

CASE STUDY ON NON-PERFORMING ASSETS

MOHAMMED FASI¹

Abstract

The present research study focuses on the case study on non-performing assets. In order to analyse the case study on NPA, Vijay Mallya's (the owner of Kingfisher Airlines) case study is taken into consideration. In this study we have covered the brief introduction on Vijay Mallya, His business in India, bank-wise amount borrowed by him, reason for downfall of business and conclusion. After studying the detail case study, recommendations are drawn based on the conclusion.

Keywords: NPA, Vijay Mallya, Kingfisher Airlines.

Author Affiliation: ¹Department of Business Management, The Crescents College of Business Management, Affiliated to Kakatiya University, Warangal Urban, Telangana State, India.

Corresponding Author: Mohammed Fasi, Department of Business Management, The Crescents College of Business Management, Affiliated to Kakatiya University, Warangal Urban, Telangana State, India.

Email: mohammedfasi47@gmail.com

How to cite this article: Mohammed Fasi. Case Study On Non-Performing Assets, Journal of Management and Science, 11(4) 2021 58-60. Retrieved from <https://jms.eleyon.com/index.php/jms/article/view/510>

Received: 15 November 2021 **Revised:** 16 December 2021 **Accepted:** 17 December 2021

1. INTRODUCTION

Indian banking system is suffering with the burden of increasing non-performing assets. Every year NPAs are showing an increasing trend. As per the latest information the total gross NPAs of scheduled commercial banks are Rs.10361872 million out of which Rs.8956013 million are of public sector banks which constitute more than 86 per cent of total NPAs. The overall NPAs in Indian banks are more than 11 per cent. The government of India and RBI has made several attempts to control the flow of NPAs. In this direction they have given the instructions to the banks to file suit against the willful defaulters. Keeping this in view all the banks have filed suits against the willful defaulters from time to time. In the study we have collected the information of sector-wise file suit accounts and the outstanding amount to be recovered in Indian banking system. For this purpose we have collected the data from the official website of Credit Information Bureau India Limited (CIBIL) till 31st March 2018. The data is presented in table 1.1.^[1]

As per the information given by the CIBIL, the overall cases recorded are 20140 as on 31st March 2018 out of which 16141 cases are of public sector banks which carries 80 per cent of the total records. The second highest is 2963 cases of private sector banks. In the case of amount outstanding, the total outstanding amount is Rs.338946.69 crores out of which Rs.265136.98 crores are of public sector banks. It is clearly indicating that the NPAs in public sector banks are more than two third and it keeps growing all the time. Even though government of India, RBI and banks have made several attempts but these attempts haven't brought any benefits to the banks.^[2]

Thus, in this context there is a need to analyse the reason of increasing cases of NPAs. Keeping this in view,

we felt the need to study a case related to NPAs. For this purpose the Vijay Mallya case is taken to the consideration.

1.2. A brief introduction on Vijay Mallya:

Vijay Vittal Mallya is son of Vittal Mallya (businessman and former chairman of the India-Based United Breweries Group) born on 18th December 1955 at Kolkata, West Bengal. He is the Indian fugitive businessman and former chairman of United Breweries Group, Sanofi India (previously known as Hoechst Pharmaceuticals private limited, one of the world's leading healthcare company) and Bayer Crop Science. Further, he is the ex-chairman of United Spirit Limited which is famous in aviation infrastructure, beverage alcohol, fertilizers, real estates and others. In addition to that, he is the chairman of many organisations and the owner of IPL cricket team Royal Challengers Bangalore and two football teams i.e., Mohun Bagan Athletic Club and East Bengal Football Club of Indian Football League. Further, he is the co-owner of Formula one racing team i.e., Sahara Force India. He is also the former Rajya Sabha member of Karnataka.^[3]

Earlier in his life, he completed his graduation in commerce from St. Xavier's College, Calcutta in the year 1976. After the death of his father when he was 28 years old, he joined the business and became the chairman of United Breweries group. Since then he has received lot of success in various forms of Business. In the year 1997 the Southern California University for Professional Studies has awarded the honorary degree of doctorate in business management to him. Apart from that, he received various awards like global leader for tomorrow, entrepreneur of the year etc. In India, he is famous for his company "Kingfisher Airlines".^[4]

1.3. Business in India:

Vijay Mallya started his Kingfisher Airlines business in the year 2005. It was airline group based company started with the parent company United Breweries Group. This business achieved early success by providing high standard services with lower travelling cost to the customers at domestic fairs. Within the three years of services, it was declared as the second largest airline industry in India that carries large number of passengers in a single trip. During the financial Year 2007-08, Mallya decided to expand his business by acquiring the Air Deccan. This decision was mainly taken to enter into the international market of airline industry. As per the rulebook in India, a domestic airline company can only enter international skies after completing the five years of its services. This decision led the downfall of Kingfisher airlines. In the year 2008, United Breweries Holding Limited (UBHL) paid Rs. 550 crores to acquire 26 per cent shares in Air Deccan. At that time, fuel prices were very high and Air Deccan was lowering ticket prices which affected the Mallya's business. In the aviation industry, there was excess capacity in terms of more supply of seats than the actual customers due to the high rates of fuel. All these factors adversely affected the Kingfisher airlines. Due to the losses, the company delayed the salaries of the employees for 15 months. In order to manage the business operations and to overcome the losses of the business, Mallya borrowed loans from various banks in India from time to time. The following banks have given the loans to Vijay Mallya. The amount borrowed is excluded the interest amount of the banks.^[5]

As per the data, State Bank of India has given the highest loan amount i.e., Rs. 1600 crores to Vijay Mallya followed by IDBI (Rs. 800 cr), PNB (Rs. 800 cr), BOI (Rs. 650 cr), BOB (Rs. 550 cr), UBI (Rs. 430 cr), Central Bank (Rs. 410 cr), Uco Bank (Rs. 320 cr), Corporation Bank (Rs. 310 cr) etc. United Bank of India was the first bank declared Vijay Mallya as the willful defaulter in the year 2014. In the same year SBI also declared him as the defaulter. At present, 27 cases are registered against Vijay Mallya in which 22 cases are related to willful defaults. Till November 2015, the total NPAs (including the interest) of Mallya and Kingfisher airlines were Rs. 9091.40 crores. In March 2016, Mallya left the country without settling the bank defaults. Since then all the 17 banks are trying to recover their given debts but still unable to get it back.^[6]

1.4. Reasons for downfall:

The following are some of the main reasons for downfall of Vijay Mallya's Business in India:

1. Kingfisher airline was the second largest airline industry in India at the peak moment that carried large number of passengers in a single trip. The main reason for the downfall assumed was the acquisition with the Air Deccan Company. This acquisition enabled the Kingfisher airlines to fly internationally even before completing its five years in domestic operations. As per the airline rulebook in India, an airline is allowed to fly internationally after completing its five years in domestic skies. But in the case of Kingfisher airlines, it started the international flights with Bengaluru to London flight after completing the three years in domestic market. This was considered to be the main reason because it started to bring huge burden of managing finances in international levels.
2. The second main reason was the increased prices of crude

oil at that moment. The aviation industry faced the major problem of increasing prices in fuels. Kingfisher airlines had to bear more than half of the operational cost on fuels which resulted in high expenses with low incomes.

3. Due to the expansion of business and high expenditure, the Kingfisher airlines started to get losses and these losses were converted into the bank debts. During the financial year 2007-08 its net losses were increased from Rs. 188 crores to Rs. 1,608 crores. In the year 2008-09 the debts were increased from Rs. 934 crores to Rs. 5,665 crores.
4. Another reason for the downfall was the conversion of bad debts into the equity shares by SBI. In November 2010, SBI restructured the bad debts of Kingfisher airlines and sanctioned the fresh loans. This made further debts to Kingfisher airlines and repayment became the major hurdle.^[7]

1.5. Conclusion:

The present case study of Vijay Mallya brings out the following important conclusions.

1. In this case we can say that it is a collective failure of the system. Banks have given the loans to Mallya on regular basis without analysing his capacity to repay. On the other hand Mallya took the advantage of his power and superiority to misuse the funds of the banks.
2. iBusiness failure also made difficulties in running the Kingfisher airlines but it was manageable on the part of Vijay Mallya. He wanted to compete in the domestic market by providing the lower prices on travelling but high expenditure like fuel cost affected the business surplus and company got losses. It was manageable by modifying the travel fairs and tariff plans but Mallya didn't concentrate on this issue.
3. Acquiring Air Deccan was also the wrong decision made by Vijay Mallya. He intentionally acquired the Air Deccan, before completing the five years of domestic business (as per the Indian Airline Rulebook). This adversely affected the smooth functioning of Kingfisher airlines.^[8]

1.6. Recommendations:

The case study on the Vijay Mallya the owner of the Kingfisher Airlines suggests that business failure is the first reason for increasing NPAs. Mallya tried to expand his business but due to increases in costs he failed to manage business operations. The second reason is Willful default nature of the borrower. Mallya can easily repay the default amount but still not paying it back. From banks side the reasons are political interference in sanctioning of loan, improper inter-bank coordination and cooperation among the bankers, delay in identification of NPAs and delay in initiating remedial measures and actions.

Finally, we can say that banks have realized Mallya as willful defaulter very late. It took more than 8 years to identify him as the willful defaulter. It should have realized much earlier. This negligence of the banks is also the aspect which needs to be considered.

Table - 1.1

Sector-wise file suit account of defaulters of Rs. 1 Crore and above as on 31st March 2018

S.No.	Credit institutions	No. of Records	Outstanding Amount
1	Co-operative Banks	170	1979.53
2	Financial Institutions	387	10130.32
3	Foreign Banks	390	11232.96
4	HFC	89	462.00
5	Private Banks	2963	50004.90
6	Public sector Banks	16141	265136.98
Total		20140	338946.69

Source: Compiled from secondary data, credit information bureau India limited.

Table - 1.2

Bank-wise Amount Borrowed by Vijay Mallya
(Amount in Crores)

Name of the Bank	Amount Borrowed
State Bank of India	1,600 Cr
IDBI	800 Cr
Punjab National Bank	800 Cr
Bank of India	650 Cr
Bank of Baroda	550 Cr
United Bank of India	430 Cr
Central Bank	410 Cr
Uco Bank	320 Cr
Corporation Bank	310 Cr
State Bank of Mysore	150 Cr
Indian Overseas Bank	140 Cr
Federal Bank	90 Cr
Punjab & Sind Bank	60 Cr
Axis Bank	50 Cr
And 3 other banks	603 Cr
Total	6,963 Cr

Source: Compiled from secondary data, credit information bureau India limited.

Acknowledgement

Nil

Funding

No funding was received to carry out this study.

References:

- Chandra Shaardha, Ajay Jain, "The Impact of SARFAESI Act 2002 in recovering the Non-Performance Assets in Public Sector Banks: A study on Recovery in SBI, CBI, CB, BOB and PNB (2008 to 2014)", in International Journal of Applied Engineering Research, ISSN 0973-4562, 11(7) (2016) 5218-5224.
- Sri Ayan Chakraborty, "Doubtful Assets eroding SBI's Profitability & Liquidity, in International Journal of Business and Administration Research Review, ISSN -2348-0653, 1(20) (2017).
- Richa Banerjee, Deepak Verma, Bimal Jaiswal, "Non-Performing Assets: A Comparative Study of the Indian Commercial Banks, in International Journal of Social Relevance & Concern, ISSN-2347-9698, 6(2) (2018) 5-21.
- Rajeswari Sengupta, Harsh Vardhan, "Non-performing assets in Indian Banks: This time it is different", in Indira Gandhi Institute of Development Research, Mumbai, (2017) 1-10.
- [http://statisticstimes.com/economy{International Monetary Fund World Economic Outlook \(April-2017\)}](http://statisticstimes.com/economy{International Monetary Fund World Economic Outlook (April-2017)}), (2017).
- https://rbi.org.in/Scripts/BS_ViewMasterCirculars.aspx?Id=9908&Mode=0#3. July 1, (2015), (2015).
- CIBIL : Credit Information Bureau India Limited, (2000).
- Times of India, the daily newspaper, 6th July (2016), (2016).