All these developments, therefore, call for a diagnostic study.

II Developments:

1. Banking Arrangement for Credit Facilities:

PIL had submitted a Detailed Project Report (DPR) in September 2011, in which the following assumptions were considered by the National Bank while scrutinizing the proposal:

i. The Stone Chips Crushing annual installed capacity is 288,000 MT for a single shift of 8 hours each and for 25 working days in a month. The annual capacity utilization based on a double shift working for 300 days with 8 hours per shift comes to 5,76,000 MT.

ii. The capacity utilization in the first year's and 2nd year's operation was assumed at 60% of annual installed capacity of plant & machinery.

iii. The purchase price of bolder was considered at ₹ 720 per MT and the selling price of Stone Chips for (a) 5mm Size was at ₹1000 per MT and (b) < 5mm size was at ₹100 per MT.

iv. The construction of project was to commence from October 2011, and complete in December 2011.

2. Project Outlay and Financial Statements:

As seen from Table 1, the total project outlay is ₹314 lakhs and fixed cost component consisting of plant and machinery etc. amounts to ₹149 lakhs. After deducting the margin money/ promoter's contribution of ₹49 lakhs, the term loan sanction comes to ₹ 100 lakhs. The entire margin on working capital requirement of ₹165 lakhs was expected to be financed out of owned funds.

Table -1: Project Outlay & Assessment of Term Loan

(₹ in Lakh)

Cost of Project	Cost	Margin	Eligible Term Loan	Means of Finance	
				Sources	Amt
Land, Land Development & Registration	0.87	0.87	-		
Shed & Building	47.80	19.10	28.70	Share capital	214.00
Plant & Machinery	72.60	18.17	54.43	Term Loan	100.00
Electrical Installation	11.50	2.88	8.62		
Other Fixed Assets	11.00	2.75	8.25		
Security Deposit for Electric connection	2.00	2.00	-		
Preliminary Expenses	2.23	2.23	-		
Pre-operative Expenses (IDC)	1.00	1.00	-		
Total Capital Investment	149.00	49.00	100.00		
Margin for working capital	165.00	165.00	-		
Total Project Cost	314.00	214.00	100.00	Total	314.00

IDC – Interest during Construction Period.

From the study of projected financial data and audited financial data (Table 2), it is observed that operational performance is critical. To elaborate, actual gross sales fell short of projected gross sales very widely. Consequently, the company reported almost nil profit during 2011-14 and loss in 2014-15. Similarly, financial position is found very weak with current ratio remaining less than 1.0 during 2011-15. Further, the company is highly debt burdened with the Total Outside Debt: Equity at 36.0 in 2011-12 and almost remains at more than 7.0 during 2012-15, which is contrary to the bank's benchmark of 4: 1. Long Term Debt: Equity ratio is at 8.83 in 2011-12 indicating non-compliance of bank's benchmark of 3:1. Thus, the overall financial soundness of the company was found to be unsatisfactory.

(OCL = Other Current Liabilities RMC= Raw Material Consumption, NWC= Net Working Capital

DER= Debt to Equity Ratio, TOL = Total Outside Liabilities, TNW= Tangible Net Worth

(Note: The projection data for 2011-12 below table 2 is for three months and, thereafter, it is for 12 months. The share application money is a component of other current liabilities till the pending of allotment. Regarding Post Sanction data (Table 2), ratios are computed considering Share Application Money as OCL and not as Share Capital.))

3. Collateral Securities:

The Company offered collateral securities in the form of four properties with an aggregate market value of at ₹420.40 lakhs. Three properties of worth ₹ 223.90 lakhs are in the name of Directors and other family members. The Bank's panel valuer opined that two properties, with aggregate market value of ₹194.00 lakh, were agriculture land as per the respective sale deed. But, adjacent land was used as residential/ commercial / industrial properties. The fourth property with market value of ₹196.50 lakhs, including Plant & Machineries, valued at ₹87.60 lakhs in the name of group Company, SIP Limited,

Table 2 Financial Indicators at Pre-Sanction & Post-Sanction

(₹in Lakh)

	Pre-sanction Data - Accepted for PSCA [Projected]				Post sanction Data (Audited)			
	2011-12	2012-13	2013-14	2014-15	2011-12	2012-13	2013-14	2014-15
Share Capital	214	214	214	214	22.2	86.76	86.76	86.76
Reserve & Surplus	22	139	240	353	0.04	0.80	9.04	6.24
Share Application Money Pending for Allotment	-	-	-	-	64.56	-	-	-
Unsecured Loans	-	-	-	-	47.50	36	100	90.50
Term Loan from Bank	95	75	55	35	181.30	149	113	112
Working Capital	495	495	495	495	446	427.60	465.50	454.95
OCL	3	3	4	4	0.30	3.00	1.90	1.10
Net Block	132	110	93	78	283.80	298	298	278
Non- Current Assets	2	2	2	2	20	20	20	18
Raw Materials	415	415	449	483	63	271	415	430
Finished Goods	141	141	153	165	-	-	-	-
Bills Receivables	104	136	147	158	-	28	1.20	5
Other Current Assets	33	120.6	163.3	215	393.40	84.46	42	18.55
Preliminary Expenses	2	1.40	0.70	-	1.70	1.70	-	-
Gross Sales	628	3138	3386	3648	0.30	43	147	135
RMC	622	2488	2696	2903	63.25	125	112	34
Profit after Tax	22	117	135	150	0.04	0.80	8.20	-2.80
Ratios:								
NWC	195	314.6	413.3	522	-53.46	-47.14	-9.20	-2.50
Current Ratio	1.39	1.63	1.83	2.05	0.89	0.89	0.98	0.99
D E R (TL/TNW)	0.41	0.21	0.12	0.06	8.83	1.74	1.18	1.20
D E R (TOL/TNW)	2.53	1.63	1.22	0.94	36.00	7.17	7.10	7.08

was the lease land of the State Government for 99 years. All these properties were mortgaged to secure the Bank's exposure to the Group Account, M/s Sun Infrastructure.

4. Approval of Credit Limits:

On 03.11.2011, the Regional Office Credit Approval Committee sanctioned the following credit facilities to PIL:

i. Cash Credit (Hyp) Limit of ₹450 lakhs against stock of raw material and finished goods with margin of 25 % repayable on demand.

ii. Term loan of ₹100 lakhs was repayable within 20 equal quarterly installments of ₹5 lakhs after implementation period of 3 months and moratorium period of 3 months from commencement of operations in December 2011.The proposed commencement of 1st installment of Term Loan was due from the 4th quarter of 2012, with a condition that interest and installment were to be paid separately as and when charged.

iii. Group Company's cash credit limit was reduced to ₹ 50.00 lakhs owing to closure of crushing of Iron ores. Since the crushing of Iron Ores is totally stopped, the Company continued with crushing of stone chips and engaged itself in the same activity.

5. Conduct & Present Status of the Company:

The documentation, pending for creation of charge with the ROC, was executed on 11th November, 2011 by the company. Term Loan was first disbursed on 14th November, 2011. The last trench of disbursement of Term Loan was made on 31st January, 2012 for ₹74.70 lakhs out of the Sanctioned Limit of ₹100 lakhs. Cash Credit limit was first released on 13th December, 2011.The Company had availed the full cash credit limit of ₹450 lakhs and partial Term Loan. The operations in the account were found to be very poor. Sometimes, transactions were made from the group account too.

The account was due for review/renewal of the credit facilities on 11th November, 2012. Accordingly, the company was advised to submit the audited financial statements. In 2013, the account was short reviewed due to non-submission of the audited financial statements and, subsequently, the account was again short reviewed four times on 16.12.2014, 24.03.2015, 27.06.2015 and 23.09.2015 by the Regional Office Credit Approval Committee. During these periods, the account first slipped to SMA-1 and, thereafter, to SMA-2 But, the company managed to ensure that the account did not fall in the NPA category. In the month of December 2015, the company finally submitted the audited financial statements with a request to restructure the Term Loan and permission to avail the Cash Credit limit. But the proposal did not have the approval nod from the Regional Office Credit Approval Committee. On 31st March, 2016 finally the account became NPA. Therefore, it becomes necessary at this stage to carry out a diagnostic study based on the observations on developments that took place prior.

III Diagnostic Study:

(A) Observations during Pre-Sanction Credit Appraisal (PSCA):

1. Land & Development: As per the bank's requirements, it should be Owned Land / Lease Land and Non- Agriculture Land which can be taken as security by way of mortgage. In the case, the Group Company had purchased a Lease Land measuring 0.54 acres for 99 years in its name from the State Government. As per the project report, the cost of land was arrived at ₹ 0.87 lakh with market price of ₹1.22 lakhs per acre with registration charges of ₹ 0.21 lakh. But the Legal Scrutiny Report (LSR) by the bank's panel advocate was not taken at the time of sanctioning the proposal. And, this land could not to be taken as security because the Department of Mining had already allotted the same on lease for industrial purposes.

2. Civil Construction: In the instant case, the cost of civil construction of ₹ 47.80 lakhs was estimated in the Project Outlay. But how much area is required for construction of buildings is not mentioned. Further, without any cross checking of cost of construction with the Government rate and type of building, the civil construction of ₹47.80 lakhs was approved as part of credit appraisal. It seems that the estimated cost of civil construction for stone crushing appears to be inflated.

3. Plant & Machinery: The estimated cost of the plant & machinery being ₹ 72.60 lakhs is cross checked with the quotations received. But the genuineness of the suppliers of the plant & machinery is not assessed. From the records, it is also not possible to ascertain the date of placing order to the supplier for the supply of plant & machinery. Similarly, it is observed from the contract that terms of contract between the company (purchaser) and the supplier of plant & machinery to the destination are not seen. And, specification of installation processes of plant & machinery through either Turnkey Contractor or through engaging an agency having sufficient job credentials for the job is also absent.

4. Collateral Securities: It is observed that all the collateral securities were previously mortgaged to secure the bank's exposure of ₹ 112 lakhs and coextension of Equitable Mortgage of all the four properties was made to secure the bank's exposure of ₹ 550 lakhs. The lease land of 0.54 acres purchased from Mining Department of Government of Odisha being in the name of Group Account "SIP Limited" was mortgaged without Legal Scrutiny Report (LSR) from bank's panel advocate. All the properties had legitimate character being situated in the lease land area and, hence, there could be difficulties in terms of marketability, valuation and transferability.

5. Pre-Sanction Inspection: The bank is expected to conduct field visits through bank's officials before sanctioning the project to ascertain (i) Promoter's profile (ii) Properties offered as security and (iii) Operations of the business unit to ensure the genuineness of the borrower, security and line of activity so that bank's funds will be safe in the hands of the borrower. In the case, the area where the project to be established is industrial lease land of Department of Mining, Government of Odisha and, without NOC from the Government, mortgage was created. Further, lease of mining was valid up to 31.03.2012. From the records, it is difficult to find out whether the company applied for the renewal of lease or not.

6. Promoters' Contribution in the Project Outlay: For capital expenditure of ₹ 149 lakhs, Term Loan is of ₹ 100 lakhs with the promoter's contribution of ₹ 49 lakhs showing the Project Leverage Ratio (PLR) of 2.04:1 which was slightly greater than the benchmark of 2:1 as per Loan Policy of the bank at the time of sanctioning of credit facilities. This may be considered as financially sound. But the credit appraiser did not consider the sources of the promoter's contribution. Further, the bank released the full cash credit limit without consideration of Date of Commencement of Commercial Operations (DCCO). In the instant case, it seems that matters concerning the financial closure were not paid attention.

Regarding the margin for working capital, there is a prevailing conception among the bankers that margin for working capital and NWC are the same in the project outlay. But the proposition regarding Margin for Working Capital (MWC) in the project outlay being equal to Net Working Capital (NWC) does not hold good in view of the following facts:

(i) It is the investment by the company needed for purchase of minimum of raw materials to be utilized at the time of commercial operations.

(ii) Generally, MWC as percentage of Working Capital Gap (WCG) is taken into account at 25 or 30 to frame the projected Balance Sheet (BS) in the Green field project.

(iii) NWC should be net of Long Term Sources (LTS) less Long Term Uses (LTU) during the operating cycle of business whereas, MWC is expected to be financed out of owned funds to start the operating cycle of business. Thus, NWC relates to the post operating cycle whereas MWC is for the pre-Operating Cycle.

If we assess the working capital (WC) limit based on the Holding Period method the working capital requirement and MWC is derived as under:

Table 3: Assessment of WC Limit

Particulars	2nd Year's operation [Double Shift]
▪ Stock of Raw Materials for 50day's RMC	415.00
▪ Stock of Finished Goods for 17 day's RMC	141.00
▪ Sundry Debtors for 10 day's Gross Sales (GS)	104.00
Total Current Assets	660.00
▪ Less : Sundry Creditors	-
Working Capital Gap (WCG)	660.00
▪ Less : Margin (25% of WCG)……(MWC)	165.00
Assessment of WC Limit	495.00

This margin (MWC) is one of the components of Project outlay

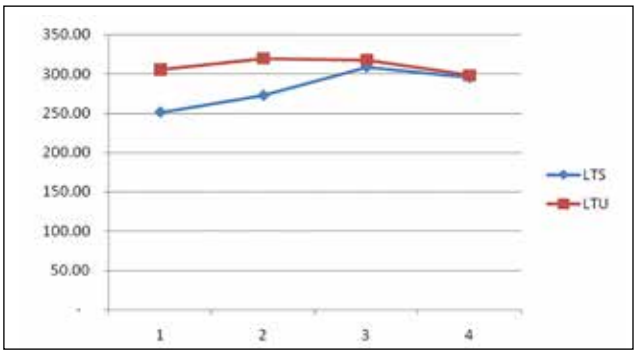
Whereas in case of the single shift operation, the assessment of WC limit comes to ₹247.50 lakhs with MWC of ₹ 82.50 Lakh. The justification of the WC Limit based on the single shift or the double shift operation must be within the compliance of Regulatory Norms. To elaborate, at the time of sanctioning the proposal, paid up share capital and authorized capital as per the Company's Memorandum of Association are ₹22.20 lakhs and ₹100 lakhs respectively. If the company raises the share capital of ₹100 lakhs (maximum threshold limit) either through Initial Public Offering (IPO) or through private placement in terms of Companies Act 2013, then the bank's Exposure will be ₹400 lakhs, irrespective of single shift or double shift operation. Further, the bank 's exposure of ₹600 lakhs, including the group exposure, is sanctioned considering the 1st year projected share capital of ₹214 Lakh as against Paid up Share capital of ₹22.20 Lakhs and the Authorized capital of ₹100 Lakhs. How the proposed Share capital of ₹214 Lakhs would be possible within the present Authorized Capital? Lastly, the share capital can be raised to the maximum threshold limit (Authorized Capital through either Initial Public Offering IPO) or private placement for which procedures is to be adhered in terms of Companies Act, 2013. But, in the case, there seems to be non- compliance of these regulatory norms leading to inadequacy of capital.

(B) Observations at Post-Sanction Credit Monitoring (PSCM):

1. Diversion of Funds within the Business Model:

(i) NWC: It is evident from Post - Sanction Data (Table 2) that Long Term Sources (LTS) are less than Long Term Uses (LTU) resulting into negative NWC for four consecutive years. A clear visibility is observed in a graph between LTS/LTU with respect to the year of operation. The minimum criteria for the business model is LTS > LTU. In the present case, it is completely a reverse order as evident from the Figure 2 showing the departure from the criteria of business model. This clearly indicates the diversion of funds within the business model.

Figure 2: LTS/LTU Curve with Year Operation

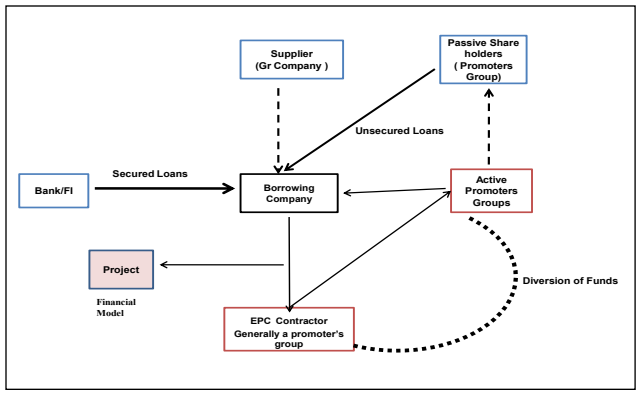


(ii) Abnormal Cash & Bank Balance (ACB): The piling of ACB in the audited balance sheet is another

way of diversion of funds which may arise from the disbursement of term loans and release of WC limit. In the case, the first release of Cash Credit limit was allowed on 13th December, 2011and the WC Limit was withdrawn to the extent of ₹446 lakhs as at 31st March, 2012, as against the sanctioned limit of ₹450 lakhs by making cash withdrawal, inter-transfer of funds between the group account and company account. The first disbursement was made before DCCO or during the construction period. With the result, the company built up ACB to the extent of Rs.347.00 lakhs as at 31st March, 2012, with a very negligible amount of turnover of ₹0.30 lakh.

(iii) Misleading Promoter's contribution: During the course of PSCA, one of the fundamental discussions, between the bank and the borrowing company, centres on how to bring in the margin money in the business so that the project may be commissioned as per the implementation schedule. The source of margin comes either from issuing IPO or private placement within the authorized capital of the company i.e. Maximum threshold limit. In the present case, the bank did not take care and accepted a Share Capital of ₹ 214 lakhs as the projected margin of Term loan and MWC as an Authorized Capital of ₹100 lakhs. This is one of the reasons for turning the account into NPA. The probable mechanism for creating a margin money in the business does not seem to be sound as shown in Figure 3.

Figure 3: Disbursement of Term Loans & WC Limit without Promoter's own Margin



2. Debt Equity Ratio [D E R]:

It is very important to examine whether the business is either heavily or less dependent on the external debts and, this can be judged from the relative proportion of the Total Outside Liabilities (TOL) to Tangible Net Worth (TNW) which is also called Gearing / Capitalization ratio:

$$\text{Gearing / Capitalization Ratio} = \frac{\text{TOL}}{\text{TNW}}$$

The ratio suggests how far TNW is capable of withstanding the shock of crystallization of external liabilities. The high ratio indicates high leverage in the borrowing due to external borrowings, throwing an Early Warning Signal (EWS) which are spread over various phases in PSCA. In the case, the projected ratio is well within the bench mark of 4:1. But after one year of operation, it becomes very unrealistic due to the company's inability to raise the projected margin either by issuing IPO or private placement. The same observation holds good in respect of D E R (TL) as shown in Table 2.

3. Multiple Banking Arrangement (MBA):

At PSCA stage, credit facilities were sanctioned by the Sole Banker, National Bank. But during PSCM, it is observed from the audited financial statements that the company availed Term Loan of ₹102.61 lakhs from HD Bank Limited in 2012 after availing credit facilities from National Bank. In terms of loan sanction, the borrower is expected to share information regarding credit facilities from other bank/s. If there is provision for penalty for non- sharing of information, then such act of MBA will be restricted.

IV Lessons from the Diagnostic Study:

The analytical study of the observations of the present case reveals the fundamental elements which need to be examined in any project finance. A good quality credit proposal must have the following characteristics which are the learning points from the case study.

1. Project Worth Realistic Projection (PWRP): Assumptions underlying the formulation of the project should have resemblances with the current industry scenario and the company's profile like Capital Structure, type of shareholders'/ promoters' background, business model etc. In the present case, we observed a few deficiencies in PWRP. WC limit is computed considering the operations of the business with the double shift (Table 3) but, the turnover in the year 2011-12 and onwards was not in line with the expected level even in the single shift operation. Further, the projected Share Capital in the 1st Year's operation was considered unrealistic. Also, most of the financial transactions were from the associate concern, defeating the very purposes of the borrowing company's arrangements with the bank.

2. Project Viability beyond Financial Feasibility (PVFF): Financial Feasibility includes Cost of Project, Means of Finance, Projected revenue and expenses, Analysis of financial statements and Decisions making approach based on analysis of financial ratios. Generally, Y- Gen bank officials rely more upon the financial viability of the project for sanctioning the credit proposal. But, the other aspects of project viability should be equally important such as (i) technical viability (ii) commercial viability (iii) managerial competence. Further, the bank should also carry out the study of causes for failure of the past business, sources of adoption of new Business Model, cash flow model to be evaluated in terms of market rates and phasing of project, political scenario, investors interest, environmental permits etc. In the extant case, the proposal was sanctioned mainly based on the projected financial indicators.

3. Financial Closure: This is a process wherein all the financial transactions involving in the project are expected to be finalized, so that the project implementation can actually start as scheduled. Some of the parameters considered in Financial Closures include; (i) compliance of statutory approvals from the competent authorities (ii) implementation schedule (iii) sources of margin for term loan and working capital as envisaged in the cost of project (iv) disbursement in compliance with Draw Down Schedule and, (v) date of completion and tentative DCCO of the project. In the instant case, it seems that matters concerning the financial closure were not paid attention. In the present case, without consideration of DCCO or principles of financial closure, the bank released first trench of cash credit limit on 13.12.2011, during the construction period without ensuring the required margin for working capital of ₹165 Lakh. The Company had availed the full cash credit limit of ₹ 450 lakhs on 31st March 2012. This is one of the factors for turning the account into NPA.

4. Deficiencies in Credit Appraisal: Credit proposal encompasses a series of processes by the credit officer and finally culminates into approval by the competent authority. The quality of credit appraisal depends upon the analytical skills of the credit officer and decision making skills of the approval authority. But in the present case, deficiencies are observed in credit appraisal with regard to assessment of working capital limit, repayment schedule and implementation schedule, promoters' contribution and general compliances. Such deficiencies should be avoided to ensure the good quality credit appraisal.

5. Before disbursing the loan amount, the bank should consider the essential legal compliances of the project for its successful and timely commissioning. Such compliances are stated in Table 4.

6. Conceiving Line of Activity (CLOA): At Pre-sanction credit appraisal (PSCA) stage, the company proposes crushing stones into chips. In the present case, the company purchased raw materials (boulders) only for trading and not for manufacturing of different sizes of the Stone Chips for which credit facilities were sanctioned by the bank. This is evident from non –appearance of closing balance of Finished Goods in the Balance Sheet for the years 2011-12 to 2014-15. If the physical inspection of stocks had been made properly during the disbursement phases, this

Table 4: Risk Assessment at Pre- Disbursement Phases

Pre-disbursement –Parameter		Assessment of Risk	Risk Mitigation
(A).	Compliance of all statutory approvals.	Construction Risk due to non- compliance of statutory approvals in partial /all respects and its impact as follows: (i)DCCO may shift from the original terms & conditions of sanction leading to time over run (ii)Cost over run in the project and non-allocations for contingencies, pose a severe threat to commissioning of the project. (iii)In the case, Lease of mining was valid up to 31.03.2012 but the renewal was not done though credit facilities were sanctioned on 03.11.2011 when the Factory License was kept pending.	Only with compliance of statutory approvals, the disbursement of term loan should be made.
(B)	Collateral security	Improper physical verification of security attracts Liquidity Risk. Sale of land having legitimate or other marketability issues requires a longer time if due care is not taken in identification of these securities at the time of PSCA.	Verification of Land & building by seeking information from CERSAI, Government's site for land allocation & Government's ready reckoner .and obtaining Legal Scrutiny Report (LSR) with the original Title Deed. To mitigate credit risk in the case, an equivalent amount of other non-residential property having clear marketable title and without any restrictions on transfer should have been taken as collateral security.
(C)	Financial Closure	Project Risk arises by not having implementation schedule, sources of promoter's contribution in the project outlay , draw down schedule, payment schedule etc.	Bank should not take up the proposal with partial/incomplete financial closure
(D)	Execution of Documents	Proper documents should be obtained. These include: Creation of Equitable Mortgage, Documents registered with CERSAI & ROC within the stipulated time. In the present case, documents are pending though the loan amount is disbursed.	Bank should not disburse the loans amount with partial/incomplete execution of documents.
(E)	Recovery of Service Charges etc.	Service charges were debited to loan account but the amount was not deposited by the company immediately which led to overdues in the account. .	These should be recovered from the borrower's funds and not from bank's funds.

matter would have come into light and the bank would have taken appropriate action. This provides a free hand to the borrower for diversion of funds.

7. Annual Review Appraisal (ARA) of Credit Facilities An effective credit monitoring tool: In terms of the Reserve Bank of India guidelines, Annual Review Appraisal is the process to analyze the past performance with the resemblances of projections based on which the existing credit facilities were approved. In the case, the ARA was not done annually defeating the very purpose of the annual review exercise (5-6). As stated earlier, just to keep the account in the standard category, the bank made an ad hoc or short term review five times just to release the sanctioned amount which is not a justified way to keep the bank's asset quality in the 'standard assets' category with inherent business as well as management risk.

Conclusion:

From the case study, several strategies shall be suggested for effective lending. To sum up, the credit officer should handle the credit proposal carefully keeping in mind the due diligence policy relating to credit appraisal, documentation, disbursement and post sanction follow up. For this purpose, every bank has to come out with the credit product-wise checklist of due diligence containing the major items which would ensure the need based lending. For this purpose, the credit officer has to have an analytical bent of mind, besides having a good understanding of basic principles and practices of bank lending. More importantly, he has to verify the authenticity of important credit information provided by the borrower by keeping in touch with the market rates of raw material and finished goods proposed to be manufactured. As part of credit appraisal, the credit officer should focus on the critical aspects of the project report by the borrower such as:

i. strength of the proposal, suitability of the bank credit to the borrower,
ii. future prospects of the business activity,
iii. projected income generation,
iv. genuine credit requirements of the borrower,
v. margin & securities offered,
vi. valuation of collaterals,
vii. credit history and credit rating of the unit based on financials,
viii. Accuracy of the information provided by the borrower.
ix. For proper assessment of demand and supply gap, the controlling office of the bank should guide branches by sharing industry-wise/ activity-wise data.

Further, the credit officer should strictly implement the terms and conditions of loan sanction and disbursement schedule without any deviation. If disbursements are in stages, at each stage of disbursement, it should be ensured that the earlier amount disbursed is fully utilized. Frequent visits are to be made by the credit officer to verify the present status of the primary security. If any deviations are noticed, further disbursement should be stopped and the controlling office should be informed suitably. The credit officer should also verify the documents such as bills/ invoices submitted by the borrower after the purchase of assets with bank finance. Rates, quantity and type of product need to be verified from the independent source and it should be matched with the project report submitted by the borrower. Lastly, during the post sanction, the credit officer should ensure the regular submission of stock statements by the borrower; conduct subsequent stock verification at the site regularly, keep track of actual business performance vis-a vis projected business performance, monitor regular payment of loan installments, conduct of cash credit account and the end use of funds and undertake preventive action timely to arrest the slippage in asset quality. Finally, annual financial health check up is a must

by carrying out the annual review of each borrowal account. Thus, all these suggested strategies would ensure a 'Good Quality Lending' which would arrest the slippage in loan asset quality and bring down the level of NPAs in a bank.

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सात क्षेत्रीय कार्यालयों में सरकारी बैंकिंग प्रभागों का खोला जाना

रिज़र्व बैंक, भारतीय रिज़र्व बैंक अधिनियम, 1934 की धारा 21ए के प्रावधानों के अनुसार विभिन्न राज्य सरकारों के प्रधान बैंकर के रूप में कार्य कर रहा है। तदनुसार, रिज़र्व बैंक के 18 कार्यालयों में सरकारी बैंकिंग प्रभाग (जीबीडी) राज्य सरकारों के बैंकर के रूप में कार्य करते आए हैं। इस लक्ष्य को आगे बढ़ाने और स्थानीय स्तर पर राज्य सरकारों की जरूरतों के मुताबिक बेहतर सेवा प्रदान करने के लिए उन राज्यों की राजधानियों में स्थित रिज़र्व बैंक के कार्यालयों में भी सरकारी बैंकिंग प्रभाग की शुरुआत करने का निर्णय लिया गया, जहां पर ये प्रभाग नहीं थे। ये सरकारी बैंकिंग प्रभाग राज्यों की राजधानियों में होने के कारण नजदीकी के चलते राज्य सरकारों की विशिष्ट जरूरतों को पूरा करने की सुविधा भी प्रदान करते हैं। इसके अलावा, ये सरकारी बैंकिंग प्रभाग ई-प्राप्तियों और ई-भुगतान के संबंध में रिज़र्व बैंक के ई-कुबेर से राज्य सरकार की ट्रेजरी प्रणाली को एकीकृत करने में भी महत्वपूर्ण भूमिका निभाते हैं। इस प्रकार, वर्तमान में 25 सरकारी बैंकिंग प्रभाग कार्यरत हैं।

वर्ष 2017-18 के दौरान परिचालन प्रारंभ करने वाले नए सरकारी बैंकिंग प्रभागों का ब्यौरा निम्नानुसार है –

क्र. सं.	नए सरकारी बैंकिंग प्रभाग	परिचालन प्रारंभ करने की तिथि	सरकारी बैंकिंग प्रभाग के क्षेत्राधिकार
1	रांची	1 अगस्त, 2017	झारखंड
2	शिमला	15 सितंबर, 2017	हिमाचल प्रदेश
3	देहरादून	3 अक्तूबर, 2017	उत्तराखंड
4	रायपुर	13 नवंबर, 2017	छत्तीसगढ़
5	पणजी	5 दिसंबर, 2017	गोवा
6	शिलांग	2 फरवरी, 2018	मेघालय
7	अगरतला	5 मार्च, 2018	त्रिपुरा

स्रोत: भारतीय रिज़र्व बैंक