



# A study of Loan Defaulter and Impact on Non-Performing Assets in banks

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**Abstract:** Banking sector has been the hub of the financial sector and is the most important institutional and functional vehicle for economic transformation. It is an indispensable medium in everyday transactions of millions of people. Banks in our country have been playing their role as growth facilitators and the banking sector has undergone far-reaching changes in the post liberalization period. Recent development in NPA is creation of India's 'bad bank' gets into action, to acquire ₹82,845 crore NPAs soon. India's bad bank, National Asset Reconstruction Company (NARCL) will acquire and aggregate the identified NPA accounts from banks and India Debt Resolution Company Ltd (IDRCL) will handle the debt resolution process.

The present study has been carried out with the following core objectives:

- To study the concept and importance of Non-Performing Assets
- To understand impact of non-performing assets in managing long term debts
- To analyze case study of management of non-performing assets in ABG Shipyard Ltd (ABG SL), a Gujarat-based firm

Methodology and Research design :

“A study of Loan defaulter and Impact on Non-performing Assets in banks is a descriptive research paper. The study focuses on details of defaulters through case study method specially focus on ABG Shipyard Ltd.

Based on important findings of the study the study concluded that, Banks maintain consistency and uniformity in revive process operations to all type of loan defaulters without bias in the form of restructuring the account under the CDR mechanism. Therefore, the study recommended that conversion of NPAs into PAs is most important and need of the hour.

***Non-Performing Assets, Loan defaulter, Banking sector***

## I. INTRODUCTION

Banking sector has been the hub of the financial sector and is the most important institutional and functional vehicle for economic transformation. It is an indispensable medium in everyday transactions of millions of

people. Banks in our country have been playing their role as growth facilitators and the banking sector has undergone far-reaching changes in the post liberalization period. Recent development in NPA is creation of India's 'bad bank' gets into action, to acquire ₹82,845 crore NPAs soon. India's bad bank, National Asset Reconstruction Company (NARCL) will acquire and aggregate the identified NPA accounts from banks and India Debt Resolution Company Ltd (IDRCL) will handle the debt resolution process.

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## II. REVIEW OF LITERATURE

**Rajendra Singh** in his study mainly considered the significance of the securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI ACT,2002). He observed that with the enactment of this landmark Act, borrowers will no longer be able to take banks lightly and simply walk away with scarce public money. **Sivaloganathan** studied the rapid growth of non-performing assets which affect operational efficiency of banks. The author recommended that conversion of NPAs into PAs is most important. **Noronha** conducted the study on NPA, its theoretical framework and various measures for prevention of NPAs. He observed the necessity of the proper management to curb the NPA menace. **Kaveri** has thrown light upon the DRTs and Lok-Adalats. He has emphasized the necessity of training and educating the DRTs, banks and borrowers.

## III. STATEMENT OF THE RESEARCH PROBLEM

NPAs are a serious strain on the profitability of banks as they cannot book income on such accounts and their funding costs and provision requirements are a charge on their profit. The rise in NPAs raises transaction costs. It is painful to note that about 80 percent of the NPAs is from the defaulters who have borrowed one crore rupees and above. Besides this, the internal factors responsible for NPAs include business failure, inefficient management, strained labour relations, and inappropriate technology and product obsolescence.

Therefore, this study has been carried out to understand the issues of “A study of Loan defaulter and Impact on Non-performing Assets in banks”.

#### IV. OBJECTIVES OF THE STUDY

The present study has been carried out with the following core objectives:

- To study the concept and importance of Non-Performing Assets
- To understand impact of non-performing assets in managing long term debts
- To analyze case study of management of non-performing assets in ABG Shipyard Ltd (ABG SL), a Gujarat-based firm.

#### V. METHODOLOGY AND SAMPLE DESIGN

The type of steps to be taken in research depends upon the purpose for which the research is undertaken. The study relating to “**A study of Loan defaulter and Impact on Non-performing Assets in banks**” is a descriptive research paper. The study focuses on details of defaulters through case study method specially focus on ABG Shipyard Ltd.

#### VI. SCOPE OF THE STUDY

NPA is from the introduction of prudential norms on income recognition, asset classification and provisioning in commercial banks during 1992-93. The study is based on latest development in non-performing assets.

- Reasons for non-repayment of interest/loan.
- Causes for non-performing assets
- Defaulters attitude towards loan
- The Effective monitoring of loan accounts and implementation of timely remedial measures to curb NPAs

#### VII. LIMITATIONS OF THE STUDY

It is very relevant to mention the limitations of this study. Although research within a specific case it provides the most reliable data, generalization cannot be made unless research conducted in other areas also provide similar results.

#### History of ABG Shipyard Ltd:

ABG Shipyard International Pvt. Ltd established in the year June 1995. Upto 2013 Company manufactured 165 ships. Out of this 80% sold in foreign countries. In the year 2000 accepted tender for Government and produced ships for Coastal Defense Force. In the year 2011 the company has received order to produce Submarine and ships for Defense sector. In the year 2012 got tender for Rs.16,600 Crores. For this it has built port at Aguadilla near Tapi River. It has made MoU with Gujarat Government to built second port at Dahej near Bharuch.

#### Management of NPAs in banks and ABG Shipyard Ltd :

ABG Shipyard Ltd is the flagship company of the ABG Group, which is engaged in the business of shipbuilding and repair. The company, which was incorporated in 1985, has shipyards in Dahesh and Surat in Gujarat. It was financed under consortium arrangement with 28 banks. The leading bank was ICICI. (Source: CBI report).

Between 2012 and 2017, ABG Shipyard Ltd (ABG SL), a Gujarat-based firm, purportedly defrauded banks of Rs 22,842 crore totals. In the year 2012-13 Company's net profit is Rs. 107 Crores. The company's

financial position has changed suddenly and incurred loss Rs.196 Crores in the year 2013-14. In the year 2016 the company's total loss is Rs.3,704 Crores. The company recorded reasons for losses as cancellation of tender for manufacture of new ships. One of the source said that there was no demand for commercial vessels as the industry was going through a downturn even as late as 2015 and with no fresh defence orders, the company was finding it difficult to abide by the CDR. Thus, the company was unable to service the interest and instalments on the due date.

Banks reduced loan amount due to loss bearing of the company, Central Government closed subsidy facility to ship manufacturing companies etc. There is a culprit on that the borrowed loan amount is utilized for long term foreign investment in large companies by ABG Shipyard International Pvt. Ltd. It allegedly made investments in overseas subsidiaries from the loan amounts, bought assets in the names of affiliated companies, and also transferred money to several related parties. It has misused the loan amount. The CBI revealed and discovered the details of non-repayment of loans. **ABG Shipyard Ltd** created a web of transactions to cheat a consortium of 28 banks including State Bank of India (SBI), IDBI and ICICI. According to CBI sources, ABG SL took loans from these banks and then diverted them. The money borrowed from banks was used to repay loans and pay for other expenses of group companies, as well as for letters of credit. For this the company had got permissions to invest in overseas subsidiaries, which is a general business practice. But a huge chunk was re-routed for some other purpose, other than what was declared. The money has been paid, then sent back to same accounts, then routed to different accounts of different entities.

It is also alleged that the company, whose account became a Non-Performing Asset (NPA) in 2013, violated terms of its arrangement for Corporate Debt Restructuring (CDR) — a relief mechanism in which lender banks either reduce the interest rates on the loans or increase the tenure of the repayment. From the various banks loans were sanctioned between 2005 and 2010. It appears that the money was given out without due diligence from the banks. The account was first declared an NPA in 2013.

The SBI bank identified the fraud in January 2019, but filed a complaint only in November that year. A fresh, more comprehensive complaint was filed in August 2020. The CBI finally registered a case on 07-02-2022. CBI asked clarifications on 12-03-2020

Fraud was conducted through “diversion of funds, misappropriation, and criminal breach of trust, with an objective to gain unlawfully at the cost of the bank's funds,” the SBI said in its complaint and also said that the fraud occurred between 2011 and 2017. The fraud was detected only after the forensic audit. ABG SL now owes a total of Rs 22,842 crore The leading bank was ICICI.

Table 1

## Name of the banks that have sanctioned bank loans to ABG Shipyard Ltd

Name of the banks	Loan Amount in Crores Amount in Rs.
ICICI	7,089
SBI	2,925
IDBI	3,639
BANK OF BARODA	1,614
PUNJAB NATIONAL BANK	1,244
EXIM BANK OF INDIA	1,327
INDIAN OVERSEAS BANK	1,228
BANK OF INDIA	719
ORIENTAL BANK OF COMMERCE	714
STANDARD CHARTERED BANK	743
SYNDICATE BANK	408
SBI SINGAPUR	458
DENA BANK	406
ANDRA BANK	350
SICOM LIMITED	260
IFCI LIMITED	300
SBM BANK	125
FINIX ARC PVT. LTD.	141
LIC	136
DCB BANK	106
PNB (INTERNATIONAL)	97
LAXMI VILAS BANK	61
INDIAN BANK	17
INDIAN BANK OF SINGAPUR	43
CANARA BANK	40
CENTRAL BANK OF INDIA	39
PUNJAB SINDH BANK	37
YES BANK	2

Source: News daily, February 2022

### Findings of the study:

The fraud goes undetected for long term. i.e. The account was first declared an NPA in 2013, The SBI bank identified the fraud in January 2019. CBI asked clarifications on 12-03-2020. The CBI finally registered a case on 07-02-2022. The account was classified as an NPA in July 2016 with back-dated effect from 30 November 2013. CBI asked clarifications on 12-03-2020

The money diverted and the reasons were, There is a culprit on that the borrowed loan amount is utilized for long term foreign investment in large companies by ABG Shipyard International Pvt. Ltd. It allegedly

made investments in overseas subsidiaries from the loan amounts, bought assets in the names of affiliated companies, and also transferred money to several related parties. It has misused the loan amount. There was a paucity of working capital which caused “significant increase in the operating cycle, thereby aggravating the liquidity and financial problem”.

The fraud come to light in the way, Fraud was conducted through “diversion of funds, misappropriation, and criminal breach of trust, with an objective to gain unlawfully at the cost of the bank’s funds,” the SBI said in its complaint and also said that the fraud occurred between 2011 and 2017. The fraud was detected only after the forensic audit.

The reasons for delay in registration of the FIR by CBI is the banks take initiations in revive process operations to ABG SL in the form of restructuring the account under the CDR mechanism in March 2014 by all lenders. Due to down turn and worst situation the operations of revive was failed. The Finance Minister said that there was no delay as determining the elements of fraud usually takes 52 to 56 months. A forensic audit was done. Every piece of evidence was collected and given to the Central Bureau of Investigation. NCLT (National Company Law Tribunal) process is also ongoing.

### Conclusion:

With the mounting NPAs, profitability of banks is adversely affected in two ways. To elaborate, the loss of interest and at times principal amount are the most obvious losses. In addition, banks spend considerable money and time to recover the same. The rapid growth of non-performing assets affect operational efficiency of banks. Banks maintain consistency and uniformity in revive process operations to all type of loan defaulters without bias in the form of restructuring the account under the CDR mechanism. Therefore, the study recommended that conversion of NPAs into PAs is most important and need of the hour.

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