Inspira- Journal of Modern Management & Entrepreneurship (JMME)
ISSN : 2231–167X, Impact Factor: 5.647, Volume 10, No. 03, July, 2020, pp. 71-74

IMPACT OF INFRASTRUCTURE NPAS ON GROSS NPAS OF SBI: A CORRELATIONAL STUDY

Dr. Amita*

ABSTRACT

The banking and infrastructure sectors are the two main pillars of every economy. A well organized banking sector and a vibrant sustainable manufacturing sector are a must for a country's economic growth. Growth in these two sectors depends heavily on each other, hence stress in one sector inevitably affects the other, often companies do not earn enough to pay interest on bank loans within a prescribed period (90 days as per the RBI). These loans transform into non performing assets (NPAs), one of the sectors that contributed most to NPAs is the infrastructure sector. In a survey, the Reserve Bank of India (RBI) described infrastructure as a sector that could wipe out entire profits from banks reported in the 2016-17 financial year, in the event of severe stress in servicing loans. In the past 14 months in a row, credit growth to the infrastructure sector has remained negative - as of April 2016. Stressed assets include NPAs and projects that have the potential to become NPAs, infrastructure is a key pillar of the Indian economy and includes highways, bridges , dams, urban infrastructure, and so on. The stress in this sector is largely driven by land acquisition problems, delays in service transitions, poor performance of contractors and delays in the processing of claims, with the majority of disputes caused by Engineering Procurement and Construction stressed assets having become a drag on the infrastructure sector with the non-recovery of loans from the sector hitting the completion of ongoing projects. In this paper we will study the correlation between NPAs and SBI NPAs in the infrastructure sector, also the factors behind the stress in the infrastructure sector, as well as how much the infrastructure sector has influenced the banking sector.

KEYWORDS: *NPAs, Stress Assets, Infrastructure Sector, SBI.*

Introduction

Finance plays a key role in the development of any economy and no economy can operate successfully without a sound financial system. Thus, the stability of the banking sector plays a key role in the country's economic development and also provides resilience to the financial crisis. Alongside others, the success of a bank is determined with the help of profit and the quality of the asset it owns. The industrial sector is another important pillar of the economy. It is made up of a number of different sub-sectors, such as agriculture, services, engineering, manufacturing, power, telecommunications, etc. These industries provide many benefits to the economy, such as the generation of jobs, the production of goods and services, and equal distribution of income across the economy. The banking sector and its role in the process of industrial growth attracted considerable attention.

Over the last few decades, the growth of the different sectors of the economy is balanced by the financial system. There are primary, secondary and tertiary industries, and all of them need sufficient funds for growth. The country's financial system funds these sectors and provides sufficient funds for each sector – industry, agriculture and services. The prevalence of NPAs is a major threat to the banking sector. An asset that ceases to generate income for the bank is called the Non-Performing Asset (NPA). A non-performing asset (NPA) is a loan or advance for which the principal or interest payment remains

* Post Doctoral Fellow (ICSSR), University of Rajasthan, Jaipur, Rajasthan, India.

due for a period of 90 days. In the January-June Financial Stability Report, the RBI examined the credit risk arising from exposure to the infrastructure sectors - especially power, transport and telecommunications - through a sectoral credit stress test. The central bank assumed that the sector's gross NPA ratio would increase by a fixed percentage point in order to determine the likely impact on the profitability of the banking sector. "The results have shown that the shocks to the infrastructure segment will have a significant impact on the profitability of the banks," according to the report.

Objectives of the Study

- To find out the reason of NPAs in Infrastructure Sector or problems faced by Infrastructure Sector.
- To find out Relationship between Infrastructure NPAs in SBI and SBI Gross NPAs

Review of Literature

Economic Times Bureau, (2019) reported in its article, "Bad Loans in Infrastructure Sector and New NPA Resolution Policy Ordinance" that the top 50 bad corporate loans in the core and infrastructure sectors have been identified by Reserve Bank of India (RBI) whose over-payments are as high as ₹4.5 lakh crore, accounting for 85 percent of the total bad public sector bank loans.

The Hindu Business line in it's article, (2012) , "Bankers fear build-up of NPAs in power, infrastructure sectors" explained that out of Rs 1.2-1.3 lakh crore exposures to electricity boards, Rs 1 lakh crore loans are highly uncertain and require policy intervention such as tariff hikes. Some states are working on aggressive tariff hikes. As far as road projects are concerned, the underlying profitability of the projects is very low and they have a high debt ratio. So it is the banking sector that is at risk, not the developers.

Samuel Joseph / Rahul Mazumdar (2019) in their article, "|Caution, infra financing by banks is rising again"

It stated that the financing of infrastructure is fraught with higher credit and market risks due to the longer investment periods, and thus becomes unfit for medium-term financing commercial banks. The expert knowledge for this long-term financing lies mostly with the development finance institutions (DFIs). Initially, low-cost funds were made accessible to DFIs to make sure that the spread of their loan portfolio does not face pressure. However, the cessation of these funds puts the burden on DFIs not just to raise resources at competitive rates, but also to start competing with commercial entities while going to lend.

During the last few decades, several of the DFIs have become universal banks. With the shrinking of DFIs, the hardship of funding private investment in areas such as infra has fallen on commercial banks, particularly PSU banks, resulting in stressed assets. Government-owned IIFCL continues to remain one of a very few DFIs in this area to provide long-term infrastructure financing and receive support from both government and the likes of ADB. However, given the requirement, its impact is tiny.

Re-emphasis on development banking would be the ideal route forward. This model is still being followed by China, South Korea and Malaysia. Development banking requires fiscal support and regulatory tolerance.

Research Methodology

This paper is based on secondary data; the data have been collected from newspapers, journals, annual reports of SBI etc. and for analyzing the data correlation analysis have been used.

Problems faced by Infrastructure Sector

- **Scale and Time:** The most apparent issue is that infrastructure projects are built on a quite large scale. They therefore require a significant investment. Several of these projects are not viable when they are started. However, after they have been built, they would become economically viable. In fact, they also raise the economic standard of the nearby neighbourhoods. Infrastructure projects also tend to take a lot of time. They're causing a lot of inconvenience to the population while they're being built. The problem with infrastructure is that the places which really need it do not have the funds to make it happen.
- **GDP slowdown-**Indian economy was in the boom phase between the early 2000s and 2008. During this period, public sector banks, in particular, have lent extensive loans to companies. However, the profits of most companies have decreased as a result of the global economic

slowdown, the ban on mining projects and the delay in environmental permits affecting the power, iron and steel sectors, the price volatility of raw materials and the lack of availability. This has affected their ability to repay loans and is the most important reason for increasing the NPA of public sector banks.

- **Regulatory Uncertainty:** Infrastructure projects require governments to hand over a significant number of resources to private parties. Many times other stakeholders oppose such privatization. In addition, regulators tend to be very powerful in the development of infrastructure. That is why private firms are not generally interested in starting into this field unless the government offers a sweetener in the form of lower taxes. The problem is that such tax regulations are also subjective. In developing countries, on the-ground implementation of infrastructure projects is rife with corruption. Public-private partnerships help to mitigate these uncertainties to some extent. However, the execution of infrastructure projects is still a challenging task in the face of all the obstacles.
- **Ecological Issues:** Modern society is continually split between high-speed growth and environmental preservation. Infrastructure groups are mainly confronted with this problem. There are protests from environmentalists every time a new highway or airport needs to be developed. The solutions to these problems are by no means easy. That's because these issues are not logistical, but rather political in nature. They therefore need to be resolved by consensus building. The problem is that building consensus tends to take a lot of time. The passage of this time is leading to a rise in costs and compounds an already a serious problem.
- **Paucity of Funds:** there are still more infrastructure projects that need to be undertaken than the funding provided by the government. There is a limit to what the taxpayer can pay for. Many of these projects are therefore being built using infrastructure finance from international institutions such as the World Bank. However, it is essential that only self-sustaining projects are financed through debt. Otherwise, the incessant spending on infrastructure construction has led to the collapse of many nations.

Correlation analysis of infrastructure NPAs in SBI and Gross NPAs in SBI$

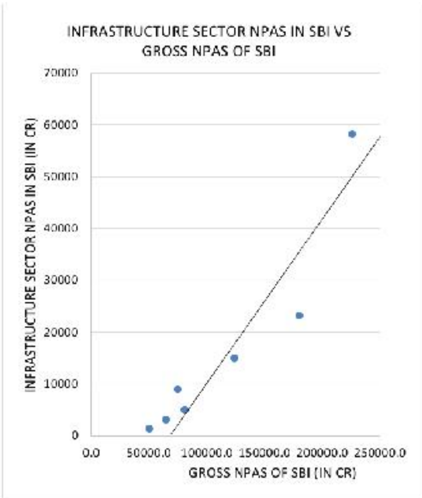

Table 1: Infrastructure Sector NPAs in SBI and Gross NPAs of SBI

Year	Infrastructure NPAs in Sbi (in Cr)	Gross NPA (SBI) (in Cr)
2017-18	58206	225104.5
2016-17	23317	179166.6
2015-16	15029	123463.9
2014-15	9007	74626.6
2013-14	5070	80737.0
2012-13	3217	63987.4
2011-12	1391	49781.3
Correlation Coefficient	0.938	

As we can see the coefficient of correlation equals to 0.938. It means the relationship between SBI infrastructure NPAs and SBI Gross NPAs is positive. Simply implies that Gross NPAs also increase significantly as infrastructure NPAs in SBI. It is due to SBI 's high lending of funds in the infrastructure sector and due to various reasons the lending in the infrastructure sector became the non-performing assets which caused the substantial increase in SBI's gross NPAs.

Conclusion

Currently, non-performing asset management is a daunting task for every bank in the banking sector. Management of NPA is the most important task to due it's multidimensional affect on the operations, performance and position of bank.Study findings through light on the extent of infrastructure sector impact on the performance of leading bank like SBI. It is noticed that there is substantial upward trend in SBI 's Gross NPAs, with the rise in infrastructure sector NPAs. This is causing significant concern not just for the banks but also for government.Since the infrastructure sector sector needs enormous investment and its growth is highly dependent on adequate funding from banks, if the upward trend of NPAs in the infrastructure sector continues as it now is, it will be very difficult for the projects to secure financing from the banks.

Wilful defaults, ineffective handling of loan plans, weak control, regulatory uncertainty, lack of funds, etc. are the causes of the accounts being NPAs. Most of the infrastructure loans can be securitised and sold with sufficient haircut to an asset rehabilitation company (ARCs). If private sector ARCs are not equipped to purchase large infrastructure loans, the government may consider the establishment of a public sector ARC.The government's implementation of the Insolvency and Bankruptcy Code (IBC) in May 2016 was a game-changer to resolve the issue of twin balance sheets. In addition, improved personnel planning, operational standardization, enhanced credit assessment, post-disbursement monitoring, improved recovery etc. can lead to a significant reduction of NPAs. In several other countries, the PPP delivery model has succeeded, and is imperative in funding capital-intensive infrastructure projects. However, the deficiencies in the legal, policy and regulatory system need to be resolved on priority, in order to prevent more losses to the national exchequer.

References

- Economic Times Bureau, "Bad Loans in Infrastructure Sector and Ordinance on New NPA Resolution Policy", (2019).
- GurduDhananshree, "How the power sector has triggered India's NPA crises, economics, young bhartiya", (2018)
- Joseph Samuel, Mazumdar / Rahul "|Caution, infra financing by banks is rising again" (2019).
- Sharma Navneeraj, "Stressed assets in Power Sector- Clear and Present Danger", (2019).
- The Hindu Business line "Bankers fear build-up of NPAs in power, infrastructure sectors",(2012).
- ZeeBiz , "Top five sectors with most exposure to banks NPAs; What can be done?", (2017)

♦❒♦