SPECIAL FOCUS INSIDE

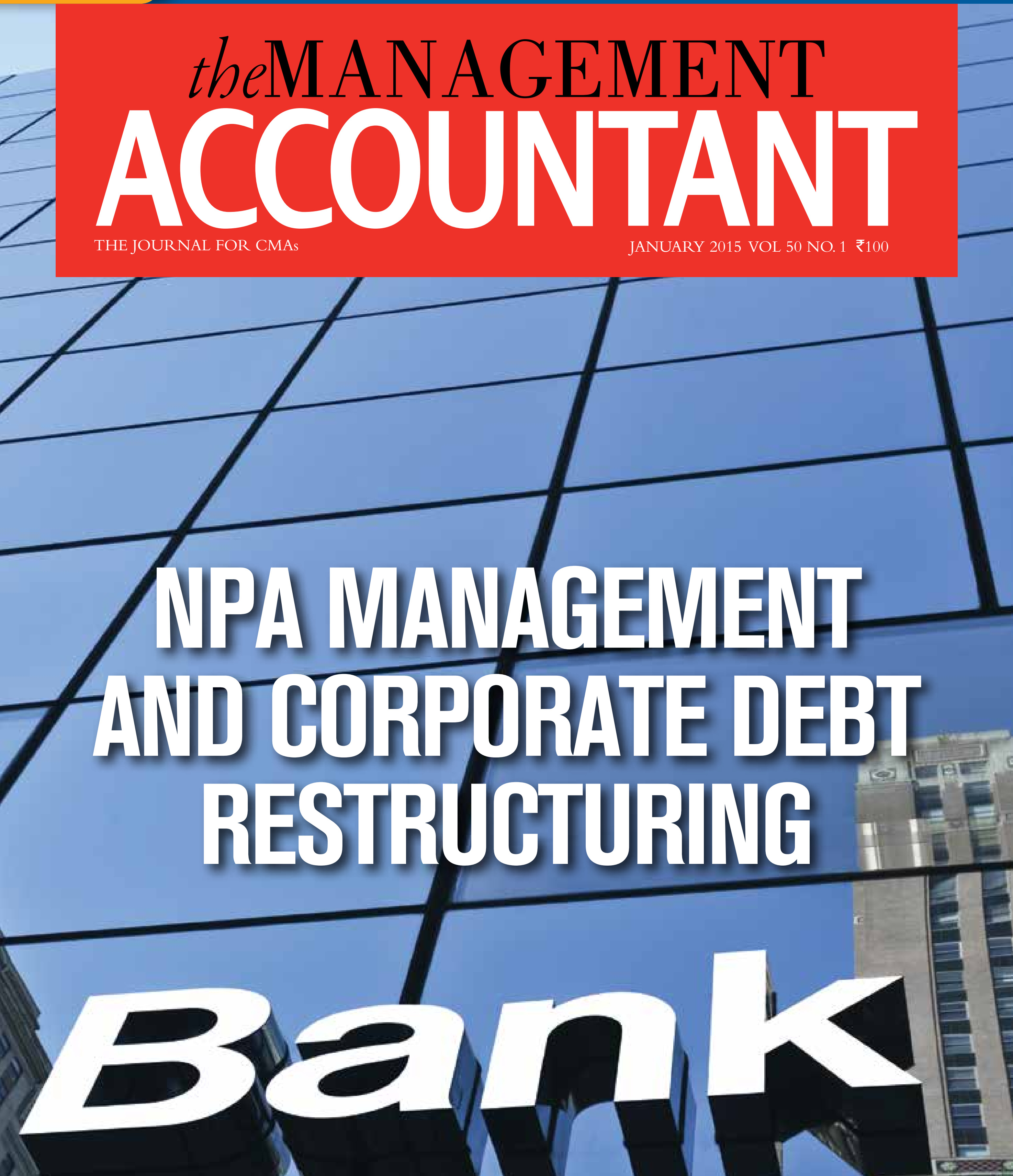
‘Most cited reason for under achievement in financial inclusion is high cost’ PAGE 77

the MANAGEMENT ACCOUNTANT

THE JOURNAL FOR CMAs

JANUARY 2015 VOL 50 NO. 1 ₹100

NPA MANAGEMENT AND CORPORATE DEBT RESTRUCTURING



The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

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- has inputs from industry people for the view from the ground
- has a global outlook with special emphasis on India
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The Institute of Cost Accountants of India, a statutory body set up under an Act of Parliament in 1959, has been publishing its pioneering journal, *The Management Accountant* for 49 years. The journal is aimed at the needs of Cost and Management Accountants (CMA) and provides information, analyses and research on global and national developments. The wide circulation and inputs from academicians, researchers and industry stalwarts have been the reasons for the success of the journal.

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The Institute of Cost Accountants of India

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA (erstwhile The Institute of Cost and Works Accountants of India) was first established in 1944 as a registered company under the Companies Act with the objects of promoting, regulating and developing the profession of Cost Accountancy.

On 28 May 1959, the Institute was established by a special Act of Parliament, namely, the Cost and Works Accountants Act 1959 as a statutory professional body for the regulation of the profession of cost and management accountancy.

It has since been continuously contributing to the growth of the industrial and economic climate of the country.

The Institute of Cost Accountants of India is the only recognised statutory professional organisation and licensing body in India specialising exclusively in Cost and Management Accountancy.

MISSION STATEMENT

The CMA Professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting.

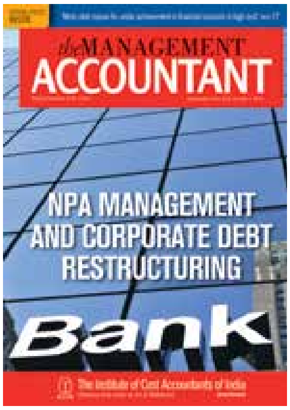
VISION STATEMENT

The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally.

IDEALS THE INSTITUTE STANDS FOR

- to develop the Cost and Management Accountancy profession
- to develop the body of members and properly equip them for functions
- to ensure sound professional ethics
- to keep abreast of new developments

Behind every successful business decision, there is always a CMA



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Inside

COVER STORY

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FROM THE EDITOR'S DESK

Greetings!

Banks have been increasingly facing the pressure of non-performing assets owing to the protracted economic slowdown in India. Stalled manufacturing and infrastructure projects have resulted into blocking of cash flows of the big ticket bank borrowers leading to recovery woes for banks, particularly for public sector banks. NPA can be defined as an advance where payment of interest or repayment of installment of principal (in case of term loans) or both remains unpaid for a certain period. In India, the definition of NPAs has changed over time. According to the Narasimham Committee Report (1991), those assets (advances, bills discounted, overdrafts, cash credit etc.) for which the interest remains due for a period of four quarters (180 days) should be considered as NPAs. Subsequently, this period was reduced, and from March 1995 onwards the assets for which the interest has remained unpaid for 90 days were considered as NPAs.

Corporate Debt Restructuring (CDR)

A proper CDR mechanism is very helpful in a country like India, where the Balance Sheets of the lenders show a large number of Non Performing Assets. Corporate Debt Restructuring is basically a mechanism by way of which a company restructures its outstanding debts when it finds it is difficult to repay the same.

Objectives of CDR

- To ensure timely and transparent mechanism for restructuring
- To minimize losses of creditors and other stake holders
- To make the corporates financially viable

Assets Reconstruction Companies (ARC)

ARC specializes in the recovery and liquidation of assets. Banks which wish to clean their balance sheet at one go, may divest their NPA to an ARC at a discounted value after which it is the latter's responsibility to recover the outstanding dues from the borrowers directly.

Prevention is always better than post-mortems. During an economic downturn, the focus should be on strict due diligence before selection of assets. CMA professionals can play an important role in the current scenario to help banking sector in effective NPA management.CMAs can support the Banking and Financial Institutions in the areas of their operations such as Pre-Sanction Level, Post-Sanction Level, Monitoring of the stressed accounts, Risk Based Internal Audit in Banks, Business and Asset valuation, Development of Cost Management module for different operations of the Bank, Evaluation of cost of different transactions, Effective Cost Management in banking transactions, Strategic Cost Management, Risk Management in Banking Sector and new product pricing, etc.

The Management Accountant has been published regularly since 1966.We are now stepping into the Golden Jubilee year in 2015. We will be introducing new sections in the Journal from January 2015 to cater the needs of the readers.This issue presents a good number of articles on the cover story theme 'NPA Management and Corporate Debt Restructuring' by distinguished experts and authors and interviews from industry stalwarts. We look forward to constructive feedback from our readers on the articles and overall development of the journal. Please send your mails at editor@icmai.in. We thank all the contributors to this important issue and hope our readers enjoy the articles. I wish you all a very happy and prosperous new year ahead.

EMPHASIS ON 'MAKE IN INDIA' AND 'MAKE INDIA COMPETITIVE' POINTS – THE DIRECTION TOWARDS THE CMAs

CMA Dr A S Durga Prasad
President, The Institute of Cost Accountants of India

Life is a series of experiences, each one of which makes us bigger, even though sometimes it is hard to realize this. For the world was built to develop character, and we must learn that the setbacks and grieves which we endure help us in our marching onward. – ***Henry Ford***

My Dear Professional Colleagues,

I wish you and your families a very delightful and memorable New Year 2015. I pray to almighty for happiness, joy and satisfaction to be an integral part of your life. Professionally too I wish our Institute expand its wings internationally and grow to new heights of success. I am sure that our profession will touch a new high this year and will play its role of helping the society, stakeholders and country effectively.

I wish you a Happy New Year 2015.

Recent shift in the focus of Management Accounting

The clarion call of the Honorable Prime Minister is to achieve extra ordinary results in the focused sectors wherein the country has a competitive advantage. Extra Ordinary results cannot come from business as usual approach. It needs completely enhanced business practices driven by the leadership of the India Inc. In this context, we call upon the Indian business to adopt best in class cost and management accounting practices and embed the same in business processes for extra ordinary results. This cannot flow from a financial accounting mentality of the as Usual Business.

The business will have to make strategic choices on competing with China and other economies on products/services, offer cost effective value added services, embed sustainable business practices and manage processes efficiently. These outcomes can be powered only by a robust cost and management accounting framework and not by even international financial reporting standards.

The field of management accounting is experiencing a punctuated shift toward more progressive methods and practices. The cause is reaction to business marketing and sales techniques that are increasingly customer centric and require predictive planning and operational manager needs to improve productivity by removing waste, shortening cycle times, and increasing efficiency and effectiveness.

The shift to predictive accounting is a major transition from management accounting for reporting costs and profits to decision support and analysis that impact the future. In the current challenging arena competency and software capabilities with analytics provides a competitive edge. The need for better skills and competency with behavioral cost management requires change-agent management accountants to motivate mid-level managers and other "champions" to demonstrate to their coworkers that progressive management accounting and EPM methodologies make sense to implement.

The continued emphasis being made on "Make in India" and "Make India Competitive" by the Government continues to point the direction towards the Cost and Management Accountants, who can make the dream a reality.

International Seminar on Integrated Reporting

The Institute in association with South Asian Federation of Accountants (SAFA) organized SAFA Events at Bhubaneswar on 4thDecember 2014. As part of these events the Institute organized 37thBoard meeting of SAFA and an international seminar on Integrated Reporting, which was attended by around 60 participants. The inaugural session of the International Seminar was presided over by Mr. Upendra Nath Behera, IAS Additional Chief Secretary, Finance, Government of Odisha.

In my presidential address I outlined the importance of Integrated Reporting in the emerging business scenario wherein stakeholders are becoming conscious and vocal regarding the concept and philosophy of triple Ps -People, Planet and Profits. Prominent speakers like Dr. Aditi Haldar, Prof. Asish Bhattacharyya and Dr. S.K. Gupta interacted with the participants during the deliberations and said that the seminar would help in improving understanding of the concept and practice of Integrated Reporting. The seminar focused on the changing business perspective the world over with emerging attention on the integration of Social, Environmental and Economic aspects of business. It was reiterated that move towards Integrated Reporting is inevitable as the world over attention is now converging on developing an integrated reporting structure and format.

SAFA BPA Awards and SAARC Anniversary Awards

Presentation ceremony of SAFA BPA Awards and SAARC Anniversary Awards for Corporate Governance Disclosures for 2013 was organized in the evening of 4thDecember 2014 at Bhubaneswar. The event was apt for the release of SAFA History Document titled 'History of South Asian Federation of Accountants - A Glorious Journey spanning Last Three Decades' by the Chief Guest Dr. Pradeep Kumar Panigrahy, Hon'ble Minister of State (I/c) for Higher Education, Science & Technology and Rural Water Supply, Government of Odisha. This was followed by the Presentation of Awards by the Chief Guest. The Chief Guest presented 72 awards in various categories to the awardees from Bangladesh, India, Nepal, Sri Lanka and Pakistan. The event was concluded with a glittering Cultural Program by the Odisha Folk Artists followed by Dinner.

NIRC Seminar on GST

Northern India Regional Council of the Institute organized a seminar on "GST- Game-Changer for the Economy and Industry" on 27thDecember 2014 at New Delhi. Shri V.K Garg, IRS and former JS (TRU), covered various aspects of GST. Speaking on the occasion I conveyed that industry is looking at us with lots of hope and positivity. GST is an evolving process. There are clear indications that it will be rolled out from April 2016 as announced by the Government. Around 300 members and students attended the seminar.

SIRC CMA Summit 2014

Southern India Regional Council of the Institute hosted CMA Summit 2014-15 on the theme of "Make in India – Role of CMAs" at Thiruvananthapuram on 19th and 20th December 2014. I addressed the participants and said that CMAs have tremendous sense of duty towards Nation Building and it is time they come up to the task assigned to them by the society, their organisations and profession. I believe that CMAs have a role to play in performance management and devising proper pricing model which aims at monitoring the outcomes of resources utilization, pricing of goods and services affecting the day to day life, controlling health care, education and pricing of government services, effective procurement pricing of governmental buying and effective control of the usage of environmental resources by the business.

To apprise all the members about the activities / initiatives undertaken by the Departments/ Directorates of the Institute, I now present a brief summary of the activities.

Continuing Professional Development Directorate

I am pleased to inform that the CPD Department and PD Department of the Institute jointly organized a session on 'A way ahead to GST' at New Delhi. Shri Upender Gupta, Addl. Commissioner, (working as OSD, study Group on GST in CBEC) discussed the government initiatives on GST and shared his expert views. There was overwhelming response by the members and session was very much appreciated.The Institute in association with Standing Conference of Public Enterprises (SCOPE) jointly organized One Day Workshop on "The Evolving Role of The Internal Audit Function Value Creation & Preservation" on 19thDecember 2014 at New Delhi. There was active participation by the professionals in PSEs.I am proud to inform that during the month our Regional Councils and Chapters actively organized many programs, seminars and discussions for the members on the topics of professional relevance such as on Excise, Service Tax & Customs, Payment of VAT and input Tax Rebate, GST – Game Changer for the Industry Economy, Small Service Providers and Procedural aspects, Indian Debt Market, Cost Management – Fundamental Principles, Transfer Pricing, Cost Audit In Electricity Distribution Companies, International Financial Reporting Standards-Overview, CAS-4, Contracts and their Management, Overview of SAP – BPC, Preparation of Detailed Project Report Including Structuring, Syndication and Restructuring, Commercial Tax: Applicability and Incidence of Commercial Tax, Role of Professionals Accountants in the Emerging Scenario, CMA Summit 2014-15 "Make in India"-Role of CMAs, Balancing Energy Efficiency with Green Growth, and so on.

Cost & Management Accounting Committee

Cost & Management Accounting Committee has initiated to organise Webinars on 'Series on Cost Management" to reach members at large. First two sessions in December 2014 were well received by the members. We are grateful to the domain experts from the Institute Prof. Asish Bhattacharyya, CMA S.A. Muraliprasad of Chennai, Prof. Purushottam Sen of IIM-Kolkata and Prof. Sailesh Gandhi of IIM-Ahmedabad, who presentedthe first webinars of the series. The full details of the webinars are available on the website of the Institute. I look forward to the continued active participation from the members. The committee has also come out with the Draft Guidance Manual for Healthcare Cost and the Draft Guidance Manual for Education Cost which will be discussed at the forthcoming CMA Committee meeting.

Examination Directorate

The Examination Directorate had successfully conducted Intermediate and Final examinations from 10thto 17thDecember 2014. The examination instates of Jharkhand and Jammu & Kashmir was conducted on 21stDecember 2014 due to elections on 14th December 2014. I am pleased to inform that the Foundation online examination was successfully conducted on 21stDecember 2014 and result was announced on 24th December 2014. Around 70000 students had applied to appear in these examinations.

Hyderabad Center of Excellence

The Diploma in Management Accountancy examination was conducted in 8 centers across India for December 2014 Term. The webinars for the Diploma in IS Audit and control, Business Valuation, and Internal Audit were also conducted for the participants.

ICWAI MARF Programs

The ICWAI MARF programs directorate organized Certified Accountant Program for the officers of Mahindra Finance Academy during 15th to 20thDecember 2014 at New Delhi. The certificate course on 'International Financial Reporting Standards (IFRS) and Converged Indian Accounting Standards (Ind-AS)' was organized during 15th to 19thDecember 2014 at New Delhi which was attended by executives of various organizations. A program for the officers of Balasore Alloys Limited was organised on 'Activity Based Costing' during 18th to 20thDecember 2014 at Balasore, Odisha. Two programs on 'Service Tax – Issues and Problems' and 'Contracts and their Management' were organized during 16th to 19thDecember 2014 at Shirdiand were attended by executives of various organizations.

International Affairs Department

Shri Mahesh Basnet, Hon'ble Minister of Industries, Government of Nepal visited Delhi Office of the Institute on 9th December 2014 at 2000 hours. Shri Maheswar Neupane, Joint Secretary, Ministry of Industries, Government of Nepal and Shri Tirtharaj Vagle, Director, Nepal High Commission in India also accompanied the Hon'ble Minister. During the discussions with the members Hon'ble Minister praised the role of CMAs in the economy and industrial development of India and promised to pass on the request of the Institute to the Education Minister of Nepal for constitution of CMA Institute in Nepal.

The Technical meeting of Accounting Body's Network (ABN) was held at London, to discuss the key areas of focus for ABN members and areas for collaboration with A4S and other Network members on 10th December 2014. The meeting reviewed the achievement of ABN and A4S with other network members.HRH The Prince of Wales marked his Accounting for Sustainability (A4S) Project's tenth anniversary on 11th December 2014 by setting a challenge to accountants worldwide. The theme of this year's anniversary was "Transforming Finance and Accounting: Meeting the Challenges of the Next Decade". The event was attended by CMA Sanjay Gupta, Chairman, International Affairs Committee and Council Member of the Institute.

Membership Department

It is observed that some of our members have not yet made their payments towards membership fee for FY 2014-15 presumably because of their pressing official commitments. I urge upon all such members to make their membership fee payment at the earliest to continue to avail the benefits of membership. I also request all our esteemed members to impress upon the final qualified candidates, working in their organizations to apply for the Associate membership of this Institute after the candidates satisfy their eligibility criteria for membership, details of which are mentioned on the Institute website www.icmai.in

Research & Journal Directorate

I am happy to inform that the Institute in collaboration with the Rabindranath Tagore Centre for Human Values, Kolkata conducted a 3-days workshop on 'Values & Ethics for Professional & Leadership Excellence' from 28thNovember 2014 till 30thNovember 2014 at EIRC Auditorium. Professor (Dr.) S.K Chakraborty, Mentor Emeritus, Rabindranath Tagore Centre for Human Values, Prof. B.K Sarkar, Vice Principal, Prof. (Mrs.) Anupurba Banerjee, Assistant Tagore Fellow were the key resource persons in the seminar. This three days workshop ended with the valedictory address of CMA Manas Kumar Thakur, Chairman, Research, Innovation & Journal Committee of the Institute.

A Round Table Discussion on the theme 'Relevance of Micro Finance in India' had been held at EIRC Auditorium on 18thDecember 2014 organized by the Directorate of Research & Journal of the Institute. Shri Chandra Sekhar Ghosh, Chairman & Managing Director, Bandhan Financial Services Pvt. Ltd, ShriKuldip Maity, MD & CEO, Village Financial Services Pvt. Ltd, Shri Suparna Pathak, Business Editor, ABP Ltd, Professor Samar Kumar Datta, Entrepreneurship Development Institute of India, Gujarat, Prof. CMA Sudipti Banerjea, Calcutta University were among the eminent dignitaries present in the discussion. CMA Manas Kumar Thakur, Council Member, ICAI, also chaired an important session in the seminar. CMA (Dr.) Debaprosanna Nandy, Director, Research and Journal, ICAI concluded the programme with a vote of thanks and there was an interactive questionnaire session beautifully resolved by the eminent dignitaries on the dais.

On 19th December 2014, K.K Das College, Department of Commerce in collaboration with our Institute organized a UGC Sponsored National Level Seminar on 'Cost Competitiveness in Micro, Small and Medium Enterprises in India'. CMA Manas Kumar Thakur, Chairman, Research, Innovation & Journal Committee, Prof. Ajitava Raychaudhuri, Professor, Dept. of Economics, Jadavpur University, Professor Samar Kumar Datta, Entrepreneurship Development Institute of India, Gujarat, CMA (Dr.) Debaprosanna Nandy, Director, Research & Journal, Prof. Soma Mukherjee, Teacher in Charge, K.K. Das College, Professor Rinku Saha, Dept. of Commerce, K K Das College were among the dignitaries. The seminar was highly successful and the eminent dignitaries present over there shared their valuable opinions about the Cost Competitiveness of MSME sector and the governmental initiatives, their effectiveness as well as the challenges.

56th National Cost Convention

Friends, I invite you to attend the 56th National Cost Convention of the Cost Management Accountants scheduled to be held at Hyderabad on 31st January – 1st February 2015. I urge the members of the profession to assemble in big numbers to showcase the strength of the profession and also to make this annual event of the Institute a grand success. All the details are available on the website of the Institute.

I wish prosperity and happiness to members, students and their family on the occasion of New Year 2015 and Lohri, Makar Sankranti, Pongal, Guru Gobind Singh's Birthday, Subhash Chandra Bose Jayanti and Republic Day.

With warm regards,

(CMA Dr A S Durga Prasad)
1st January 2015

Letter to the Editor

Dear Sir,

I have gone through your article as published in our esteemed Journal 'The Management Accountant' of December, 2014 issue. You have nicely elaborated some of the provisions of finance act 1994 and mega exemption list and also notification 26/2012. Keep it on. I would like to see the specific problems wise analysis of service tax, like Manpower, Legal, Erection, Finishing etc. in the next issue as these will facilitate the reader

— CMA Utpal K Saha

The Institute of Cost Accountants of India

(Statutory Body under an Act of Parliament)

Ref. No.: BoS(Academics)/12-01/2014-15 Kolkata, December 17, 2014

CIRCULAR

Sub: Relevant information for June 2015 and December 2015 term of Examination

(1) Applicability of The Companies Act, 2013

- For June 2015 and December 2015 term of Examination, all the sections of the Companies Act,2013 shall be applicable.
- Change/amendment in any provision of the law/statute, six months prior to the month of examination would be applicable for June 2015 and December 2015 term of Examination.
- This shall cover both Syllabus 2008 and Syllabus 2012 subjects/papers, as applicable.

(2) Applicability of the Finance Act, 2014

- For June 2015 and December 2015 term of Examination, provisions of Finance Act,2014 shall be applicable. Relevant amendments will be uploaded in the website of the Institute from 25/12/2014.
- Change/amendment in any provision of the law/statute relating to Indirect Taxation (like Central Excise, Customs, Anti-dumping, Service Tax, VAT, CST, SEZ, FTP) six months prior to the month of examination would be applicable for June 2015 and December 2015 term of Examination.
- This shall cover the following papers:

Under Syllabus 2008 (last term of Examination is June 2015 term)	Under Syllabus 2012
Paper 7 - Applied Direct Taxation	Paper 7 - Direct Taxation
Paper 10 - Applied Indirect Taxation	Paper 11 - Indirect Taxation
Paper 14 - Indirect & Direct-Tax Management	Paper 16 - Tax Management & Practice

(3) Applicability of CAR, CARR , CAS (1-22) and CAAS (1-4)

- CAR and CARR (shall be applicable based on notification by the Ministry of Corporate Affairs, Government of India) - shall be applicable from the date of notification in official gazette of the Government.
- In case of change/amendments pronounced in CAR and CARR as per regulations prescribed under Sec.148 of the Companies Act, 2013 is pronounced having less than six months, then for June 2015 term of examination, CAR - 2011 and CARR - 2011 shall be applicable. If the time period is more than six months, then the revised CAR and CARR shall be applicable for both June 2015 and December 2015 term of Examinations.
- Cost Accounting Standards [CAS] (1-22) and Cost Audit & Assurance Standards [CAAS] (1-4) shall be applicable for June 2015 and December 2015 term of Examination.
- This shall cover both Syllabus 2008 and Syllabus 2012 subjects/papers, as applicable.

(Chiranjib Das)
Joint Director, Head - Academics & Tax Research Department
& In-Charge of Directorate of Studies

ICAI-CMA SNAPSHOTS

1. CMA Dr A S Durga Prasad, President of the Institute greeting Sri N Chandrababu Naidu, Hon'ble Chief Minister of Andhra Pradesh on a courtesy visit on November 22, 2014

2. Shri Sadhan Pande, Minister of Consumer Affairs, Govt. of West Bengal, Rear Admiral Shri A K Verma, CMD, GRSE Ltd, CMA Harijiban Banerjee, CMA Amal Kr. Das, Past Presidents of the Institute, CMA Manas Kr. Thakur, Chairman, Research Innovation and Journal Committee, CMA Srikanta Sahoo, Chairman EIRC, CMA Bibekananda Mukhopadhyay, Secretary EIRC and CMA Shiba Prasad Padhi, Treasurer EIRC at the inauguration session of Regional Students Conference 2014 organized by EIRC in Kolkata on December 21, 2014

3. At the inaugural function of new premises held at Surat South Gujarat Chapter on November 16, 2014. From the left CMA Nanty Shah, Joint Secretary of the Chapter, CMA A B Nawal, Chairman WIRC, CMA S N Mundra, Chairman of the Chapter, Hon'ble Shri Chhatrasinh Mori, Minister of State, Food & Civil Supplies, Consumer affairs, Chief Guest and President CMA Dr A S Durga Prasad, CMA P V Bhattad, Vice President, CMA B M Sharma, Past President and CMA G P Rao of the Institute

4. CMA Manas Kr. Thakur, Council Member and CMA Bibekananda Mukhopadhyay, Secretary EIRC meeting Shri Jitan Ram Manjhi, Chief Minister of Bihar for a discussion on economic growth of Bihar, December 19, 2014 in Patna

5. CMA Manas Kr. Thakur, Council Member, CMA Bibekananda Mukhopadhyay, Secretary, EIRC, CMA A N Singh, Vice Chairman, Patna Chapter during a visit to Dr Bhim Singh, Minister of Commerce & Industry. Others seen are the team of people at Ministry for Industrial Development of Bihar, December 2, 2014

ICAI-CMA SNAPSHOTS

6a

6b

7

8

9

6a & 6b. CMA Sanjay Gupta, Council Member, in interaction with His Royal Highness, The Prince of Wales, at the A4S Summit 2014 hosted by the Prince at London in December 2014, on Integrated Reporting & Sustainability

7. CMA Sanjay Gupta, Council Member & Chairman- International Affairs Committee deliberating at the 'International Seminar on Integrated Reporting' at Bhubaneswar, December 4, 2014

8. CMA Sanjay Gupta, Council Member & Chairman- International Affairs Committee welcoming Shri Mahesh Basnet, Hon'ble Minister of Industries, Government of Nepal at Round Table Meet on December 9, 2014 at CMA Bhawan, New Delhi

9. Shri Mahesh Basnet, Hon'ble Minister of Industries, Government of Nepal in interaction with CMA Sanjay Gupta, Council Member, CMA K L Jaisingh, Past President, CMA Sumit Goyal and other members at Delhi

ICAI-CMA SNAPSHOTS

10. CMA Dr A S Durga Prasad, President lighting the lamp at CMA Summit 2014-15 held by SIRC. Also seen CMA P V Bhattad, Vice President, and CMA H Padmanabhan, Chairman, SIRC and other dignitaries

11. CMA P V Bhattad, Vice President, lighting the lamp at CMA Summit 2014-15 held by SIRC. Also seen CMA Dr A S Durga Prasad, President, and CMA H Padmanabhan, Chairman, SIRC and other dignitaries

12. CMA Rakesh Singh, Past President of the Institute addressing the plenary session on role of the Board in promoting sustainability on 'Management Accounting Principles for Sustainable Success' at the 'National Convention on Corporate Governance and Sustainability & IOD Annual Meet' organized by the Institute of Directors on December 20, 2014 at New Delhi

13. On November 16, 2014 CMA TCA Srinivasa Prasad, Council Member presenting a memento to Sri Satish Govind and Members of SR Business Solutions on the occasion of 'Persuasion & Presentation Skills that win Business' held at CMA Bhawan, Himayatnagar

14. CMA Dr PVS Jagan Mohan Rao, Council Member counselling the students about CMA course at Andhra Vidyalaya College (AV College), Domalguda on November 15, 2014

ICAI-CMA SNAPSHOTS

15. Chief Guest Sri Arvind Patwari, Director, MSME-Development Institute, Hyderabad is being felicitated with a floral bouquet by CMA Radha Krishna Komaragiri, Chairman, Hyderabad Chapter in connection with a joint programme titled 'MSME and Role of Cost Accountants' held on November 1, 2014. CMA DLS Sreshti, Council Member and CMA H Padmanabhan, Chairman, SIRC are also seen

16. CMA A B Nawal, Chairman WIRC, addressing participants at prize distribution & cultural programme held by Surat South Gujarat Chapter on November 16, 2014. From the left on the dais CMA Amit Apte, CMA S N Mundra, Shri R K Aggarwal, Chief Guest, Operation Director, Kribhco, CMA Dr A S Durga Prasad, President CMA P V Bhattad, Vice president, CMA B M Sharma, Past President, CMA G P Rao, CMA Shrenik Shah, CMA R K Rathi of the Institute

17. CMA P V Bhattad, Vice President of the Institute at the 'Annual Seminar 2014-15' at Asansol Chapter, held on December 7, 2014 on the theme 'Balancing Energy Efficiency with Green Growth'. From the left on the dais are CMA Sudip Dasgupta, Chairman, Asansol Chapter, CMA Amitava Saha, D(F), BCCL, CMA Chandan Kumar Dey, D(F), ECL, Sri K S Patro, D(P), ECL and CMA Shyamal Bhattacharya, Treasurer, EIRC

18. A Session on 'A way ahead to GST', held on December 9, 2014 at New Delhi. From the left CMA Atul Kumar Gupta, Tax Consultant, Shri Upender Gupta, Additional Commissioner (Working as OSD, Study Group on GST in CBEC), CMA Nisha Dewan, Joint Secretary, Continuing PD, and CMA J K Budhiraja, Director, Professional Development of the Institute

19. One day workshop on 'The Evolving Role of the Internal Audit Function-Value Creation & Preservation' held on December 19, 2014 at New Delhi. From the left Shri Subhash C Agrawal, Director (Finance), Cement Corporation of India, Dr U D Choubey, Director General, SCOPE, Prof. CMA Asish Bhattacharyya, Chairman, Board of Advanced Studies of the Institute and Dr Amit Bagga, Consultant

20. Dr Sugata Marjit, RBI Professor of Industrial Economics as the Key Speaker in the Annual Seminar 2014-15 conducted by Asansol Chapter. Also seen on the dais are CMA C R Chattopadhyay, Past Chairman, EIRC and Chairman of the Technical Session, the Guest Speaker CMA B N Bhattacharya, Former Chief Internal Auditor, DVC and Sri Anjan Fouzdar, Environmental Engineer WBSPCB

the MANAGEMENT ACCOUNTANT

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PAPERS INVITED

Cover stories on the topics given below are invited for *The Management Accountant* for the four forthcoming months.

Issue months	Themes	Subtopics
February 2015	Cost Competitiveness through Leadership	• Economic development through effective leadership • Strategic cost management • Leadership and organizational competitiveness • Essentials of cost leadership • Differential leadership strategy • Related case studies
March 2015	Infrastructure Development & Economic growth	• Infrastructure investment • Risk Management • Social infrastructure • Sustainable growth • PPP Model • Real Estate • Global trend • Role of Government
April 2015	FDI & Economic Growth	• Suitability of FDI in Indian context • FDI and economic growth indicators • FDI flow at sectoral level of Indian economy • 'Make in India' and FDI • Prospects of FDI in India • FDI and domestic industry • FDI policies in India
May 2015	Integrated Reporting and Business Sustainability	• Concept of Integrated Reporting (IR) • Need, emergence & current trend of IR • Pre-requisites for successful implementation of IR • Stakeholders expectations from IR • Enterprise Performance Management and IR • Sustainability Reporting, CSR and IR • Linkage between IR and GRI G4 • Role of CMAs in IR

The above subtopics are only suggestive and hence the articles may not be limited to them only.
Articles on the above topics are invited from readers and authors along with scanned copies of their recent passport-size photograph and scanned copy of declaration stating that the articles are their own original and have not been considered for publication anywhere else. Please send your articles by e-mail to editor@icmai.in latest by the 1st of the previous month.

Directorate of Research & Journal
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The Institute of Cost Accountants of India

(Statutory Body under an Act of Parliament)

Ref. No.: DOS/9/11/2014-15 Kolkata, December 09, 2014

CIRCULAR

Sub: Exemption for Engineering Graduates/Engineers for pursuing CMA Course

Notified for general information Qualification related exemption offered to Engineering Graduates/ Engineers for pursuing the CMA Course

For Engineering Graduates having completed 2nd year/IV Semester/equivalent or Graduate Engineers (qualified Engineering Final Examination)	Exempted from CMA Foundation Course
	Direct Entry to CMA Intermediate Course
	Exemption from appearing in the following two papers at the Intermediate Course under Syllabus 2012: Paper 6 - Laws, Ethics & Governance (LEG) Paper 9 - Operations Management & Information System (OMIS)
	Exemption from undergoing 100-hours Compulsory Computer Training

Application for exemption to be made to Director of Studies, HQ, as per guidelines.

All concerned are requested to take a note of this amendment and attach wide publicity to the stakeholders.

(Chiranjib Das)
Joint Director, Head - Academics & Tax Research Department
& In-Charge of Directorate of Studies

ECONOMY UPDATES

Banking

- **Levy of penal charges on non-maintenance of minimum balances in savings bank accounts**

In this connection, a reference is invited to paragraph 30 of Part B of First Bi-monthly Monetary Policy Statement, 2014-15 announced on April 1, 2014, regarding 'Developmental and Regulatory Policies' proposing certain measures towards consumer protection. One of the proposals contained therein was that banks should not take undue advantage of customer difficulty or inattention. Instead of levying penal charges for non-maintenance of minimum balance in ordinary savings bank accounts, banks should limit services available on such accounts to those available to Basic Savings Bank Deposit Accounts and restore the services when the balances improve to the minimum required level. A reference is also invited to the recommendations of Damodaran Committee on customer service in banks which, inter-alia, recommended that 'banks should inform the customer immediately on the balance in the account breaching minimum balance and the applicable penal charges for not maintaining the balance by SMS/ email/letter. Further, the penal charges levied should be in proportion to the shortfall observed'.
Source: Notification No. RBI/2014-15/363 (DBR.RRB.BC.No.55/03.05.33/2014-15) dated: December 22, 2014

- **Non-Cooperative Borrowers**

A non-cooperative borrower is one who does not engage constructively with his lender by defaulting in timely repayment of dues while having ability to pay, thwarting lenders' efforts for recovery of their dues by not providing necessary information sought, denying access to assets financed / collateral securities, obstructing sale of securities, etc. In effect, a non-cooperative borrower is a defaulter who deliberately stone walls legitimate efforts of the lenders to recover their dues. In this connection, banks/FIs should take the following measures in classifying/declassifying a borrower as non-cooperative borrower and reporting information on such borrowers to Central Repository of Information on Large Credits (CRILC).
Source: Notification No. RBI/2014-15/362 (DBR.No.CID.BC.54/20.16.064/2014-15) dated: December 22, 2014

- **F-TRAC – Counterparty Confirmation**

A reference is invited to RBI circular IDMD. PCD. 13 /14.01.02/2013-14 dated June 25, 2014 regarding reporting of OTC trades in Commercial Papers (CPs) and Certificate of Deposits (CDs); and OTC repo trades in corporate debt securities, CPs, CDs and non-convertible debentures (NCDs) of original maturity less than one year on F-TRAC - the reporting platform of Clear corp Dealing Systems (India) Ltd. (CDSIL). As per extant guidelines, the above-mentioned trades have to be physically confirmed by the back offices of the counterparties. In F-TRAC, both the counterparties individually report their respective sides of the trades and the trades are validated for trade details before matching by F-TRAC. This ensures implicit confirmation by both counterparties. Further, the details of the transactions are available on the F-TRAC system.
On a review, it has been decided to waive the requirement of exchange of physical confirmation of trades matched on F-TRAC subject to the following conditions:
i. Participants entering into one time bilateral agreement for eliminating the exchange of confirmation;
ii. Participants adhering to the extant laws such as stamp duty as may be applicable; and
iii. Participants ensuring adherence to a sound risk management framework and complying with all the regulatory and legal requirements and practices, in this regard.
Source: Notification No. RBI/2014-15/361 FMRD.FMID.01/14.01.02/2014-15 dated: December 19, 2014

- **Persons already having bank account need not to open a fresh one to avail benefits of the Pradhan Mantri Jan Dhan Yojana**

Government said persons already having bank account need not to open a fresh one to avail benefits of the Pradhan Mantri Jan Dhan Yojana. "A person who is already having a bank account with any bank need not have to open a separate account under PMJDY. He/she will just have to get issued a RuPay card in his existing account to get benefit of accidental insurance," a Finance Ministry statement said. The overdraft facility can be extended in existing account, it said. Accidental insurance of Rs 1 lakh will be available to all RuPay card holders between 18-70 years. They will need to use their RuPay card once in 45 days of receipt of the card to get the benefit. The accidental claim intimation should be given to bank within 30 days from the date of accident, it added. For life insurance coverage, one person per family will get a single cover of Rs 30,000 on one card only despite having multiple accounts/cards.
Source: PTI | 17 Dec 2014

- **PSBs told to offer net, mobile banking services in Hindi also**

Continuing with its Hindi overdrive, the home ministry has asked finance ministry to ensure that all net banking web portals and mobile banking applications of nationalized banks are offered in Hindi apart from English, while e-mails and SMS alerts are sent to customers in Hindi as well. The home ministry first and foremost wants ATM machines to print receipts in Hindi apart from English. It also wants option

ECONOMY UPDATES

for customers to work in Hindi on internet banking web portals. The home ministry has also pointed out that mobile banking applications are not available in Hindi and it also needs to be ensured that e-mails and SMS alerts sent to customers by banks should be in Hindi as well.
Source: Economic Times | 17 Dec 2014

Service Tax

- **Govt. empowers CMAs / CAs nominated as special auditors, to conduct Service Tax Audits**

As per notification no. 23/2014- Service Tax dated: 5th December, 2014, every assessee, shall, on demand make available to the officer empowered under sub-rule (1) or the audit party deputed by the Commissioner or the Comptroller and Auditor General of India, or a Cost Accountant or Chartered Accountant nominated under section 72A of the Finance Act, 1994:
(i) the records maintained or prepared by him in terms of sub-rule (2) of rule 5;
(ii) the cost audit reports, if any, under section 148 of the Companies Act, 2013 (18 of 2013); and
(iii) the income-tax audit report, if any, under section 44AB of the Income-tax Act, 1961 (43 of 1961),
for the scrutiny of the officer or the audit party, or the cost accountant or chartered accountant, within the time limit specified by the said officer or the audit party or the cost accountant or chartered accountant, as the case may be.

Central Excise

- Amendment of notification no 12/2012 - Central Excise dated 17/03/2012 so as to increase the Basic Excise Duty (BED) on petrol (both branded as well as unbranded) and diesel (both branded as well as unbranded) vide notification no. 24/2014-CE, dt. 02-12-2014.
- Grants exemption from Basic Excise Duty to goods donated or purchased out of cash donations for the relief and rehabilitation of people affected by the floods in the State of Jammu and Kashmir vide notification no. 25/2014-CE, dt. 11-12-2014.

Customs

- Grants exemption from the duties of Customs to goods imported for donation for the relief and rehabilitation of people affected by the floods in the State of Jammu and Kashmir vide notification No. 33/2014-Cus, dt. 11-12-2014.
- Re-warehousing of goods imported and/or procured indigenously by EOU/EHTP/STP/BTP units:

Attention is drawn to the self-bonding/warehousing procedure on the above subject specified in Circular No. 19/2007-Cus dated 03.05.2007. It has been brought to the notice of the Board that the units which are under the said procedure are facing difficulty in obtaining deemed export benefits as the ARE-3 is not certified by the Central Excise authorities. The matter was examined in consultation with the DGFT and DG (EP). To resolve the issue and facilitate trade, it has been decided by the Board to provide that the Superintendent – in- charge of the unit shall make two legible photocopies of the original copy of ARE-3 (that bears his counter signature) and attest each of them as true copies with his dated signature. One attested copy shall be kept in the Range office for records and the other one shall be handed over (against dated vide Circular No.16/2014-Customs dated: 18th December, 2014.

- Amendment of Notification No. 012/2012 Customs dated 17.03.2012 so as to increase duty on crude and refined edible oils vide notification no. 34/2014-Cus, dt. 24-12-2014.

- **Anti-dumping duty**

i. Impose of definitive anti-dumping duty on imports of Clear Float Glass originating in or exported from Pakistan, Saudi Arabia and United Arab Emirates (UAE) vide notification no. 48/2014-Cus (ADD), dt. 11-12-2014.
ii. Levy of definitive anti-dumping duty on imports of cable ties, originating in or exported from People's Republic of China and Chinese Taipei, for a period of five year vide notification no. 47/2014-Cus (ADD), dt. 09-12-2014.
iii. Impose of anti-dumping duty on Sodium Nitrite originating in or exported from China PR vide notification no. 46/2014-Cus (ADD), dt. 08-12-2014.

Income Tax

- Income-tax deduction from Salaries during the financial year 2014-15 under section 192 of the Income Tax act, 1961 vide circular no: 17/2014.

Read more at: http://www.incometaxindia.gov.in/communications/circular/circular17_2014.pdf

SEBI

- Modification to Offer for Sale (OFS) of Shares through stock exchange Mechanism vide *Circular CIR/MRD/DP/32 /2014 December 01, 2014.*
- Facilitating transaction in Mutual Fund schemes through the Stock Exchange Infrastructure vide Circular CIR/MRD/DSA/33/2014 December 09, 2014.

(For further details on these issues, please visit the Institute's website: www.icmai.in for the complete CMA e-Bulletin, January 2015, Vol 3, No. 1, in the 'Research and Publications' section.)

The Institute of Cost Accountants of India

(Statutory Body under an Act of Parliament)

Ref. No.: DoS/12-03/2014-15 Kolkata, December 19, 2014

CIRCULAR

Sub: Simplification of procedures for Revalidation and Postal students

As decided by the Training & Educational Facilities Committee and approved by the Council, Directorate of Studies announces simplification of procedures for students from undergoing Revalidation of Coaching and Postal Students pursuing CMA Intermediate course only.

It may be noted that presently students are getting admitted/registered/enrolled to the CMA Courses (Foundation, Intermediate and Final), either opting for Oral or Postal Mode of Coaching. Students who are undergoing Postal Mode of Coaching therefore requires to submit answers to postal test papers, 4(four) for each subject/paper, unless otherwise eligible to submit answers for 2(two) test papers under modified scheme.

It is further clarified for information that completion of coaching - both oral and postal mode - is to be undergone by students besides the prescribed trainings . Hence a student undergoing Postal Coaching shall qualify in the on-line test module. Such will be duly incorporated in records of DOS besides improving the learning skills of the student.

To bring about simplification in the procedures and facilitate students at large, the initiation is now executed with Intermediate students. The hard copy submission of answer scripts would be dispensed with and substituted with on-line self assessment 'Take A Test" modules.

- Self-assessment tools and would report the status at the time of final submission
- 24x7 on-line access
- Answers to be submitted in 'text mode' and not a multiple choice question
- Liberty to fit in with the time requirement - benefit to "pause" in between and "start/resume" the test once again
- Multiple-appearances possible - as at every time a different set of question including different numericals would get generated.

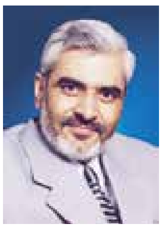
For	Existing Procedure - its applicability	New Procedure
Postal Test Papers (Intermediate Students only)	Submission of hard copies for answers on Postal Test Papers - dispensed with for all students getting registered - w.e.f. 01.01.2015	On-line Self-Assessment "Take a Test". Web link provided under 'students-learning resources'.
Revalidation Test Papers (Intermediate Students only)	Submission of hard copies for answers on Postal Test Papers - dispensed with for all students getting registered - w.e.f. 01.01.2015	

During this interim period - i.e. students getting registered for Intermediate upto 31.12.2014 - will be guided by the existing procedure of submitting the postal scripts in hard copy. However, they have the option to 'take a test' instead of hard copy submission.

(Chiranjib Das)
Joint Director, Head - Academics & Tax Research Department
& In-Charge of Directorate of Studies

COMPETITIVE AUGMENTATION OF SMALL BUSINESSES IN GLOBALIZED ECONOMY – A STUDY ON MSE FINANCE BY BANKS IN INDIA

"MSME is a dynamic and vibrant sector that nurtures entrepreneurial talent besides meeting social objectives including that of providing employment to millions of people across the country" – Economic Survey, 2011-12(pp:217)



CMA Dr Ram Jass Yadav
Assistant General Manager
& Vice Principal
Bank of Baroda
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SMALL & Medium Enterprises (SME) sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services and the levels of technology employed. While one end of the SME spectrum comprises highly innovative and high growth enterprises, more than 90% of the SMEs are micro & small enterprises (MSEs) and unregistered with a large number of them established in the unorganized sector. In present globalised world, marked by competition and innovation, is posing newer and varied challenges to the MSEs, because of their small size, individual MSEs are handicapped in achieving economies of scale in procuring equipment, raw materials, finance and consulting services. Often they are unable to identify potential markets to take advantage of market opportunities, which require large volumes, consistent quality, homogenous standards and assured supply. In today's globalised economy, improvements in product, processes, technology and organizational functions such as design, logistics and marketing have become key drivers in delivering competitiveness, including for MSEs. Finance is considered major constraint to meet these challenges before MSEs to build their capacity for competitiveness and effectiveness in business world. Banks in India are considered to be major source of finance for SMEs for a variety of purposes such as purchase of land, building, plant and machinery as

also for working capital and exports receivables financing, etc., but banks are risk averse in their approach of lending based on guarantees & securities. Credit is usually extended only against collateral equivalent to and / or more than 100% of the loan amount. Many of the SMEs especially those in the start up phase are unable to provide sufficient assets as collateral for lending. This makes the banking system inaccessible for SMEs especially for first generation entrepreneurs.

Over the years there has been a significant increase in credit extended to this sector by the banks. The outstanding credit provided by public sector banks (PSBs) in India to MSE sector stood Rs.4784 billion in 7.46 accounts for the year ended March 2013 as against Rs. 1511 billion in 3.97 accounts in March 2008. Despite the increase in credit outstanding, the small entrepreneurs feel that the banks are not doing justice for them and are catering more to the needs of large corporate for making small incompetent thus gap is being perceived in the sector for enhancing their capacity building to compete them in global market.

Hypothesis of study

MSE being GEN-NEXT engine of growth; is an answer to realize 12th Plan with special reference to generate employment and export of the country. In light of great significant of the sector in economy and also huge potential of banks' lending from MSEs for sustainable growth, the present study aims to identify major issues in financing to small businesses more particularly without collateral properties and 3rd party guarantee. The present study broadly based on the hypothesis "why banks' do not prefer lending without collateral to small businesses such as –

- Lack of knowledge of the schemes among bankers & borrowers
- Entrepreneurs feel that levy of guarantee fee under Credit

Guarantee Scheme is very high and increase their burrowing while Bankers' feel that guarantee cover under the scheme is very low.
- Branding, innovations & technology are assumed to be bottleneck for capacity building

Sample, objectives & methodology of study

In the above background & significance of small entrepreneurs in Indian economy that they contribute 45% of the manufacturing output, 40% of the total exports of the country and about 8.7% in GDP; a study has been conducted taking 51 Regional Processing Centers (RPCs) of a public sector bank into sample which are functioning across the country therefore; it is diversified sample to represent the bankers' perception on SME financing. To examine key issues narrated as hypothesis of the study, primary information has been gathered from the bankers through a personal interview of RPC Head of each processing center by using a questionnaire developed for the purpose.The study aims –

a) To identify obstacles in extending finance to small entrepreneurs without collateral

b) To ascertain reasons of not preferring lending to Micro entrepreneurs

c) To examine causes of defaults by Micro enterprises in repaying bank loans

d) To suggest measures for improving access of MSEs to banks.

The simple statistical tools such as mean, comparison & ratio analysis have been used to arrive at empirical observations from the data used in study and making viable recommendations.

Hedging default risk – credit guarantee scheme (CGS)

There have been widespread complaints from the MSE sector that many of them, particularly technocrats and first generation entrepreneurs in the sector, find themselves handicapped in accessing credit from the banking system primarily for want of secondary collateral and/ or third party guarantee. Banks generally insist on secondary collateral to hedge against default in the small loan segment. Reserve Bank of India had enjoined upon banks not to take secondary collateral from MSE units with credit limits up to Rs. One Million. Besides, the Government of India in collaboration with SIDBI has set up a trust in August 2000 which is prestigiously know as Credit Guarantee Fund Trust for Micro & Small Enterprises (CGTMSE) aimed at providing collateral free loans up to Rs. 10 Mn to small businesses. In an effort to minimize the impact of default on the loans, the Credit Guarantee scheme (CGS) seeks to reassure the lender that, in the event of a MSE unit, which availed collateral free credit facilities, fails to discharge its liabilities to the lender, the Guarantee Trust would make good the loss incurred by the lender. CGTMSE extends guarantee of loans through various member lending institutions (MLIs). Almost all of the scheduled commercial banks including public sector as well as the private sector banks are registered as MLIs with CGTMSE. The risks of default covers under the scheme varies from 50% to 85% of loan amount availed by eligible MSE based on the category of unit, amount of loan availed, location of unit such as north east region and ownership of business. The coverage of guarantee is depicted below in table –

Category	Maximum extent of Guarantee where credit facility is		
Micro Enterprises	Up to Rs.5 lakh	Above Rs.5 lakh up to Rs.50 lakh	Above Rs.50 lakh up to Rs.100 Lakhs
	85% of the amount in default subject to a maximum of Rs.4.25 lakh	75% / Rs.37.50 lakh	50% of total amount in default subject to overall ceiling of Rs.50.00 lakh
Women Entrepreneurs / Units located in North East Region (incl. Sikkim) other than credit facility up to Rs.5 lakh to micro enterprises	80% of the amount in default subject to a maximum of Rs.40 lakh		50% of total amount in default subject to overall ceiling of Rs.50.00 lakh
All other category of borrowers	75% / Rs.37.50 lakh		50% of total amount in default subject to overall ceiling of Rs.50.00 lakh

The cardinal principles of the guarantee scheme are to provide loan to MSEs without collateral and third party guarantee. To distinguish primary and collateral securities, the 'Primary security' defines as the assets created out of credit facility so extended and / or which are directly associated with the project, or business, for which credit facility is extended. This definition was not in sync with the international banking practice. Internationally, an asset which is acquired by utilizing the bank finance is treated as the 'primary security' for the lender and any other additional security offered whether belonging to the borrower, or to a third party, is treated as 'secondary or supplementary collateral'. Since the small borrowers venturing in business with innovations do not defend to offer the assets belonging to the unit as additional security to banks, thus present covenant of primary security for the purpose has been continued to secure loan to MSEs by primary collateral as well as secondary collateral which belong to the unit and are directly connected to the business activity of the unit.

Despite the fact that CGTMSE is a unique initiative, the credit flow to the sector is not found to be adequate. Though different estimates give different picture on credit gap, they are indicative of the huge credit gap in the MSE Sector which is adversely affecting the growth of the sector. The gap is normally met through informal channels, which are often at higher cost than the institutional finance. In order to reduce the SME credit gap, some of the important proposals are under consideration with policy makers & MSME Ministry, GOI as recommended by the "Working Group on MSMEs Growth for 12th Five Year Plan (2012-2017)" to boost the credit to SME sector, which includes –

a) Scheduled Commercial Banks (SCBs) to maintain minimum 22% in their outstanding credit growth to MSME sector during the first two years of the 12th Five Year Plan (i.e. FY 2012-13 and FY 2013-14)

b) Minimum 25% during the remaining three years of the 12th Five Year Plan (i.e. FY 2014-15, FY 2015-16 and FY 2016-17).

c) Banks should achieve 10% increase in new micro enterprises borrowers on yearly basis.

d) Banks to add at least 12 new MSMEs in their semi-urban and urban branches.

e) Guarantee coverage under CGTMSE may be increased to at least 10 times the corpus during 12th Five Year Plan. And it is expected to make available Rs 180,000 crore of credit guarantees to MSEs by the end of 12th Plan.

f) Develop the capacity of the MSE loan officers by the banks to provide various advisory services like technology up gradation, consortium-led marketing etc. to the SMEs.

As mentioned in the paper that significant progress has been made in credit flow to the sector because compound annual growth rate (CAGR) in outstanding credit of PSBs in March 2013 over the base of March 2008 was 25.92% & 13.45% in terms of amount and accounts respectively. The further analysis of the published data reveals that retail trade was not part of MSEs in year 2008 which was included in service sector in year 2010 and CAGR over base year ended 31.03.2010 in year ended 31.03.2013 was merely 20.08% in amount outstanding and 1.10% in number of accounts. .Thus credit flow to the sector is not considered

DESPITE THE FACT THAT CGTMSE IS A UNIQUE INITIATIVE, THE CREDIT FLOW TO THE SECTOR IS NOT FOUND TO BE ADEQUATE. THOUGH DIFFERENT ESTIMATES GIVE DIFFERENT PICTURE ON CREDIT GAP, THEY ARE INDICATIVE OF THE HUGE CREDIT GAP IN THE MSE SECTOR WHICH IS ADVERSELY AFFECTING THE GROWTH OF THE SECTOR

adequate in light of the projected growth mentioned above for the 12th Five Year Plan projections despite a unique support of credit guarantee to the sector under CGTMSE scheme. Therefore, the present study is undertaken to examine reasons of not registering expected growth and to suggest measures for improving credit flow for competitive enhancement of the small sector in economy.

Table -1: Factors affecting performance under CGTMSE

Feedback from Bankers	Responses		% to Total
	Total Response	Agree to feedback	
Guarantee levy under the scheme is high & burden on borrowers	27	24	88.89
Lenders loss control over MSEs if loan is collateral free	14	12	85.71
Lack of knowledge at Bank Branches	19	16	84.21
Guarantee cover/amount is very less	11	8	72.73

Table -2: Lending to Micro Enterprises in MSEs -Impediments

Impressions of the Bankers	Responses		% to Total
	Total Response	Agree to impression	
Low ticket size advances – High transaction & follow up cost	13	12	92.31
Poor accounting and books keeping	20	18	90.00
Promoters' failure to bring own contribution	23	20	86.96
Delinquency rate is high in Micro Enterprises	12	10	83.33
No or Low credit rating of borrowers	4	1	25.00

Findings of the study

Following observations have been derived from the empirical evidences of the study –

1. Impacting Factors for Finance under CGS

Bankers dealing with marketing and processing of loan applications of small borrowers at their processing centers across the country were interviewed to gather their impression on performance under CGTMSE scheme. The results of their feedback are tabulated in **table-1**.

- Small businesses feel that interest charged by banks is already very high and coverage of the loan under CGTMSE scheme further increases the borrowing cost and make them uncompetitive in the market. Twenty four (24) out of 27 RPC executives constituting 89% observed that borrower are not willing to avail credit under the scheme because of the reason that service fees levied for the guarantee cover increases their cost of borrowings.
- 85.71 % of the respondents expressed their view that branches loss their control over borrowings units which are financed without any collateral and third party guarantee, thus lenders insist to borrower for collateral to have adequate control on borrowers.
- 84.21 % of total executives responded to the questionnaire found that lack of knowledge at branch level causing a problem of canvassing account under collateral free loans.
- Bankers also found of the mindset that coverage of guarantee under the scheme is very less and major portion of the credit remains unhedged, therefore, performance under present scheme observed to be poor 72.73% respondents.

Impediments in Financing to Micro Enterprises

Around 99% of micro & small enterprises are from micro categories and separate lending targets have been fixed by the government for the inclusive growth in the economy. However, performance of extending credit to the micro sector is not encouraging owing to various reasons shared by the bankers during the survey which are presented in **table -2.**

- Study reveals that the major reasons with highest among all impressions representing 92.31% bankers is low ticket size of the business that increases transaction cost to the bank branches and also follow up cost for recovering the dues.
- Inadequate and ineffective accounting and books of transactions is observed because of poor lending to the micro units as 18 out of 20 responses constituting 90% responses of the survey found to be of this opinion.
- 86.96% bankers feel that borrowers of this category fail to bring into the required margin in businesses that cause delinquency and also failure of projects.
- Bankers at processing center of the bank observed that delinquency rate is higher in case of micro units which are endorsed by 83.33% of total responses in the study thus this segment of business is high risky.

- It is observed in 25% responses that micro borrowers either do not have credit rating or if they have it is too low to consider their loan application

The above reasons have been observed as hindrances for expected growth in credit to micro enterprises by bankers in study sample.

Causes of Delinquency

Executives leading the RPCs of the bank were interviewed to ascertain contributing factors for default in repaying bank loans by micro enterprises which are tabulated in **table-3**

- Micro being tiny segment of the SME, observed poor in its product branding and marketing tie-up as reported by 95.24% respondents of the interview
- Under finance observed in 91.67% cases that forces borrowers to bridge their gap through private borrowings which get first priority to repay by the enterprises.
- Diversion and siphoning off funds also found to be in 91.30% cases causing the failure of the units and default in repaying the loans
- Other major reasons reported for default in micro accounts include poor technology innovation & cost efficiency (89.47%), delay in realization of receivables from big corporate (88.89%) & lack of professionalism in micro borrowers (87.50%).

Table – 3: Causes of default in loans repayment

Factors responsible for delinquency	Responses		% to Total
	Total Response	Concurrence to response	
Inadequate product branding & marketing tie up	21	20	95.24
Under finance by bank leads to private borrowings	12	11	91.67
Diverting/ siphoning off funds	23	21	91.30
Low technology innovation & cost efficiency	19	17	89.47
Delay in receiving payment from big corporate	18	16	88.89
Lack of professionalism	16	14	87.50

Table -4: Personal Guarantee – Primary or Collateral

Situational analysis – 3rd party guarantee	Awareness Level		% to Total
	Total Response	Yes	
Proprietor personal guarantee is collateral	4	1	25.00
Partners personal guarantee is collateral	4	1	25.00
Directors' personal guarantee is collateral	22	20	90.91
None of the above is collateral / 3rd party Guarantee	33	32	96.97

Table – 5: Measures to improve performance under CGTMSE

Measures	Response to Measures		% to Total
	Total	Agree	
Awareness campaign for the borrowers and also for bank staff	27	27	100.00
Waiver of service fees from the borrower & Tax incentives to the Bank for such cost born by them on behalf of the borrower	25	22	88.00
Increase in Guarantee Cover & Guarantee Limit	18	15	83.33
Introduction of Annual Chairman Trophy for the top three Branch/SMELF/Region/ Zone	9	6	66.67

Promoters guarantee – Primary Security

There is common confusion on the subject whether obtaining personal guarantee of proprietor, partners, directors, trustee etc. to mitigate default risk would constitute to be 3rd party guarantee for the purpose of coverage under CGTMSE scheme. Feedback on its awareness was also gathered in survey and result collected from the study is presented in **table-4.**

Owning the business enhances the entrepreneurship leading qualities of the promoters. From banker's perspective personal guarantee of the promoters ensures total engagement of the promoters into the business, thus personal guarantee of proprietor, partners, directors, trustees in case of proprietary firm, partnership, company and trust accounts are obtained to mitigate default risk. However, there is common confusion among bankers that personal guarantee of directors in company accounts is treated as collateral and makes credit facilities ineligible to cover under CGTMSE which is evident from the responses that 90.91% respondents found of the same opinion against the fact that promoters guarantee is considered to be primary security and hence such account are also to be covered under CGTMSE scheme.

Measures for Better Performance

The respondents were also requested to share their opinion for improving the performance of credit to micro & small enterprises in general and CGTMSE in particular. Responses collected from bankers are shown in **table -5** reveals that –

- All 100% executives leading RPCs of the bank have unanimously agreed that awareness campaign to be organized for both bankers and borrowers about the lending scheme for MSEs
- Eighty eight (88%) percent respondents have suggested to waive service fee for the borrower in light of rationalizing their borrowing cost and tax incentive to be provided for bank, if the same is born on behalf of the MSEs.
- Necessity of reviewing guarantee cover and limit is felt because 50% ceiling of guarantee for loan over Rs.50 lacs observed to be on lower side.
- A scheme to incentivize the operating units such as branches, Regions, Zones can be felicitated with a "Chairman Trophy" for top winners who performed exceedingly well in the area which is supported by 66.67% responses.

Ways for competitive enhancement

With modern technology & an instant connect with global trends, what MSMEs need most is credit support and handholding by bigger players in the sector. Suggestions emerged on the basis of empirical observations from the survey discussed in the paper are being presented for the uses of bankers to facilitate in enhancement of competitiveness of small enterprises.

01. Bankers Entrepreneurs Learning & Training (BELT) – Growth Driver

Small businesses in Indian economy considered to be growth driver for its equitable & sustainable growth. Study exhibits that banks support is not available to the expected level for this category of economy despite that MSEs are the feeder line to corporate sector. Lace of knowledge about various initiatives including CGS launched by the government to enhance accessibility of small enterprises to banks found responsible. It is suggested by 100% respondents in survey that awareness campaign should be conducted by banks management for disseminating knowledge of the scheme for both bankers & entrepreneurs across the country. It will help to surplus scarce capital of banks owing to zero risk weight of the credit exposure under CGTMSE scheme, quick realization of guarantee claims as compared to years' time taken for loan recovery by disposing of collateral properties. It will also facilitate entrepreneurs to link them from formal channeling of funding which economize their borrowing cost. It is thus recommended that –

a) Banks to allocate due share say 10% in total trainings for MSEs

b) Specific share of training say 5% in total programs of the training calendar to be kept for MSEs awareness particularly collateral free lending for supporting competitive enhancement

c) Officials placed in credit department of bank branches should qualify preliminary knowledge test of the scheme before their posting in the department

d) Training to MSEs including skill development programs by the banks for them should be considered a part of budget allocated under CSR under new Companies Act 2013.

02. Credit Reservation Policy for MSEs

Attitude & perception being the determinants in lending business, banks need to be mandated for granting credit to MSEs in terms of number of accounts and amount both. Banks have been allocated targets to ensure 60% share of micro units in total advances to MSE sector but banks are not mandated for adequate share of MSEs in total advances like 18% of total credit to agriculture credit and also collateral free lending under total MSEs. It is therefore, suggested to –

a) Introduce mandatory lending under collateral free scheme in total outstanding loan to MSEs say 25% of MSEs

b) Share of MSEs in total outstanding should be allocated say 20% of total credit to MSEs

03. Credit Guarantee Scheme – Review Levy & Claim Norms

Trust (CGTMSE) levies service fee as consideration for extending credit guarantee to eligible MSEs which at present ranges from 0.75% to 1.00% of loan amount based on the location of unit, ownership of establishment and loan quantum. The guarantee cover ranges from 50% to 85% of the loan amount on the criteria specified in the scheme. It is common feeling of the bankers that guarantee cover is on lower side except 85% cover for micro units up to loan of Rs.5.00 lacs that need to be reviewed by policy makers as requirement of loan for MSEs in today's context would be much higher to upgrade technology, bring innovations, product branding and marketing for building their capacity. In light of the observations of the study, it is recommended that –

a) Guarantee cover limit should be increased from present cap of Rs.100 lacs to Rs150 lacs

b) Claim amount should also be enhanced from 50% over loan limit of Rs.100 lacs and cap of Rs.50 lacs need to lift out.

c) Guarantee service fee should be rationalized as it increases the borrowing cost of entrepreneurs. Renewal fee for guarantee cover should be on outstanding amount in case of term loan and if banks bear the cost, the tax obligations of the bank should be reduced to the extent of amount of guarantee services paid.

04. Performance Reward Policy – Fear Psychosis

Rewarding the efforts is considered to be an organization culture in management science which encourages its people to proactively accept challenging tasks and create their path to achieve the ambitious business goals. It is therefore, suggested that banks should introduce incentive scheme which may be in cash and kind as deemed fit by the management. Union ministry of MSME has such reward schemes for entrepreneurs and top performing banks who contribute in the growth of SME sector. Banks' Board should thus implement a suitable reward policy which may include-

a) A concept of "Chairman Trophy" for top performing three processing centers / branches in Region, three Regions in Zone & three Zones in the Bank.

b) Annual Performance Appraisal Report (APAR) should have a provision to incentivize those officers who have generated adequate leads from MSEs to link them with banking channel for not only inclusive & equitable growth but also to build their capacity for competing in global market.

c) Performance of individual officers may be recognized by giving them preference in training to learn from the experience of SMEs in emerging market economies (EMEs) of the world, cash incentive, overseas posting, choice transfer & posting, promotion etc.

This will not only help to overcome from fear psychosis of individuals to work in advance department but this would be driving force to find an opportunity of working in credit department.

05. Technology Innovation

Technology has changed the style of doing business and living the life. Innovation is neither synonymous nor substitute of technology but it is forecasting future taste & demand of users adopt the change to lead. Technology backwardness is major problem before SMEs because they are doing business with traditional approach comparatively less techno innovation with no succession planning which are either closed or divided on death or disputes among key members of family. So, technology up gradation and innovation are essential to make SMEs an on-going concern. But the promoters do not have adequate funds for technology up gradation. It is therefore, suggested that –

a) A loan for capex investment in technology up gradation and innovation of SMEs should be mandatorily considered; otherwise it may lead to diversion of funds from working capital to capital expenditure or increase private borrowings.

b) The loan for technology up gradation may be subsidized from government fund by way of capital subsidy or interest subvention etc. This finance may be called 'Capacity Building or Mezzanine Finance' to SMEs.

c) The disbursement of sanctioned loan limit reserved for competitive enhancement should be strictly based on a detailed implementation plan submitted by promoters for their business.

06. Governance – Building Credit Culture

Small businesses observed to be poor in keeping their books of account which is found to be major hindrance in financing their business by banks. It is also felt that MSEs either do not have credit rating or their rating is below the qualifying grade acceptable to the banks. The reasons of poor book keeping and credit rating informed to be lack of knowledge of recording & keeping their accounts, tax evasion, withdrawing funds from business instead plough back to build capital base, private borrowings from money lenders or private lenders at high cost, poor credit score in CIBIL etc.

It is also reported that banks do not share the causes of not delaying & declining credit request. In a high level summit on aerospace & defense held in Delhi, an IIT Madras post graduate, former HAL Engineer who is now an entrepreneur said – " In my 8 years, I have not got a single loan from State Bank of India. My track record for 35 years does not have a single negative balance sheet. I don't know on what basis my loan application is rejected – Business Line (24.11.2014)". Small entrepreneurs are therefore, required to be sensitized in the subject for making their financial strong to improve their credit rating for accessibility to banks. The measures suggested in this regard may include –

a) Awareness program to be con-

ducted to cover all small businessmen on various ways of building credit history with credit information companies like CIBIL or any other credit bureaus registered with RBI.
b) Skill development programs on maintaining books of accounts and building capital. Awareness of effective accounting system and high capital base should be shared with entrepreneurs that factors credit rating of the business
c) Bankers should mandatorily share the rating core with MSMEs highlighting the areas of improvement along with doctoral prescription for improving score.

Credit rating considered to be determinant of taking credit decisions by banks. The Industry associations of SMEs should take lead for arranging such programs in association of bankers to benefit their member businesses. Credit rating should also be shared in transparently by banks counseling the beneficiaries to improve their performance on the area where they could not score well. It is also to be educated that 800 out of 900 trans union scores of CIBIL is treated to be very good score by lenders to grant a long therefore, credit score need to be improved by SMEs to enhance their accessibility to banking channel.

07. Product Branding & Marketing – Policy Support

Products development by small entrepreneurs at their own is a difficult task owing to lack of product brand and packaging quality. Huge amount of expenses are to be incurred towards market making movement and such type of expenses are of capital nature which should be amortized in due course of time. It is felt that costs involved in marketing like appointment of marketing personnel, advertisement of products on print & electronic media, expanding network through agents or representative at up-country centers etc.; but expenses on these items are not considered by bankers while appraising loan application. It is therefore, recommended that –
a) Investment for market development activities illustrated herein the paper should be considered permissible cost of project for finance at par with capex in plant & machinery otherwise in absence of the same the assessment of loan limit would be incomplete.
b) A scheme of clean overdraft for marketing development may be worked out as ratio of working capital limit say 15% of such limit, as clean cash credit or overdraft limit for innovation in product, marketing and technology up gradation by small businesses to encourage them for innovations in their business and compete in global market.
c) Government procuring policy regarding buying at least 20% of annual purchase from SMEs has put in place but not being adhered to in its letter and spirit by big giants. Since MSEs do not have expertise / skills for approaching to the large corporate thus District Industry Center (DIC) or Directors, MSME establishments at regional level should own responsibility of providing details of products of these MSEs to the Government / PSU buyers reinforcing mandatory guidelines and also verifying their compliance from time to time.
d) Also Banks should mark lien in total working capital limit as sub-limit reserved for purchasing from SMEs while sanctioning credit facilities to large corporate.
e) Various forums like BLBC/ DLRC/SLBC should have standing agenda in these meetings to take stock of implementing the above suggested measures.

Market development initiatives would give direct access of SMEs to end-users of their products at price with adequate margin rather selling the products to large corporate at lower price and blocking funds for longer period.

Sum - up

Some of the interesting finding has been unveiled from the study such as there is wide gap of knowledge among bankers about the scheme of collateral free financing which require to be addressed through a campaign of awareness across the country. Financing alone will not help SMEs for competitive enhancement, banks should come forward in providing counseling to entrepreneurs on both finance & non-finance as their role of Coach or Counselor to MSEs which may include benefits of maintaining proper books of accounts, retaining profit into business instead evading of tax payment, benefits of rating the firm from SME rating agencies, usage of e-business in branding & disseminating production information to users, practicing financial discipline in dealing with banks to build their good credit history with credit information companies, and many more. Banks must invest in networking and mentoring of small units by creating separate cells to provide consultancy to teach them how to function and manage data such that their performance can be analyzed easily to expedite the loan sanctioning process. Author has made an attempt to offer some suggestions for bankers, entrepreneurs and policy makers based on the observations of the study in the paper to address the issues in financing to small businesses which are still not availing institutional credit for equitable development and inclusive growth of the economy and also to enhance competitiveness of the sector to succeed and lead in global market.

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NON-PERFORMING ASSETS IN INDIAN BANKS: ITS CAUSES, CONSEQUENCES & CURE

The NPA demon is eating away the Indian economy slowly and steadily as it is making the credit costly and scarce. Unless it is managed effectively & quickly, it will mar the financial inclusion as well as infrastructure development in the country

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PROSPERITY of any country depends upon its prosperous economy; which in turn relies upon its vibrant banking system. The vitality of the Indian banking system, particularly Public Sector Banks which control 70% of the banking business, is threatened by rising non-performing assets (NPAs). Nonperforming asset is defined as an asset which does not earn any income to the bank. The gross NPAs of the Indian Banks stood at Rs.2,04,249 Crores and GNPA percentage is 4.10% as on 31.03.2014. Besides NPAs, the stress assets (restructured standard advances) constitute about 5.9 percentage of the gross advances as on 31.03.2014. It is reported by some rating firms that NPAs in the banking system are set to increase in the range of Rs.60,000 crore to Rs. 1 lac crore in next five months. The Indian banking system may not sustain such huge NPA pile-up. The Economy Survey 2014 has observed that the deteriorating asset quality of the banking sector is a major concern. It is therefore important for all concerned to understand causes & consequences of rising NPA & accordingly to take curative measures urgently so as to manage NPA at a minimum level.

Causes of NPAs

The causative factors for rising NPAs in the banks are 3 'B's i.e. Business Environment, Borrower & Banker. These causes are elaborated as under.

a) Business Environment:

Business environment refers to economy, regulatory regime, legal system and political climate in which banks are operating. The causative factors attributing to business environment are as under:

i) Recession in the economy
ii) Sudden change in Global & Domestic markets

iii) Lack of conducive legal system for loan recovery i.e. inadequate legal provisions on foreclosure & bankruptcy laws and dilatory legal procedures in enforcing security rights
iv) Lack of cohesive regulatory framework
v) Political pronouncements like debt relief
vi) Socio-political pressures on commercial credit decisions
vii) Vitiated loan repayment culture
viii) Policy reversal i.e. changes in governmental policies, for example cancellation of Telecom & Coal mine licences in recent times.
ix) Natural Calamities
x) Scams

b) Borrower:
The causative factors attributing to borrowers are as under:
i) Improper choice of project/activity
ii) Adoption of obsolete technology
iii) Promoters/ Management disputes
iv) Inefficient management
v) Resource crunch
vi) Strained labour relation
vii) Diversion & siphoning of funds
viii) Wilful defaulter
ix) Fraudulent intention

c) Banker:
The causative factors attributing to bankers are as under:
i) Lack of credit skill
ii) Delay in credit decision & disbursement
iii) Credit decision taken under extraneous influences
iv) Lack of proper credit monitoring
v) Lack of effective NPA management

Consequences of Rising NPAs

Like any business, loan business of the banks is also subjected to business risk i.e. default risk. So it cannot be totally eliminated, but it should be managed within the threshold limit. But, rising NPAs have devastating effect on the economy. Its consequences are discussed briefly as under:
i) Profitability of the banks is hampered severely as the Banks do not earn any income from non-performing assets, rather they incur cost for their maintenance and have to provide for future losses. It is reported that total net profit of all Public Sector Banks including SBI fell sharply by 26.8 percent to Rs.37017 crore for the financial year ended March 2014 over the previous year. On NPA stock of Rs.2 lac crores as per various estimations, the Banking industry is incurring minimum loss of Rs. 20,000 crores annually besides making provision of Rs.1 lac crores. It also adversely affects on capital building of the banks.
ii) Due to non-realisation of NPAs the credit flow to needy persons/ sectors is held up.
iii) To compensate their interest loss in NPAs, to some extent banks are charging the good customers a higher rate of interest. Thus, the cost of credit i.e. interest rate goes up and consequently the high interest rate affects the viability of many running units.
iv) Because of rising NPAs, bankers are becoming averse to lending.

Curative Measures

For containing NPA at a manageable level, the following three curative measures have to be taken simultaneously:
a) Preventive Measures
b) Corrective Measures
c) Punitive Measures

a) Preventive Measures:
The preventive measures are those measures which prevent creation of nonperforming assets in banks.
i) Framing cohesive & conducive regulatory regime. For example, RBI should be more liberal in IRAC norms when the economy is on downturn; particularly for those sectors; which are severely affected due to economy slump & political scam; such as coal based industries, infrastructure, textile, aviation, etc.
ii) Improving loan repayment culture in the society by banning political loan waiver schemes & giving incentives for timely loan repayment
iii) Strengthening the legal provisions on foreclosure & bankruptcy
iv) Improving credit skills and credit monitoring tools & techniques of the bankers
v) Some borrowers are not putting or are withdrawing their capital/equity tactfully from the units/projects in connivance with various consultants/professionals such as Chartered Accountants, valuers, legal advisers, etc. There should be some legal mechanism for punishing those consultants who do not follow their legal ethics & values while submitting their reports to the bankers who rely on them for taking credit decision.
vi) Some borrowers open their current accounts with other banks outside the consortium & conduct their business transactions at the cost of the lending banks. Many current account opening banks are reluctant to close their accounts even after the matter brought to their knowledge by the lending bankers. Not routing transactions through the lending banks facilitates the loan accounts becoming NPA. Therefore, banks should be barred from opening the

current accounts of the borrowing companies/ firms/individuals without written consent of their existing lenders.

b) Corrective Measures:

Bankers should adopt the corrective measures proactively in credit management. They should effectively adopt 3 'R' measures i.e. Rectification, Restructuring & Recovery as advised by Reserve Bank of India.

For revitalizing distressed assets in the economy, Reserve Bank of India has come up guidelines on Joint Lenders' Forum (JLF) & Corrective Action Plan (CAP) for taking prompt action for early identification of distressed assets & taking corrective actions for regularising the accounts, revival of viable units and recovery/sale of unviable units on proper diagnosing the problems. These guidelines have been made applicable to only Special Mention Account-2 (SMA-2 accounts are those accounts where principal or interest payment is overdue between 61-90 days); which are reported to Central Repository of Information on Large Credits (CRILIC) by any of the lenders under Consortium and Multiple Banking Arrangements (MBA). These guidelines should also be extended to existing NPA accounts for taking prompt action for revival/ recovery by lenders jointly under consortium/MBA. For example, prior to above RBI guidelines, if any account under consortium/ multiple banking arrangement has already been declared NPA by any lender, but it is standard & not being reported as SMA-2 by any other lenders, then that particular lender is not able to take corrective measures for this distressed asset, as other lenders are not mandatorily compelled for such joint action.

BANKERS SHOULD ADOPT THE CORRECTIVE MEASURES PROACTIVELY IN CREDIT MANAGEMENT. THEY SHOULD EFFECTIVELY ADOPT THE 3 'R' MEASURES: RECTIFICATION, RESTRUCTURING AND RECOVERY

c) Punitive Measures

There should be strong penal measures so as to punish the non-cooperative borrowers and wilful defaulters who are primary responsible for creation of nonperforming assets in the economy. A few measures are suggested as under:

i) At the time of availing credit / restructuring /CDR some borrowers furnish undertakings for infusion of capital /providing additional collaterals, to which they do not adhere to later on; which makes the project unviable. Such acts of the borrowers should be considered as wilful act for declaring them as wilful defaulter.

ii) In case of wilful defaulters a criminal complaint should be filed & trial should be completed in a time bound manner. They should be barred from participating in election.

iii) DRT Act & SARFAESI Act are two punitive legal measures for recovery of bad debts. But due to the legal loopholes unscrupulous borrowers have made these weapons ineffective. For example as per the DRT laws cases before the DRT should be disposed off in 6 months whereas on an average it takes about 4 years to decide the case. During such long journey for justice, the charged assets on which the bankers can lay hand get deteriorated/ disposed off. Similarly recovery action under SARFAESI Act is becoming less effective due to interferences/ stays granted by various legal authorities, delay in getting physical possession, under developed e-auction market for stressed assets, etc.

The loopholes in the legal system should be plugged in at the earliest so as to recover huge bad debts locked in the legal entanglement.

Conclusion

The NPA demon is eating away the Indian economy slowly & steadily as it is making the credit costly & scarce. Unless it is managed effectively & quickly, it will mar the financial inclusion as well as infrastructure development in the country. India should learn from the fundamental lesson of banking stress in recent years across the globe. It is high time for all concerned to recognise this gigantic problem and reframe the regulatory measures, strengthen the legal system and create credit discipline & loan repayment culture so as to make the Indian banking system vibrant to sustain the economic development.

Note: The views expressed in this article are personal views of the author & not necessarily the views of the institution to which author belongs. MA

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NPA MANAGEMENT BY BANKS: INTERBANK DISPARITIES IN INDIA

The study finds that the GNGA of about 17 banks is above 0.05 and spread in such a manner that 50 to 90 percent of interest earned by these banks is likely to be eaten up by gross NPAs. Similarly, the average PGN of all banks is 0.68 which means if 68 percent of gross NPAs become loss assets, the entire profits by the banks will be eroded leading to bankruptcy

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GROWING incidence of non performing assets of banks in India has become the cause of concern for all quarters. As on 31.3.2013, amount of gross NPAs (Rs. 1931.94 billions) for all banks which was 41% higher compared to the previous year is about 2.06% of GDP. During the last twelve years, y-o-y growth rate and compound annual growth rate (CAGR) of gross NPAs were 11% and 9% respectively. Looking at these figures, it appears that policies of Reserve bank of India adopted from time to time on this issue have failed to produce the desired results. Whatever be the reasons for NPAs of the banks, the sine-qua-non of NPAs is that production of the borrowing units of the banks fails to maintain cost effectiveness and competitive efficiency. As a result, operating cash flows generated by these units become inadequate to service both interest and installment dues. Once these dues are for a period of more than 90 days, they become NPAs in accordance with the income recognition norms of Reserve bank of India[1]. Besides having adverse impact on the profitability and efficiency level of the banks, NPAs when converted into loss assets create unemployment and idle capital assets. Unlike developed country's economy which has the resilience to absorb the economic imbalance brought about by the loss of capital assets, our country can not absorb adverse repercussion of NPAs on its economy. With this

1 For details, one may refer to RBI Master Circular UBD.PCB. MC. No. 3 / 09.14.000 / 2009-10 dated July 1, 2009

background, many studies have been made on NPAs. None of them, it appears, have carried out any empirical analysis to assess the performance of various banks in India in terms of a set of indicators related to NPAs. In this paper, we made an attempt to do that with the main objective of finding out which of the banks performed well and which of them did not in terms of these indicators.

The paper has been structured as follows. The outcome of literature review, database and methodology have been discussed in section 1. Section 2 presents the results of analysis of data based on statistical tools, namely, divergence and convergence, rank and scatter plot analyses. In this section, we made an attempt to show the interbank disparities in regard to their performance. In section 3, we clustered different banks into two major groups, namely, good performing and bad performing. In section 4, we conclude.

Section 1
Review of Literature

Initial studies on NPAs focused on incidence of NPAs and its management in India (Confederation of Indian Industry, 1999; Kumar R, 2000). A panel regression confined to 27 public sector banks for five years period was performed by Rajaraman Indira and Vasistha G (2002) to investigate variations within a class that is homogeneous with respect to ownership. Some studies examined internal and external factors responsible for growth of NPAs (Chaudhuri, S., 2002; Gupta S. and Kumar S., 2004; Ghosh, 2005). Adverse impact of NPAs on the profitability of banks was examined by Das and Ghosh (2006) and Vallabh et al., (2007). A comparative study on the level of NPAs of banks in India with NPAs of banks of rest of the world was made by Nitsure (2007) and Reddy (2002). Trends of the amount of advances and the percentage of NPAs for different bank groups were studied by Malyadri P and Sirisha S (2011). Relationship between the amount of NPAs and return on assets of banks was examined by Rajput Namita (2012). Another paper studied trends in NPAs in terms of different NPA ratios for State Bank of India, Punjab National bank and Central Bank of India (Samir and Kamra D, 2013). A recent study has shown a steady improvement in the asset quality of banks after the introduction of prudential norms (Pandey J Shruti et al., 2013). Relative financial performance of ten selected commercial banks from 1998-1999 to 2012-2013 by using CAMEL approach was also studied recently (Ghosh and Rakshit, 2014). No empirical analyses have, however, been made on classifying the banks into good performing and bad performing on the basis of NPA based indicators.

Data used and methodology adopted in the study

For taking up the unaddressed issue and research gap, we relied on primary data collected from annual reports of selected banks and on secondary data collected from various issues of Reserve Bank of India's Bulletin, RBI website and RBI's Report on Trend and Progress of Banking in India. We collected data for thirty four banks which include six banks under state bank group, nineteen nationalised banks, seven private sector banks and two foreign banks. The study covers the period from 2001 to 2013. Rationale is to evaluate performance of these banks for almost a decade during the current phase of implementation of second generation economic reforms. We consider two ratios corresponding to NPAs, namely, gross NPAs to gross advances (GNGA) and profit to gross NPAs (PGN). GNGA reflects the proportion of bad loans to total loans of a bank. Probability of either recovery or generating any income from bad loans being less, more will be the ratio, more will be the chance of getting bank's net worth eroded. It also indicates share of interest earned from advances eaten up by NPAs[2]. The second ratio reflects the credit risk level of banks due to presence of NPAs. For example, if the ratio is 0.60, it means when 60 percent of NPAs become loss assets, entire profit will be eroded. Less is the ratio, more is the probability of the bank becoming bankrupt. We have not considered for our empirical analyses gross and net NPAs to total assets ratios for two reasons. First, in India, loans and advances of banks being only 60 percent of their total assets, NPAs constitute a very small proportion of total assets. Considering only the NPAs to total assets ratio may thus underestimate the problem. Second, one can find out from GNGA the extent of total assets of a bank eroded by gross NPAs[3]. Besides, actual picture of bad loans is correctly captured by gross NPAs and not by net NPAs. For our empirical analyses, we presume that these two ratios are equally important and would give equal useful signals about bank's efficiency in managing NPAs. Moreover, study being based on thirteen year's data, fluctuation in weightage is likely to get set off. Aim of the paper is to analyse the performance of thirty four banks in terms of these two ratios and which of them are 'good performing' and which of them are 'bad performing'. We would now address these issues by utilizing various statistical tools, namely convergence-divergence, rank, scatter plot and cluster analyses.

Section 2: Performance of Banks: The Findings

Growth and Dispersion: A Technical Analysis

We checked in the first place whether there exists some sort of homogeneity or heterogeneity in performance of thirty four banks with respect to two NPA ratios considered for our analyses by using the concept of sigma convergence and beta convergence. We calculated CVs of two ratios across thirty four banks for the year 2001. This exercise is then carried out for the period 2001 through 2013. The result shows (Table 1) negative slope of the trend indicating sigma convergence in terms of both the indicators. The flipside is that the estimated coefficient is not statistically robust as level of significance and adjusted R2 is poor. It might be due to linear specification of the model. The decreasing trend in CV over time is, however, quite distinct for most of the years.

The pace of convergence is higher in terms of CV of PGN which also shows a better fit model than the previous one. But none of the results have shown strong evidence in favour of convergence. In order to have a deeper insight, we test for beta-convergence amongst thirty four banks. We constructed first a log linear line of best fit which gives thirty four different growth rates. A regression was then performed with the first five year's average value of GNGA as the independent variable and estimated log linear growth rates as the dependent variable. The same exercise is then performed for PGN. We have not considered any single initial value as the benchmark of the indicator because it may fail to capture the actual initial performance of the banks. The summary results (Table 2) indicate that there is a weak tendency of beta convergence in thirty four banks with respect to GNGA. As the absolute value of beta is low, the model indicates a slow pace of convergence in growth rates of NPAs in these banks. On the other hand, PGN provides strong and significant evidence in support of beta convergence of banks. The pace of convergence (beta value) is high and significant at one percent level. The relatively low values of R2 suggest that there may be other important factors that need to be taken into account in explaining the behaviour of credit risk level of the banks.

The converging trend of banks over the periods indicates an improvement in their level of performance. Mean value of GNGA decreased from 0.11 to 0.03. On the other hand, mean value of PGN increased from 0.27 to 0.73. Outcome of analyses, however, indicates that banks are heterogeneous with respect to their performance though there is no robust support for this argument. With the objective of finding out which of the banks have performed well and which have not, we carried out rank analysis, scatter plot analysis and cluster analysis (k-means method) using SPSS package.

Rank analysis

Ranks of individual banks in terms of these two ratios and CV of these ratios were found out separately. The best was assigned rank one and worst was assigned thirty four. Results are shown in **Table 3.** GNGA for fifty percent of banks under study is above the average value of all banks (0.05). Fifty to ninety percent of interest earned by these banks is likely to be eaten up by Gross NPAs. Average PGN of all banks is 0.68 which means if

Table 1: Summary Results of σ Convergence Analysis with GNGA and PGN

Independent: T (Time); Dependent : CV

	Rsq	d.f	F	Sigf	ß
GNGA	0.12	11	1.51	0.24	-0.35
PGN	0.32	11	5.12	0.04	-0.56

Table 2: Summary Results of ß Convergence for GNGA and PGN

Independent: First Five Year's Average Value

	Rsq	d.f	F	Sigf	ß
GNGA	0.08	32	2.75	0.11	-0.28
PGN	0.35	32	17.1	0.0002	-0.59

2 Since interest earned is about ten percent of gross advances, if gross NPAs to gross advances is five percent, one can say that 50 percent of interest earned has been eaten up by NPAs.
3 For example, if gross NPAs to gross advances ratio is 0.05, gross NPAs has eroded 3% of total assets as gross advances constitute 60% of total assets.

68 percent of gross NPAs become loss assets, entire profit earned by banks will be eroded leading to bankruptcy. There are banks like HDFC bank, Kotak Mahindra bank, ING Vysya bank, Corporation bank and Andhra bank which have performed well with respect to GNGA. On the other hand, gross NPAs of Dena bank, Punjab & Sind bank, Central bank of India, United bank of India, Karnataka bank and Allahabad bank have eroded about 4.5 to 5 percent of total assets. The same trend is observed with respect to PGN. Only exception is IDBI bank Ltd. which has managed its NPAs well, but has failed to generate profit presumably due to unremunerative advance portfolios. The worst performing banks with respect to both the ratios are Central bank of India, Dena bank, State bank of India, United bank of India and Karnataka bank. In case of Central bank of India, if 19 percent of gross NPAs are converted into loss assets, the bank is likely to become bankrupt. Same is the situation with UCO bank, Bank of Maharashtra, Karnataka bank and State bank of India. There are three banks, namely, Allahabad bank, Indian bank and Punjab & Sind bank which have performed well with respect to PGN but their ranks with respect to GNGA are bad. These banks may have failed to follow prudential norms for granting advances but have managed the position of the level of credit risk. This may be due to their diversified sources of income and higher average earning assets which have improved their net profit margin.

Consistency in Performance: Scatter Plot Analysis

We constructed scatter plot with

Table 3: Ranks as per Two Ratios of 34 Banks

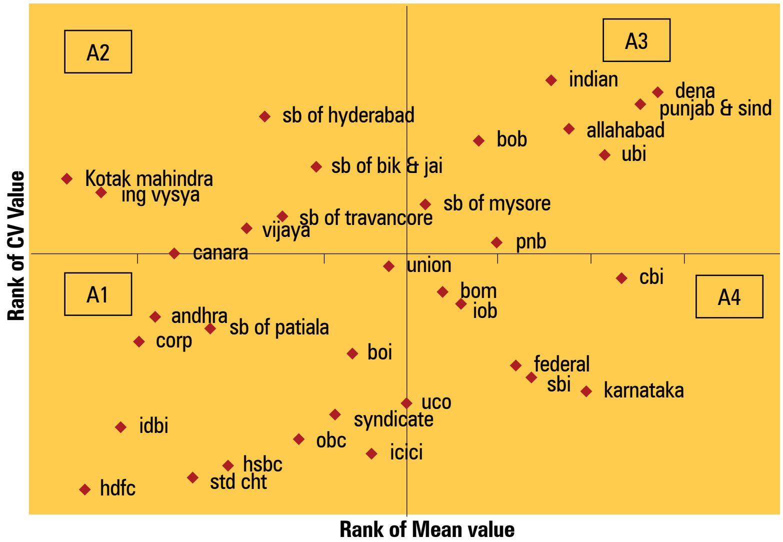
Bank Name	GNGA		PGN	
	Rank of Mean of Ratio	Rank of CV	Rank of Mean of Ratio	Rank of CV
State Bank of India	27	25	30	30
State Bank of Bikaner & Jaipur	15	8	17	29
State Bank of Hyderabad	12	4	10	15
State Bank of Mysore	21	11	20	14
State Bank of Patiala	9	21	13	31
State Bank of Travancore	13	12	19	9
Allahabad Bank	29	5	15	13
Andhra Bank	6	20	7	21
Bank of Baroda	24	6	12	5
Bank of India	17	23	23	7
Bank of Maharashtra	22	18	31	19
Canara Bank	7	15	11	22
Central Bank of India	32	17	34	6
Corporation Bank	5	22	8	25
Dena Bank	34	2	29	4
Indian Bank	28	1	6	3
IDBI Bank	4	29	22	34
Indian Overseas Bank	23	19	26	8
Oriental Bank of Commerce	14	30	21	26
Punjab & Sind Bank	33	3	9	1
Punjab National Bank	25	14	16	12
Syndicate Bank	16	28	27	32
Uco Bank	20	27	33	16
Union Bank	19	16	25	17
United Bank of India	31	7	32	24
Vijaya Bank	11	13	18	20
HDFC Bank	2	34	1	33
Kotak Mahindra Bank	1	9	2	10
ICICI Bank	18	31	14	23
Federal Bank	26	24	24	18
ING Vysya Bank	3	10	3	2
Karnataka Bank	30	26	28	27
HSBC	10	32	5	11
Standard Chartered	8	33	4	28

Source: www.rbi.org.in

average rank score for both the ratios on the horizontal axis and rank in terms of the measure of volatility (i.e. CV) on the vertical axis. The idea was to analyse performance of any bank simultaneously in terms of a score on individual value of a ratio and the associated dispersion of the concerned ratio. The results are given in **Figure 1, Figure 2 and Table 4**.

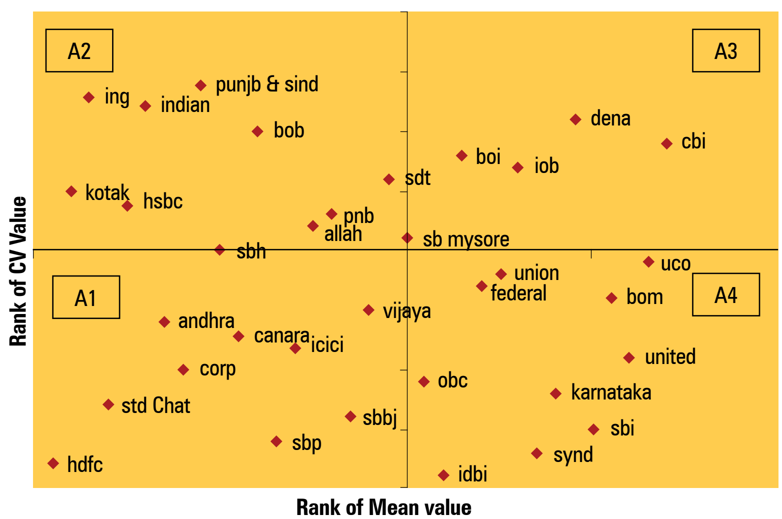
The banks placed in A1 quadrant with reference to both the indicators are consistently good performer (low value of rank with respect to mean and low value of rank with respect to CV). Banks placed in A2 are inconsistently good performer (low value of rank with respect to mean and high value of rank with respect to CV). Banks placed in A3 are inconsistently bad performer (high value of rank with respect to mean and high value of rank with respect to CV). Banks placed in A4 are consistently bad performer (high value of rank with respect to mean and low value of rank with respect to CV). From the summary results of scatter plot (Table 4), we obtained two important findings. First, behaviour of the banks is heterogeneous with respect to the two indicators. This strengthens our observations derived from the results of convergence analyses. Second, there is a likelihood that banks may be segregated into two broad categories, namely, good performing and bad performing. Validity of such observations can be strengthened only from the results of cluster analysis.

Figure 1: Scatter Plot of Ranks in Terms of Ranks of GNGA and its CV



Source: Table 3

Figure 2: Scatter Plot of Ranks in Terms of PGN and its CV



Source: Table 3

Section 3: Cluster Analysis

We performed cluster analysis with one of the non-hierarchical clustering techniques, namely, K-means method using SPSS package. Average of each of two ratios over thirteen years were calculated for each of the banks as variables for clustering the banks. The outcome of analysis (Table 5) shows that ten banks, namely, SBI, Allahabad, BOB, CBI, Dena, Punjab & Sind, PNB, UBI, Federal and Karnataka banks are in cluster 1 with reference to both the

Table 4: Summary Results of Scatter Plot

	A1	A2	A3	A4
GNGA	HDFC, IDBI, Std Chat, HSBC, OBC, Syndicate, Corp, Andhra, SB of Patiala, Canara, BOI, ICICI, Union	Kotak, ING, Vijaya, SB of Trav, SB of Bikaner, SB of Hyderabad	PNB, SB of Mysore, BOB, Allahabad, United, Indian, Punjab & Sind, Dena	BOM, IOB, Uco, Federal, SBI, Karnataka, Central
PGN	HDFC, Std Chat, Corp, Andhra, SB of Patiala, SB of Bikaner, Canara, ICICI, SB of Hyderabad, Vijaya	ING, Indian, Punjab & Sind, BOB, Kotak, HSBC, Allahabad, PNB, SB of Travancore	SB of Mysore, BOI, IOB, Dena, Central	OBC, IDBI, Synd, Karnataka, United, BOM, Uco, Fed, Union, SBI

Table 5: Summary Results of Cluster Analysis (Two Clusters) With Respect to GNGA and PGN

Ratio	Cluster 1 (Bad Performer)	Value of Centroid of Cluster 1	Cluster 2 (Good Performer)	Value of Centroid of Cluster 2	Value of Centroid of all 34 Banks
GNGA	SBI, Allahabad, BOB, CBI, Dena, Indian, Punjab & Sind, PNB, UBI, Federal, Karnataka	0.07	SBBJ, SBH, SBM, SBP, SBT, Andhra, BOI, BOM, Canara, Corporation, IDBI, IOB, OBC, Syndicate, Uco, Union, Vijaya, Hdfc, Kotak Mahindra, ICICI, ING Vysya, HSBC, Std Chat	0.04	0.05
PGN	SBI, SBBJ, SBH, SBM, SBP, SBT, Allahabad, BOB, BOI, BOM, Canara, CBI, Dena, IDBI, IOB, OBC, Punjab & Sind, PNB, Syndicate, Uco, Union, UBI, Vijaya, ICICI, Federal, Karnataka	0.47	Andhra, Corporation, Indian, HDFC, Kotak Mahindra, ING Vysya, HSBC, Std Chat	1.36	0.68

ratios. Seven banks, namely, Andhra, Corporation, HDFC, Kotak Mahindra, ING Vysya, HSBC and Standard Chartered banks are in cluster 2. In cluster 2, there are three banks, namely, HDFC, Kotak Mahindra and ING Vysya bank whose value of centroid are at a higher distance compared to the value of centroid of all banks in cluster 2. We identify them as 'good performing' banks. In cluster 1, there are three banks, namely, Central bank of India, Dena bank and United bank of India whose value of centroid is at a higher distance compared to value of centroid of all banks in cluster 1. These must be the worst of the cluster of bad performing banks and may be identified as 'bad performing' banks.

Section 4: Conclusion

The core issue of this paper is to empirically analyse performance of 34 banks (6 banks under state bank group, 19 nationalised banks, 7 private sector banks and 2 foreign banks) in managing their NPAs. Two broadly accepted ratios, namely gross NPAs to gross advances (GNGA) and profit to gross NPAs (PGN) have been considered for study. Using statistical tools, namely, σ and β convergence, rank, scatter plot and cluster analyses, it is observed that average GNGA of all banks is 0.05. GNGA of about 17 banks is above 0.05 and spread in such a manner that fifty to ninety percent of interest earned by these 17 banks is likely to be eaten up by gross NPAs. Similarly, average PGN of all banks is 0.68 which means if 68 percent of gross NPAs become loss assets, entire profit earned by bank will be eroded leading to bankruptcy while private sector and foreign banks have managed their NPAs well compared to SBI group and nationalised banks, it may be due to their less exposure in term and stock based working capital lendings. Amongst 34 banks, HDFC, Kotak Mahindra and ING Vysya bank are 'good performing' and Central Bank of India, Dena Bank and United Bank of India are 'bad performing' banks with respect to management of NPAs. Our study is, however, limited to classifying the banks in two groups. The study can be further extended to find out which other ratios at disaggregate level may be responsible for good and bad management of NPAs by banks[4] .

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AN OVERVIEW OF NON-PERFORMING ASSETS MANAGEMENT AND BANKING PERFORMANCE – AN EMPIRICAL ANALYSIS

To action alone has thou a right and never at all to its fruits Let not the fruits of action be thy motives;Neither there be in thee any attachment inaction; Shri Bhagavat Gita (Chapter 2 verse 47)

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WITH the advent of economic reforms on 24th July, 1991, the Indian financial and banking system has undergone a significant conversion and transformation following the traditional financial sector reforms in 1980. Time adopting economic reforms (1991) tries to converge and adopt international best practices with an omnipotent objective of improving internal health of financial institutions, vision to crack down the swelling non-productive assets and mission statement to strengthen the banking system. The Reserve Bank of India (1949) had issued practical guidelines and introduced several prudential and provisioning norms and these are pressurizing financial institutions to improve factor productivity, resource efficiency and trim down NPAs to improve the financial health in the banking system. In the background of these developments, this study strives to examine the state of affair of the Non-performing Assets (NPAs) of the nationalised banks in India with special reference to weaker sections. The study is based on the secondary data retrieved from Report on Trend and Progress of Banking in India and Annual Reports of RBI for 2008-2012, CMIE. The scope of the study is limited to the analysis of NPAs of the nationalised banks NPAs pertaining to only weaker sections for the period five (5) years i.e. from 2008-2012. It examines trend of NPAs in weaker sections in nationalised Banks. The data has been analyzed by statistical tools such as percentages and Compound Annual Growth Rate (CAGR). The study observed that the nationalised banks have achieved a greater penetration compared to the private sector banks vis-à-vis the weaker sections.

Definition: A classification used by financial institutions that refer to loans that are in jeopardy of default. Once the borrower has failed to make interest or principal payments for 90 days the loan is considered to be a non-performing asset.

Meaning of Non-Performing Assets (NPAs): Institutional Resources and As-

sets which generate periodical revenue and income are known as performing assets or productive assets. Alternatively, assets and resources which do not generate periodical income are called as non-performing assets or non-productive assets. An asset, including a leased asset, becomes non-performing when it ceases to generate income for the financial institutions and banks. The asset and resources of financial institutions which fails to meet the contractual obligations of payment of interest and repayment of principal within a specified date from due date is called non performing asset or non standard asset. A non-performing asset (NPA) is a loan or an advance where it is due or outstanding for the following six instances:

1. Overdue Interest: Interest amount and/ or instalment of principal amount remain overdue for a period of more than 90 days in respect of a term loan is characterised as non-performing assets or non-standard assets.

2. Overdraft or cash Credit: The account remains "out of order" for more than 90 days in respect of an Overdraft/Cash Credit (OD/CC).

3. Overdue Bills: The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.

4. Short Duration Crop: The instalment of principal amount or interest thereon remains overdue for two crop seasons for short duration crops.

5. Long Duration Crop: The instalment of principal or interest thereon remains overdue for one crop season for long duration crops.

6. Securitisation Liquidity: The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of guidelines on securitisation dated February 1, 2006.

7. Overdue of Derivatives: In respect of derivative transactions, the overdue receivables representing positive mark to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

Banks and financial institutions should have to divide the assets and resources in the form of NPA when the contractual obligations interest, related charges are due during for any quarter is not serviced fully within 90 days from the end of the quarter. Any amount due to the banks and lending institutions under any credit facility is "overdue" if it is not paid on the due date fixed by the lending institutions and banks is called non-performing asset.

Classification of non-performing assets

Gross non-performing assets(GNPAs)

Gross NPAs are the sum total of all loan assets and resources that are classified as NPAs as per RBI guidelines as on Balance Sheet date. Gross NPA is advance which is considered irrecoverable, for bank has made provisions, and which is still held in banks' books of account Gross NPA reflects the quality of the loans made by Banks. It consists of all the non-standard assets like as sub-standard, doubtful, and loss assets. It can be ascertained with the help of following formula:

$$\text{Gross NPAs Ratio} = \frac{\text{Gross NPAs}}{\text{Gross Advances}}$$

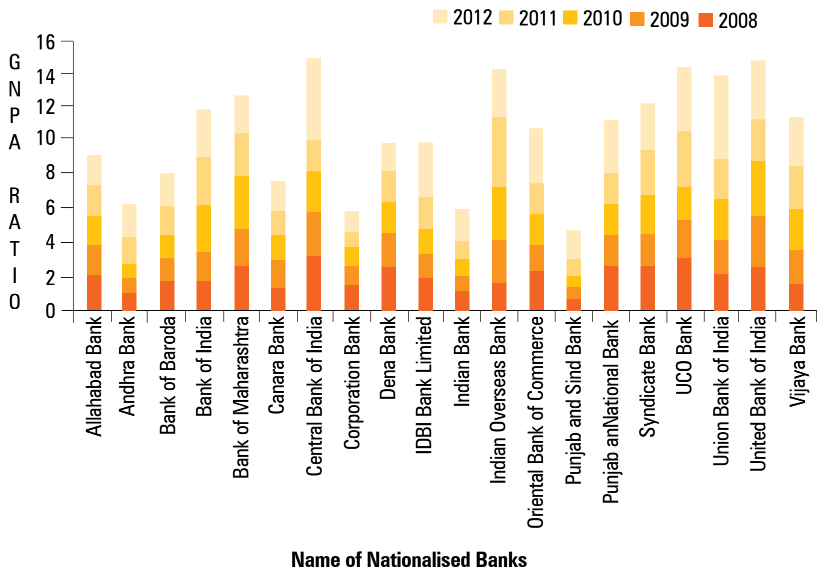
Net non-performing assets (NNPAs)

The index of net of provisions with gross NPAs scaled by net of provisions with gross advances is popularly known as net non-performing assets. It is the factor of provisions for loan assets and advances. The Net Non-Performing Assets are those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA shows the actual burden of banks. Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the provisions the banks have to make against the NPAs according to the Central bank guidelines, are quite significant. It can be ascertained with the help of following formula:

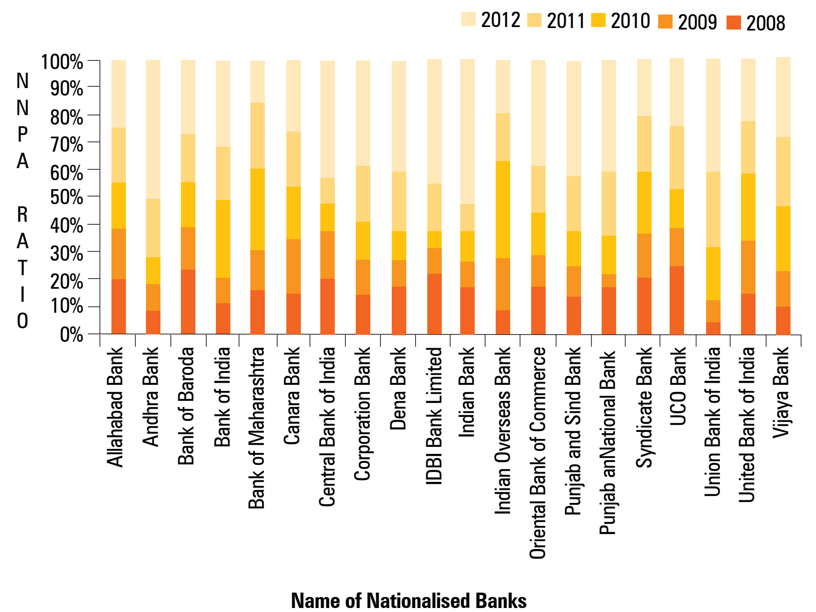
$$\text{Net NPAs} = \frac{\text{Gross NPAs–Provisions}}{\text{Gross Advances–Provisions}}$$

Importance: The main business of banking is to accept deposits for the purpose of lending, so it mobilises funds by issuing claims against itself and lends this money to others in the form of loans which are assets to banks. Indian banking industry plays a pivotal in the socio economic development of the country. This role is played by banks by extending credit to various deficit sectors for their growth and development. This credit

STATE OF GROSS NON-PERFORMING ASSETS
Gross Non-Performing Assets



STATE OF NET NON-PERFORMING ASSETS



creation process leads to credit risk which will lead non performing asset. The liabilities and assets of banks are in the form of claims unlike other forms of business. The mobilised money is lent in the form of loans which is major and main activity of banking and comprises the largest asset in the asset portfolio of the bank. The money lent are called loans or advances which earn income for the bank in the form of interest, in addition to this banks invests a portion of money in securities (both debt and equity) and a minor portion of total funds is invested in real assets like land, building for carrying the operations of banking.

Significance: In ordinary course of business the basic objectives of banks, nationalised banks, under study utilises it money to earn revenue and to meet day to day operational expenses and to generate income and to contribute, participate and influences positively in the developmental process either in employment generation or in gross domestic product (GDP) growth. The money is advanced by banks and financial institutions in the form of short term or long term loans to speed up developmental process in infusing capital where needs capital and invested in securities with expectation of income and repayment of principal at periodic intervals as per the contractual obligations between the lender and borrower that helps directly in economic growth. The assets which is performing as per the contractual obligations i.e. payment of interest and repayment of principal as and when it fall due, it is called performing asset or standard asset that are imperatives to development.

Impact of Non-Performing Assets

1. Degree of Risk and Profitability: Swelling Non-performing asset (NPA) is one of the major function, attention, concern and problem for nationalised banks in India. NPAs affect and reflect the degree of risk, uncertainty and quality of assets of bank and profitability of a bank.

2. Pervasive Credit Defaults: The bulging of non-productive assets and high level of NPAs conveys and suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks that crack down the value of the asset and leading to capital erosion.

3. Wealth of Shareholders: The NPA growth is the negative factor of revenue. Revenue is inflow of assets involves reduction of income from productive assets and hence the rate of income and ultimately wealth of shareholders.

4. Socio-Economic Role: While discharging directional credit role, banking industry holds lion share of NPAs in asset portfolio. The level of nonperforming assets is at the alarming rate in Indian banking comparatively to other countries.

5. Directional Credit System: Directional credit to weaker sections is the major and concern for bulging NPAs in nationalised banks to serve the purpose of socio-economic role. This level is much higher in case of public sector banks due to their directional credit to priority sector projects and social development projects.

6. Sustainable Development: Despite a promising start after liberalization took place on 24th July, 1991, Indian banking and finance industry witnessed a gloomy picture of slow and fragile recovery in freighting in non-standard assets. The year 2012 started on promising note amidst hopes that global financial crisis was at a turning point to rear the Quantum Leap Role (QLR) of banking industry in sustainable development.

7. Technology and Expertise: To mitigate and crack-down the bulging level of nonperforming assets of nationalised banks which is core and heart of nationalised banks in India and which handles the major portion of banking business in India the bureaucrats should use most up-to-date expertise and technological systems.

Objectives of the study

The objectives of the present study are

1. State of NPA: To study the state of NPAs position of selected Nationalised banks in India.

2. Volatility of NPA: To find the volatility, trend and movement in NPAs of the aforesaid banks.

3. Comparative Position of NPA: To assess the comparative position of NPAs of all selected nationalised banks

Hypothesis

Null Hypothesis one: (H_0) Gross Non-performing assets to gross advances ratio of selected nationalised banks differ significantly

Null Hypothesis two (H_0): Net Non-performing assets to net advances ratio of selected nationalised banks differ significantly.

Alternative Hypothesis (H_1): Gross Non-performing assets to gross advances ratio of selected nationalised banks do not differ significantly

Alternative Hypothesis (H_2): Net Non-performing assets to net advances ratio of selected nationalised banks do not differ significantly.

Methodology and research design

(a) Time Period of Study: To evaluate the state of NPA in Indian nationalised banks, a considerably period of 5 years from 2008 to 2012 have been selected and relevant secondary data were collected from RBI database.

(b) Materials and Methods: The study is both exploratory and empirical in nature. To assess the volatility in NPAs secondary data were collected.

(c) Techniques of Analysis:

1. DESCRIPTIVE STATISTICS TECHNIQUES: While analyzing the performance of nationalised banks regarding NPAs some descriptive statistics, like Arithmetic Averages, Median and Mode, Standard deviation, Skewness, Kurtosis and Co-efficient of variation are used. The present study is secondary data based and analytical in nature.

2. LMITATION OF THE STUDY: The scope of the study is limited to a period of five years and the analysis of NPAs of all the nationalised banks over the period of 2008-2012. No primary data have been collected due to non-availability requirement. As per the requirement and necessity some data are grouped and sub-grouped. It examines trend and movement of Gross NPAs, Net NPAs; and assesses the quality of NPA management and ranking has been made as per mean score.

Basel II and Basel III & NPA

Basel II and Basel III guidelines enumerate capital adequacy norms and prudential treatment of all asset classes (including NPA and restructured asset) for capital requirement for banks. These guidelines do not focus on the best practice for NPA / Stressed Asset containment – instead it prescribes the capital quantum that should be kept aside for bad loans.

A Basel guideline on capital requirement is a sort of an ex-post risk mitigation way and does not focus on NPA management including its curtailment. Basel III CRAR norms, as prescribed by the RBI, require higher common equity capital. At present, banks are required to maintain total CRAR of 9%, with 7% Tier I capital. This ratio is mandated to increase progressively to 11.5% by March 2019 when the full implementation of the Basel III norm will take effect.

Besides, banks may also be advised to maintain additional capital on account of counter cyclical buffer and for domestically systemic banks. Therefore, banks in India need huge additional capital in the form of equity and non equity to maintain minimum CRAR norms upto March 2019. The cost of mobilizing capital is also high at 9-10% for Tier II bonds and similarly cost of servicing equity issue. The higher cost of capital is also expected to impact the rates for the borrowers.

Role of CMA

- Cost and Management Accountants have an important role to play in the banking industry. In fact, Cost and Management Accountants should be involved in the planning exercise all along the line and not merely for audit purposes.
- Product pricing, industry analysis, industry rating, credit appraisal and audit. With introduction of complex products and services like derivatives in Indian banks and expansion of business lines and products lines of the banks, the requirement of specialists like CMAs will increase further.
- The services of Cost & Management Accountants would help to conduct viability study in case of restructuring or rehabilitation and also aid in ensuring the correctness of methods/systems adopted by borrowers in pricing their products.
- Cost and Management accountants should operate as business consultants in banks by involving in every activity, process, and function deserving appropriate levels of attention and aid in achieving greater value

ANALYSIS DESCRIPTIVE STATISTICS

DESCRIPTIVE STATISTICS OF GROSS NON-PERFORMING ASSETS (GNPAs) OF NATIONALISED BANKS IN INDIA

Statistic	GNP8	GNP9	GNP10	GNP11	GNP12
Mean	2.010000	1.753500	1.984500	1.981000	2.593500
Median	1.950000	1.790000	1.805000	1.840000	2.660000
Maximum	3.200000	2.850000	4.470000	3.310000	4.830000
Minimum	0.700000	0.650000	0.720000	0.910000	1.260000
Std. Dev.	0.684336	0.609998	0.909728	0.656754	0.862818
Skewness	-0.044643	-0.069006	0.920643	0.045743	0.684611
Kurtosis	2.083870	2.268871	3.935705	2.241375	3.334811
Jarque-Bera	0.706055	0.461330	3.554899	0.486568	1.655721
Probability	0.702558	0.794005	0.169069	0.784049	0.436983
Sum	40.20000	35.07000	39.69000	39.62000	51.87000
Sum Sq. Dev.	8.898000	7.069855	15.72449	8.195180	14.14466
Observations	20	20	20	20	20
COV (Mean)%	34.04657	34.78745	45.84167	33.15265	33.26848
COV(Median)%	35.09415	34.0781	50.40044	35.69315	32.43677

Source-Compiled and Computed from Annual Reports of RBI for 2008-2012, CMI

TABLE—1---COMPUTED WITH EVIEWS-7.1 AND SPSS-20 and efficiency.

• Seen in the backdrop of heightened competition and shrinking margins, innovative cost effective solutions would help improve operational efficiency in the banking industry.

The Institute of Cost Accountants of India has been rendering quality training in the field of Cost and Management Accounting

Analysis and Interpretation of Gross Non-Performing Assets

1. Volatility of Non-Standard Assets: Table-1 exhibits that the Indian nationalised banks have maximum mean based volatility of 45.84167 percent in 2010 of all twenty banks and minimum volatility of 33.15265 percent in 2011 while median based volatility in gross non-performing assets is 50.40044 percent in 2010 where as minimum volatility in gross non-performing assets is 32.43677 percent in 2012.

2. Normality distribution of Non-Standard Assets: Table-1 discloses that the gross non-standard assets of Indian nationalised banks have predominantly follows normal distribution as the kurtosis values are around 3 with a minimum value of 2.08 in 2008 and maximum value id 3.33 in 2012 in the study period of 2008 to 2012.

DESCRIPTIVE STATISTICS OF NET NON-PERFORMING ASSETS (NNPAs) OF NATIONALISED BANKS IN INDIA

Statistic	NNP8	NNP9	NNP10	NNP11	NNP12
Mean	0.764500	0.715500	0.960500	0.965000	1.422000
Median	0.720000	0.745000	0.945000	0.975000	1.405000
Maximum	1.980000	1.480000	2.520000	1.840000	3.090000
Minimum	0.150000	0.170000	0.170000	0.350000	0.540000
Std. Dev.	0.463107	0.422330	0.599170	0.402499	0.577003
Skewness	0.841019	0.207549	0.802377	0.227268	1.100120
Kurtosis	3.521835	1.759954	3.424069	2.424495	4.613406
Jarque-Bera	2.584639	1.425017	2.295890	0.448174	6.203445
Probability	0.274633	0.490412	0.317288	0.799245	0.044972
Sum	15.29000	14.31000	19.21000	19.30000	28.44000
Sum Sq. Dev.	4.074895	3.388895	6.821095	3.078100	6.325720
Observations	20	20	20	20	20
COV (Mean)%	60.57646	59.0259	62.38108	41.70972	40.57687
COV(Median)%	64.32043	56.68863	63.40426	41.28193	41.06784

Source-Compiled and Computed from Annual Reports of RBI for 2008-2012, CMI

TABLE—2---COMPUTED WITH EVIEWS-7.1 AND SPSS-20

Analysis and Interpretation of Net Non-Performing Assets:

1. Volatility of Non-Standard Assets: Table-2 exhibits that the Indian nationalised banks have maximum mean based volatility of 60.57646 percent in 2008 of all twenty banks and minimum mean based volatility of 40.57687 percent in 2012 while median based minimum volatility in net non-performing assets is 41.06784 percent in 2012 where as maximum volatility in net non-performing assets is 64.32043 percent in 2008.

2. Normality distribution of Non-Standard Assets: Table-2 discloses that the net non-standard assets of Indian nationalised banks have predominantly follows normal distribution as the kurtosis values are around 3 with a minimum value of 1.759954 in 2009 and maximum value id 4.61346 in 2012 under the study period of 2008 to 2012.

Conclusion

With influx of cut-thought competition, Indian financial system faces invigorative challenges and RBI posses several prudential norms and provisional guidelines to augment operating efficiency and resource productivity. The management of non-standard assets (NPAs) is a discouraging, freighting and daunting task for every firm in the banking industry. Outstanding banking performance is a panacea for economic ills. So, constructive management of non-productive assets is an utmost necessary for smooth development and growth. The very important reason and necessity for management of NPA is due to their invigorative, agglomerative, multi dimensional impact and affect on the risk mitigation, operations, performance, position in competitive advantages and overall performance of banks. The above study reveals the level of nonperforming assets of different nationalized banks and relation between different banks in the level of nonperforming assets. It is found that level of Non-performing asset both gross non-standard assets and net non-standard assets are upward rising and is on an average in upward trend of all the nationalized banks but the growth rate is heterogeneous and different. Banks got different ranks on the basis of mean and final ranking was done on the basis of average gross NPA rank and net NPA rank. Andhra bank and corporation bank got first rank among all the twenty and banks, Punjab and Sind bank got second rank and Indian bank got third rank so on and so forth and can be seen from appendix-3. The ANOVA test shows that there is a significant difference between gross NPA and net NPA of nationalized banks; this depicts and conveys their efficiency in the management of NPAs.

Recommendations

The non-standard asset and non-productive assets of a bank is a major challenge, daunting task, problem and hurdle faced by banking industry and financial institutions. Swelling NPAs, willful defaults, customer selections, improper processing of loan proposals, poor monitoring and so on are the causes for loan assets becoming NPAs. NPAs influences and affect the competitive position as well as performance in multi-dimensional process such as revenue generation, interest income, operational surplus, profits, and provisions against NPAs and so on. While sanctioning and advancing loans the SLP principle of lending have to be followed, Principle of Safety (S) valuation of the primary and collateral securities, Principle of Liquidity (L) physical conditions of the assets, receivables and stocks and principle of Profitability (P). To swim over from this bulging tide, bank officials should use most up-to-date expertise and technological systems. Hence institutional officials are efficiently involved in taking effective steps to overcome, mitigate and cure this problem at earliest and in an efficient, fruitful and productive manner.

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Appendix-1

Gross Non-performing assets (GNPA) and descriptive statistics and Ranks of individual Banks

BANK/YEAR	2008	2009	2010	2011	2012	MEAN	SD	CAGR	RANK
Allahabad Bank	2	1.81	1.69	1.8	1.91	1.84	0.12	-0.89	7
Andhra Bank	1.1	0.83	0.86	1.38	2.12	1.26	0.53	14.06	4
Bank of Baroda	1.8	1.27	1.42	1.62	1.89	1.6	0.26	0.97	6
Bank of India	1.7	1.71	2.86	2.64	2.91	2.36	0.61	11.31	13
Bank of Maharashtra	2.6	2.29	2.96	2.47	2.28	2.52	0.28	-2.62	16
Canara Bank	1.3	1.56	1.53	1.47	1.75	1.52	0.16	6.11	5
Central Bank of India	3.2	2.67	2.32	1.82	4.83	2.97	1.16	8.57	20
Corporation Bank	1.5	1.14	1.02	0.91	1.26	1.17	0.23	-3.37	2
Dena Bank	2.4	2.13	1.8	1.86	1.67	1.97	0.29	-6.96	9
IDBI Bank Limited	1.9	1.38	1.56	1.79	2.57	1.84	0.45	6.21	7
Indian Bank	1.2	0.89	0.88	0.99	1.94	1.18	0.44	10.05	3
Indian Overseas Bank	1.6	2.54	4.47	2.71	2.79	2.82	1.04	11.75	17
Oriental Bank of Commerce	2.3	1.53	1.74	1.98	3.17	2.14	0.64	6.61	10
Punjab and Sind Bank	0.7	0.65	0.72	0.99	1.65	0.94	0.42	18.65	1
Punjab National Bank	2.7	1.77	1.81	1.79	3.15	2.24	0.64	3.11	11
Syndicate Bank	2.7	1.93	2.19	2.65	2.75	2.44	0.36	0.36	15
UCO Bank	3	2.21	1.99	3.31	3.73	2.85	0.73	4.44	18
Union Bank of India	2.2	1.96	2.29	2.37	3.16	2.4	0.45	7.48	14
United Bank of India	2.7	2.85	3.21	2.51	3.41	2.94	0.37	4.76	19
Vijaya Bank	1.6	1.95	2.37	2.56	2.93	2.28	0.52	12.86	12

Source-Annual Reports of RBI for 2008-2012, CMIE

Appendix-2

Net Non-performing assets (NNPA) and descriptive statistics and Ranks of individual Banks

BANK/YEAR	2008	2009	2010	2011	2012	MEAN	SD	CAGR	RANK
Allahabad Bank	0.8	0.72	0.66	0.79	0.98	0.79	0.12	4.14	7
Andhra Bank	0.15	0.18	0.17	0.38	0.91	0.36	0.32	43.41	1
Bank of Baroda	0.47	0.31	0.34	0.35	0.54	0.4	0.1	2.82	2
Bank of India	0.52	0.44	1.31	0.91	1.47	0.93	0.46	23.1	9
Bank of Maharashtra	0.87	0.79	1.64	1.32	0.84	1.09	0.37	-0.7	11
Canara Bank	0.84	1.09	1.06	1.11	1.46	1.11	0.22	11.69	13
Central Bank of India	1.45	1.24	0.69	0.65	3.09	1.42	0.99	16.34	18
Corporation Bank	0.32	0.29	0.31	0.46	0.87	0.45	0.24	22.14	3
Dena Bank	0.94	1.09	1.21	1.22	1.01	1.09	0.12	1.45	11
IDBI Bank Limited	1.3	0.92	1.02	1.06	1.61	1.18	0.28	4.37	15
Indian Bank	0.24	0.18	0.23	0.53	1.33	0.5	0.48	40.84	4
Indian Overseas Bank	0.6	1.33	2.52	1.19	1.35	1.4	0.7	17.61	17
Oriental Bank of Commerce	0.99	0.65	0.87	0.98	2.21	1.14	0.61	17.42	14
Punjab and Sind Bank	0.37	0.32	0.36	0.56	1.19	0.56	0.36	26.32	5
Punjab National Bank	0.64	0.17	0.53	0.85	1.52	0.74	0.5	18.89	6
Syndicate Bank	0.97	0.77	1.07	0.97	0.96	0.95	0.11	-0.21	10
UCO Bank	1.98	1.18	1.17	1.84	1.96	1.63	0.42	-0.2	20
Union Bank of India	0.17	0.34	0.81	1.19	1.7	0.84	0.62	58.49	8
United Bank of India	1.1	1.48	1.84	1.42	1.72	1.51	0.29	9.35	19
Vijaya Bank	0.57	0.82	1.4	1.52	1.72	1.21	0.49	24.72	16

Source-Annual Reports of RBI for 2008-2012, CMIE

Appendix-3				
Ranking of NPA Performances of Nationalized Banks in India				
BANK/YEAR	**Ranks As per GNPAs**	**Ranks as per NNPs**	**Average**	**Overall rank**
Allahabad Bank	7	7	7	5
Andhra Bank	4	1	2.5	1
Bank of Baroda	6	2	4	4
Bank of India	13	9	11	9
Bank of Maharashtra	16	11	13.5	12
Canara Bank	5	13	9	7
Central Bank of India	20	18	19	15
Corporation Bank	2	3	2.5	1
Dena Bank	9	11	10	8
IDBI Bank Limited	7	15	11	9
Indian Bank	3	4	3.5	3
Indian Overseas Bank	17	17	17	14
Oriental Bank of Commerce	10	14	12	10
Punjab and Sind Bank	1	5	3	2
Punjab National Bank	11	6	8.5	6
Syndicate Bank	15	10	12.5	11
UCO Bank	18	20	19	15
Union Bank of India	14	8	11	9
United Bank of India	19	19	19	15
Vijaya Bank	12	16	14	13
Source-Compiled and Computed from Annual Reports of RBI for 2008-2012, CMIE				

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Statistic	GNP8	GNP9	GNP10	GNP11	GNP12
Mean	2.010000	1.753500	1.984500	1.981000	2.593500
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Std. Dev.	0.684336	0.609998	0.909728	0.656754	0.862818
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Source-Compiled and Computed from Annual Reports of RBI for 2008-2012, CMI					
COMPUTED WITH EVIEWS-7.1 AND SPSS-20					

DESCRIPTIVE STATISTICS OF NET NON-PERFORMING ASSETS (NNPs) OF NATIONALISED BANKS IN INDIA					
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Median	0.720000	0.745000	0.945000	0.975000	1.405000
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Minimum	0.150000	0.170000	0.170000	0.350000	0.540000
Std. Dev.	0.463107	0.422330	0.599170	0.402499	0.577003
Skewness	0.841019	0.207549	0.802377	0.227268	1.100120
Kurtosis	3.521835	1.759954	3.424069	2.424495	4.613406
Jarque-Bera	2.584639	1.425017	2.295890	0.448174	6.203445
Probability	0.274633	0.490412	0.317288	0.799245	0.044972
Sum	15.29000	14.31000	19.21000	19.30000	28.44000
Sum Sq. Dev.	4.074895	3.388895	6.821095	3.078100	6.325720
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Source-Compiled and Computed from Annual Reports of RBI for 2008-2012, CMI					
COMPUTED WITH EVIEWS-7.1 AND SPSS-20					

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SOCIAL BANKING: FINDING THE ROUTE TO ENTREPRENEURIAL FRUSTRATION – NPA

The huge, all-pervasive play with bank funds, be they in the form of social banking or industrial loans, the money blocked with some customers create many a stumbling block for banks, especially when lending to other small customers and medium and large industries

CMA Dr. P. Chattopadhyay
Former Director, Research, ICAI-CMA
Kolkata

MUCH has been said and heard about non-performing assets or bad loans from which the banks in this country during the nationalization regime have suffered on all sides. Curiously, the lion's share of the blame that the entrepreneurs, in all classes of loanees, had been asked to shoulder does not appear to be entirely in the fitness of things. First, the assistance provided to the loanees as to how to make the best use of the facilities was grossly inadequate. Secondly, proper checks and balances were not exercised at the time of sanctioning the loans. Thirdly, the adequacy of the funds sanctioned for the projects that the SMEs sought to undertake was not properly assessed with reference to the internal rickety structure and the bellicose externalities. Lastly, the loanees were not duly oriented to be exposed to the extremely demanding requirements of the world of business – SMEs not excluded. The major burden of responsibility in this context comes on the small and medium scale entrepreneurs seeking to take benefit of the scheme of social banking that had the laudable objective of spreading banking habits to every nook and corner of the country. The objective behind nationalization forked into three major directions, namely, to create employment opportunities on a countrywide basis; to generate income in the unorganized sector utilizing local resources and available skill of the people through enhanced bank assistance and techno-economic guidance; and to effectively raise the living standards of the people through generation of resources at the ground level. The initial years after bank nationalization did notice an upsurge on all these fronts as would be evident from the data made available in different reports and studies emanating from the Reserve Bank of India (Cf.

Report on Currency and Finance, Annual Report, and RBI Bulletin, monthly). The branches of both nationalized and other banks multiplied many times since nationalization but the real impetus as regards the expansion of the network of branches of other banks was provided by the new aura that was ushered in by bank nationalization. Mrs Gandhi's government at that time saw to it that some semblance of order prevailed in the operation of banks and their branches. Since 1984, after the assassination of Mrs Gandhi, decadence started with the marked wane of enthusiasm in this respect. It is to be noted in this regard the decay was noticeable not only in the nationalized banks and their branches but also in the financing institutions like ICICI, IDBI and IFCI as also the State Financial Corporations (barring ICICI which was incorporated as a company under the Companies Act as Industrial Credit and Investment Corporation of India Limited, the other two, namely IDBI and IFCI were public corporations under Acts of Parliament initially functioning as investment banks but a few years back they were transformed into incorporated companies; globalism has in the mean time, silenced the noise that State Financial Corporations, created under an enabling Act of Parliament) that came into being for providing long-term loans to the companies mainly as feeder institutions, while the SFCs and the commercial banks concerned themselves mainly with the medium and small companies and non-corporate units. This discussion is limited to the SMEs which are mainly non-corporate bodies, established not only in the cities but also in the suburbs and outlying areas.

Regional Disparities

The response patterns to all those incentives, techno-financial and techno-managerial encouragements offered by the government and the banks and their branches was different right from the beginning as is evident from the successes and failures of the SMEs in different regions of the country. While the efficacy of the new measures was quite apparent in the northern, western and southern regions, it was not so in the eastern and far eastern regions covering Bihar, Orissa, West Bengal, Tripura, Assam, Meghalaya, Manipur, Mizoram, Nagaland, Arunachal Pradesh and Sikkim, except in small pockets of each and in activities like farm-related products, handlooms, woollen products, wooden products and agri-business. A lack of interest in making proper use of the facilities offered on the one hand, and in the opportunities that a growing countrywide market for different products on the other, was also visible in several of these states. However, in the absence of an integrated approach towards utilization of the funds and dilly-dallying with monitoring regarding effective combating of centrifugal forces affecting inputs and outputs as also the marketing of finished products posed threats regarding resource generation from operations, apart from the desired enthusiasm on the part of the entrepreneurs to deal with the unfriendliness that belligerent externalities spelt. The concept of social banking itself literally hit a stone-wall in these states under the stated circumstances, generating only lukewarm responses from the prospective entrepreneurs. Strikingly, banks, and their branch managers on the spot, were no bet-

THE MAJOR BURDEN OF RESPONSIBILITY IN THIS CONTEXT COMES ON THE SMALL AND MEDIUM SCALE ENTREPRENEURS SEEKING TO TAKE BENEFIT OF THE SCHEME OF SOCIAL BANKING THAT HAD THE LAUDABLE OBJECTIVE OF SPREADING BANKING HABITS TO EVERY NOOK AND CORNER OF THE COUNTRY

ter than spectators, with a traditional, laid-back attitude dominating the scene. This was in contradistinction with the bank branches equipped with techno-economic expertise and experience to regularly visit the affected enterprises for understanding first hand the nature of ailments and ways to cure them, if necessary by way of infusing further doses of funds especially when it was assessed on the spot that further progress of the projects was not possible without injection of more funds. This is not a concocted story; there have been examples of all this both with regard to prescription of illness and their restoration to health, in north, south and west India. Establishment of industrial estates for small scale units for supplying parts and components large scale engineering firms underlined a new direction not followed widely other than in north, west and south. Combined, the two sides consisting of the givers and receivers of funds witnessed the totally unexpected downfall of an excellent idea holding a lot of promises and prospects on different related fronts. Return to the traditional approaches of commercial banks marked the transformation of the hitherto investment banks for lifting the status of the economy through investments in capital projects for revving up of the Indian economy, but in the shadow of globalism and the formalism brought up with it, investment banks turned thmselves into those commercial, as referred to earlier.

Opening up of the economy

Critics ascribe all this to the opening up of the economy that resulted in sapping the vitality of a large number of small and medium scale units without effective institutional support – financial and technical. The atmosphere created initially with official assurance of techno-economic support that was required was no more visible, despite the background factors still retaining their relevance. Instances of all this have been underlined by the presence of NABARD AND SIDBI and the Lead Bank Schemes, but the initial zest and enthusiasm ceased to be visible. What more, the casualty rates in these spheres have been on the rise all this while, especially in the eastern region. This is attested by the lending banks taking to the legal routes for recovering the unmet dues as the announcements in the newspapers in recent times would attest. Social Banking, as an idea and a way of approach, unfortunately has allegedly met its Waterloo! Our story does not end here as it precludes the existence of any official ill-will, fraudulent intentions, political interference, or any other kind of misdemeanour and explores the ways of revival of these units through proper diagnosis of their ills and administration of the appropriate antidotes, taking the functional atmosphere of these units into consideration. It is our considered view that the ills pervading the sector are not sophisticated at all and these can be cured with concerted action on the part of the authorities embracing both the Central and the State Governments. Our study of the problem underlines that perhaps the prevailing situation has been unduly magnified while the entrepreneurs have been literally left in the lurch. Globalism, in the last analysis, had ingrained 'good and bad' as a proposition. Good, in the sense that to perceptive entrepreneurs, the ABC of prospects and problems of start-up enterprises in the SME sector may be anticipated before hand, in the choice of techniques appropriate therefor and the investments required with particular stress on the sources of funds and the share of bank loans for this purpose. To a technically qualified person seeking to embark on such ventures, sourcing of funds would have primacy, weighed against the uses to which these w ould be put, in consideration of the typicality of the requirements of the project chosen. Social banking acquires particular significance in such a context. However, not all aspirants in this regard have the required expertise in this regard and have to depend on others for technical advice.

Role of CMAs

The signal role that CMAs can play in rerailing them cannot be understated even taking the prevailing circumstances into view. There are three advantages in inducting CMAs for resuscitating moribund or near-so SMEs. First of all, CMAs have multi-disciplinary expertise that may be found highly relevant and useful at the stage of preparing the feasibility studies for applying for bank loans. Secondly, they are exposed to different practical problems faced by these enterprises that may be reflected in the application for funds from banks. Lastly, they may assist the SMEs in marketing planning so that bank loan instalments may be repaid on schedule. All this would underline the fact that the usual seven-ten year projections appended to the application for bank loans would be more realistic and practicable unlike the standard formats of such studies dispensed by the District Industry Centres. This paper thus challenges the contention that the formalism adopted by several banks and the government through the operation of the enactments for recovery of the outstanding dues by confiscating the properties of the entrepreneurs and their guarantors is an appropriate one. Worse, the so-called bad loans are sought to be sold to asset reconstruction companies. That this is a fact has been endorsed by the recent instance of the State Bank of India selling non-performing assets worth Rs 3,590 crore to asset reconstruction companies in 2013-14. However, it is emphasized that not all of this huge sum relate to the SMEs. Incidentally, the State Bank of India is also not alone in piling up huge unrealized dues. The other nationalized banks have also followed suit earlier. This is a pity as it is tantamount to shirking responsibility, while the so-called bad loans could be turned into good, at costs much less than the loss implied in the distress sale of confiscated assets belonging to the loanees and their guarantors. Transfer of risk of non-receipt of dues has become a highly sophisticated practice though, in our view, this is not an acceptable and logically sustainable practice. What the Asset Reconstruction Companies can do, the nationalized banks and their wide-spread branches could do better. Not that this was not anticipated earlier as most of these banks had on their roles technical, economic and management experts, covering all the relevant areas of expertise, seeking to assist the applicants with respect to the choice of projects, the economics of the projects selected, practicability of the stated prospects and problems as anticipated and the different ways in which the management issues could be dealt with for combating the problems. Due emphasis on both input and output as laid down in the feasibility report has to have its finality at the market place where profit arises. However, all this hullabaloo about the finer aspects of social banking could not move the mountain of unimaginative insensitivity and inactivity.

The Case of UCO Bank

Our point is attested by the case of the United Commercial Bank (UCO Bank) which has initiated several measures for recovery of bad loans. The bank reports that the performance of recovery and up gradation in NPA accounts during 2013-14 substantially improved over the previous years. The bank underlines that recovery performance during this financial year the Bank recorded a cash recovery of Rs 2015 crore while up gradation was of the order of Rs 1032 crore. The Bank adopted many novel methods for recovery of the so-called bad loans as the Bank created a separate 'vertical' in its recovery department for effective monitoring of loss assets and their recovery. The organized actions undertaken by the Bank resulted in substantial recovery of the so-called 'bad loans'. Our point is borne out in this context that a much greater rapport with the customers was called for to understand the problems that hindered the repayment of loan and interest. Almost the same story is repeated in the cases of several other banks, as the problems besetting the inability of the customers to repay the loans and interest related to the rough business weather outside much more than gypping the banks, as such. The externalities spelt many problems both for individuals and organizations and the up and down swings brought different kinds of unforeseen problems that affected the normal functioning of business and their loan repayment capacity. However, their real problems have to be identified and necessary actions taken for bringing them back on the right track. Spot checks and diagnosis of the problems besetting their operations call for proper study for identifying their ills and correcting them before long. There is hardly any real problem which cannot be dealt with but to magnify them and turning the other way create numerous issues that require addressing in the right frame of mind. The initial enthusiasm and great expectations subsided, the traditional unconcern returned with a bang, as the nationalized banks and their branches found themselves laden with huge backlogs of unpaid loan instalments and interest, on some of which issues we have some observations to make. How this unsavoury situation arose and what should have been done to deal with the situation and can still be done to put the bank operations on an even keel, have been demonstrated by several nationalized and other commercial banks.

Social Banking: Bank of Maharashtra

Banks have specific activities classified under social banking and these are quite a large number. First and foremost, priority sector lending under which scheme banks endeavour to facilitate equitable and sustainable economic development by timely and hassle-free availability of credit for productive purposes to Small and Marginal Farmers, Micro and Small Enterprises, Retail Traders, Professional and Self-employed, Women Entrepreneurs and entrepreneurs from weaker sections. As on 31 March, 2014, as per the Annual Report of the Bank of Maharashtra, the bank had outstanding priority sector advances amounting to Rs 32010.68 crore while the loans and advances to the agricultural sector amounted to Rs 10,276. 07 crore as on 31.3.14. The bank has issued 470762 Kisan Credit Cards to farmers and the credit flow to farmers on this basis has been of the order of Rs 4312.60 as on 31.14.14. The Bank lent Rs 15098.25 crore to Micro, Small and Medium enterprises. The Bank sanctioned loans of Rs 1040.37 crore to 11436 borrowers up to March, 2014. As stated earlier, the nationalized banks in Northern, Western and Southern India have been a lot more responsive to the basic objectives behind bank nationalization than in other regions. The rapport established with the receivers of bank loans and other privileges has been of a high order; mutual understanding, seriousness and sincere application have worked as the key factors not commonly seen in other areas. The Annual Reports of all the other nationalized banks every year present the details of operations under various schemes formulated by Government. While the schemes formulated are fine, the actual implementation of the schemes would call for the right approaches on both sides. In our view, the picture is not all that rosy. A lot more scope exists on both sides, subject of course to the right approaches that would call for consideration of adoption.

Major hurdles coming in the way

Too many development programmes targeted at rural uplift created the problems subscribed to the adage, too many cooks, because these programmes are administered under different ministries and departments of the Centre and States with not much coordination among different central ministries and the state agencies concerned. Necessary freedom of action for realizing objectives laid down under the plans and programmes has also been grossly inadequate – if not altogether absent as one comes across different news in the dailies which have resulted in many a case in abandoning the actions on the projects half way or subjecting them to different uncertainties. Banking operations have not had the go required of them, for which banks themselves have not always been responsible. In some cases, absence of cohesion among the dispensing authorities resulted in delay in completion of the projects because when a project was supposedly stalled or delayed, banks had to be in the know when payments thereon had to be stopped or withheld, the result being raising the cost of the projects. This has been a major handicap in many a project large and small, that required close coordination among all the involved agencies. Banks were entangled in all such cases as they were desired to play their part as long as the orders for withholding the payments related to such projects did not arrive. Social banking gets a jolt in such cases, because of affected flow of funds from the government coffers. The MGNREGA programme of 100 days' work that got a jolt resulting in different uncertainties regarding dispensation of funds, with the change in government at the Centre, is a case in point. A major scoring point in this respect is that Government has envisaged and implemented the opening of bank accounts for farmers and small traders without any initial deposit in which accounts would be entered all payments made to the prospective recipients of money on various accounts, including salary, compensation on various accounts or for any other purpose, the Aadhaar Card being the hallmark of identity. Even the Panchayats at the village level are being increasingly oriented towards using the nearest bank branches both receipt and payment of funds on different counts such as receipt of taxes, grants from the Government, payment of salaries to staff, deployment of funds for various development works and canalization of funds received under different State and Central Government Schemes. This is social banking par excellence!

Banker-customer relationships

Our second point at issue at the village level relates to the banker-customer relationship under the scheme of social banking which is at present unduly formal and the typical problems faced by the loanees are generally unknown, despite the so-called 'know your customer' programmes. Granting that no ill-will infects the desired banker-customer relationship, a pervading atmosphere of suspicion in the bank branches comes in between the bank officials and customers in knowing and judging the reasons behind delay in paying the instalments in time, whether the amount of loan was adequate for the purpose which it was taken and whether for the continuation of work in hand further loan was necessary. Banks at present are ill-equipped in this respect; what more, suspicion of unfairness ruins the prospects of resuscitation of projects, considered hopeless. Banks do not have the freedom necessary to realize the objectives integral to social banking. I feel proud to state that Ms Chanda Kochar of ICICI Bank is a CMA and her and her

> **A PERVADING ATMOSPHERE OF SUSPICION COMES IN BETWEEN BANK OFFICIALS AND CUSTOMERS IN KNOWING AND JUDGING THE REASONS BEHIND DELAY IN PAYING THE INSTALMENTS IN TIME**

Bank's record in regard to NPA is the least among all banks, nationalized or otherwise. A similar instance could be cited in respect of a retired Chairman of the United Bank of India, a CMA, during whose time, the operations of Bank ranked among the better-un ones. The cult of distance management of the nationalized banks and withholding the leeway of operational elbow rooms are major issues. Incidentally, our Institute published a research study on Cost of Banking Operations written by Shri Arun Ghosh, Assistant Director of Research which was highly acclaimed. The Institute's touch with the banking world at that time was quite intimate as it attempted to unfold umpteen banking costs on various accounts and returns from various sources. Apart from the Department of Banking, Union Ministry of Finance, the Reserve Bank of India, a statutory body, has also not been allowed to function freely, given which the organization could streamline the operations of commercial banks, making them more responsive to the requirements of the situation faced by a growing economy seeking to transform the country from an underdeveloped to a de facto rapidly developing one. This aspect of the flipside came to the fore in the context of the stock market scams engineered by Harshad Mehta and Ketan Parikh, the two having a gap of about ten years, which created a furore and the Joint Parliamentary Committee Reports indicted the different functionaries whose lack of sensitivity and absence of timely corrective action resulted in huge loss to the national exchequer. Reserve Bank of India has in its fold all the expertise necessary for the purpose of holding the financial economy of the country under leash but it did not show the alacrity necessary to keep the banks on the rails as their involvements also came to the fore, as the ten interim reports on the issue by RBI showed. Alas! RBI does not have the power to take all the effective, corrective measures necessary. This is, however, beside the main issue under discussion. The huge all-pervasive play with banks funds be these in the form of social banking or industrial loans, the money blocked with some customers create many a stumbling block for banks especially for lending to other small customers and also for funding medium and large industries. It is axiomatic that building up of the micro, small and medium industries provide the base work for large industries in a two-way relationship. Moreover, MSMEs do not require much gestation period and they provide the umpteen linkages with large scale enterprises either by way of a direct relationship as suppliers of parts, components and requirements or of indirect relationship as suppliers of various products in the markets for use by the large-scale enterprises. Small units in industrial estates perform such functions while there are many large units which buy parts and components manufactured by MSMEs from the markets. Many major industries, for that matter, depend on assembling parts and components from this sector. Social banking assists in making the productive efforts of large units more economical and fruitful. Diseconomies of MSMEs are not germane to them and proper relationships among them can make the scale and scope of the large enterprises more self-sustaining. MA

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BANK CREDIT TO AGRICULTURE
PROBLEMS OF RECOVERY AND NON-PERFORMING ASSETS

Rural development agencies and Government departments put pressure on banks to sanction loans. These loans suffer from weaknesses like lack of proper planning, lack of requisite manpower to implement schemes properly and monitor the benefits from implementation

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INSTITUTIONALIZATION of agricultural credit in India commenced with the passing of the Cooperative Societies Act in 1904 and it has been subsequently strengthened with the nationalization of 14 major private commercial banks in 1969 and other eight in 1980, establishment of Regional Rural Banks in 1975, restructuring the erstwhile Agricultural Refinance Corporation into National Bank for Agriculture and Rural Development at apex level in 1982 and entry of private sector banks in 1990s. India has currently a robust rural financial system comprising [i] 31 State Cooperative Banks with 953 branches; 370 District Central Cooperative Banks with 13,000 branches; 92,432 Primary Agricultural Credit Societies at village level; 20 State Cooperative Agricultural and Rural Development Banks with 823 branches and 697 Primary Cooperative Agricultural and Rural Development Banks [ii] 46,126 branches of commercial banks including RRBs and 3,37,678 banking outlets [branchless] models. All these institutions together have disbursed agricultural credit amounting to Rs.26,944.34 billion in last five years alone between 2009-10 and 2013-14 as under which is higher by 9.3% than Rs.24,648.30 billion disbursed in 39 years from 1970 to 2009 to support agricultural growth and development.. These institutions have as on 31 March 2014 provided 12.982 million Kisan Credit Cards with sanctioned credit facilities amounting to Rs.1262.8 billion to help farmers' easy access to farm credit.

The crux of the problem is, however, that while dedicated efforts are made every year to increase the volume of lending as targeted low priority is accorded to provide adequate manpower and put in place appropriate mechanism to handle such volume and assure the quality and productivity of credit. In fact, agricultural/rural banking has not been scientifically organized and upgraded to handle the ever increasing number of borrowers and volume of loans, leave alone updating their skill/ knowledge and capacity building to improve recovery and minimize NPAs. As a result the existing limited staff in their enthusiasm to achieve the targeted lending as stipulated by the Government could not pay the required attention for mobilizing repayment of loans instalments on time. In the process, the NPAs have had a negative influence on the maintenance of required capital adequacy ratio, mobilization of deposits/resources, deployment of credit and investment, operational viability and financial sustainability of the banking system directly affecting the country's productivity of resources and overall economy. This article briefly highlights banks' mounting overdues and NPA in agriculture, field experience exhibiting reasons for overdues, RBI's initiatives and suggests specific areas that need focused attention.

Recovery performance

Recovery as percentage to demand between 2008 and 2013 was better and significantly higher in State cooperative Bank and RRBs than other banks. It was modest in public sector banks and most unsatisfactory in case of State and Primary Cooperative Agricultural & Rural Development Banks.

Non-Performing Assets

NPA in agriculture as percentage to outstanding agricultural credit between 2009 and 2013 exhibited increasing trend and lower in scheduled commercial banks than other banks. RRBs had high level of NPA whereas they were substantially higher in case of PCARDBs followed by SCARDBs and SCB

Table 1

Ground Level Agricultural Credit Flow from 2009-10 to 2013-14 [Rs.Billion]

Institutions	2009-10	2010-11	2011-12	2012-13	2013-14	CAGR
Commercial	2858.00	3458.77	3686.16	4324.91	5214.96	14%
Cooperatives	634.97	780.07	879.63	1112.03	1184.22	20%
RRBs	352.17	442.93	544.50	636.81	833.07	22%
Total	3845.14	4682.91	5110.29	6073.75	7232.25	16%

Compound Annual Growth Rate during 2009-10 to 2013-14

Table 2

Recovery as percentage to demand

Year	Public Sector Banks *	Regional Rural Banks	State Cooperative Banks	District Central banks	State Cooperative ARDBs	Primary Coop ARDBs
2008	75.4	80.4	84.6	55.6	50.4	40.9
2009	76.1	77.8	91.8	72.2	40.7	39.5
2010	73.9	80.1	92.0	76.0	41.0	37.0
2011	75.9	80.2	80.0	74.0	40.0	47.0
2012	74.5	81.6	93.0	79.0	32.0	47.3
2013	76.1	81.2	94.6	77.3	32.3	43.0
2014		81.9				

**Indicates recovery percentage of direct agricultural advance*

Table 3

NPA in Agriculture as percentage of O/S Agricultural Credit

Year	Scheduled commercial Banks	Regional Rural Banks	State Cooperative Banks	District Central banks	State Cooperative ARDBs	Primary Coop ARDBs
2009	1.9	4.1	11.9	18.0	30.4	42.2
2010	2.2	3.7	09.1	13.0	33.3	42.8
2011	3.3	3.7	08.6	11.2	32.2	40.5
2012	4.3	5.0	06.9	09.3	35.1	36.8
2013	4.7	6.1	06.2	09.8	36.0	37.1
2014	4.4	4.4				

Table 4

NPA in Agriculture and Total NPA [Rs. Billion] in 2012 and 2013

Bank-group	NPAs in Agriculture		Total NPAs	
	2012	2013	2012	2013
Public sector	227 [20.2]	280 [18.0]	1125	1559
Nationalized	129 [19.3]	156 [16.3]	668	959
SBI-Group	98 [21.4]	124 [20.7]	457	599
Private banks	22 [11.8]	22 [10.9]	183	200
Old private	06 [13.4]	06 [12.2]	42	52
New private	16 [11.3]	15 [10.4]	141	148
All SCBs	249 [19.0]	302 [17.2]	1308	1759

Figures in parentheses indicate percentage of NPA in agriculture to total NPAs

NPAs

NPAs in Agriculture as percentage to total NPAs in the respective bank-group were significantly higher in public sector banks than that in private sector banks in 2012 and 2013. Within public sector banks SBI-group had marginally higher NPA percentage than that in nationalized banks in 2012 but significantly higher in 2013. In case of private sector banks, old private banks had marginally higher NPA percentage than that in new private banks in 2012 and 2013.

NPA percentages in agriculture were significantly higher than that in others in 2012 and 2013 in public and private sector banks, whereas they were significantly higher than MSMEs in 2012 and marginally higher in 2013.

NPA in Agriculture of Individual Banks:

Public Sector Banks

The share of aggregate NPA in agriculture in the total NPA as also its percentage to outstanding agricultural credit remained the same in 2008 and 2011 after significantly declining in 2009 and 2010.

There was considerable variation in the share of agricultural NPA in total NPA as also its percentage to outstanding agricultural credit among individual banks.

Eleven banks in 2008 and nine banks in 2009 [each with NPA more than Rs.2.00 billion] accounted for 85.2% and 76.2% NPA in total NPA in agriculture whereas seven banks [each with NPA more than Rs.3.00 billion] in 2010 and 11 banks [each with NPA more than Rs.4.00 billion] in 2011 had a share of 68.2% and 78.8% in total NPA in agriculture.

Table 5

Sector-wise NPA in Public and Private Sector Banks [Rs. Billion]

Sector	Public sector		Private sector		All SCBs	
	2012	2013	2012	2013	2012	2013
Priority	562[50.0]	669[42.9]	51[27.9]	52[26.0]	613[46.9]	721[41.0]
Agriculture	227[20.2]	280[18.0]	22[11.8]	22[10.9]	249[19.0]	302[17.2]
MSMEs	174[15.5]	284[18.2]	17[9.4]	20[9.9]	191[14.7]	304[17.3]
Others	161[14.3]	105[06.7]	12[6.7]	11[5.3]	173[13.2]	116[6.5]
Non-priority	563[50.0]	890[57.1]	132[72.1]	148[74.0]	695[53.1]	1038[59.0]
Total	1125[100]	1559[100]	183[100]	200[100]	1308[100]	1759[100]

Figures in parentheses indicate % share in the total NPAs

Table 6

NPA of Individual Public Sector Banks in Agriculture [2008-11][Rs. crore]

Bank	March 2008		March 2009		March 2010		March 2011	
	Agriculture	%$	Agriculture	%$	Agriculture	%$	Agriculture	%$
Allahabad Bank	278 [27.52]	03.0	203[18.8]	02.2	215 17.6]	01.9	549 [33.3]	04.1
Andhra Bank	13 [03.42]	00.2	17 [04.5]	00.2	26 [05.4]	00.3	116 [11.7]	01.2
Bank of Baroda	411 [22.11]	03.1	225 [13.5]	01.3	636 29.0]	02.9	772 [27.7]	03.1
Bank of India	410 [23.01]	03.1	336 [15.3]	02.0	490 10.9]	02.7	898 [20.6]	04.2
Bank of Maharashtr	106 [13.81]	02.2	112 [14.0]	02.5	232 19.2]	03.8	313 [26.7]	07.0
Canara Bank	260 [18.72]	01.4	287 [13.4]	01.4	462 18.4]	01.8	663 [22.2]	02.2
Central Bank	536 [22.80]	04.8	417 [18.0]	03.0	421 17.1]	02.3	418 [17.5]	02.2
Corporation Bank	77[13.19]	02.2	79[14.2]	01.8	122 [18.7]	01.8	217 [27.5]	05.1
Dena Bank	126 [22.04]	04.5	55[08.8]	01.4	83[13.0]	01.7	138 [16.3]	02.2
Indian Bank	47[09.93]	00.7	27[06.4]	00.3	55[12.0]	00.6	219 [30.4]	02.0
Indian Overseas Bank	281 [30.72]	03.2	156 08.6]	01.5	276 [08.0]	02.3	447 [16.0]	02.8
Oriental Bank of Com	167 [13.06]	02.5	133 [12.6]	01.5	276 [18.8]	02.5	425 [22.1]	03.4
Punjab & Sind Bank	53 [39.28]	02.2	18 [11.3]	00.6	42 [20.4]	00.8	066[15.4]	01.1
Punjab National Bank	1012[30.48]	05.1	537 [19.4]	02.2	977 [30.4]	03.3	1171[26.7]	03.3
Syndicate Bank	255 [14.51]	02.7	166 [10.5]	01.5	176 [08.8]	01.3	328 [12.7]	02.2
UCO Bank	359 [21.71]	04.5	285 18.5]	02.6	289 17.4]	02.1	697 [22.5]	06.1
Union Bank of India	324 [19.59]	02.8	270 14.0]	02.0	369 13.9]	02.1	856 [23.6]	04.2

Table 6								
NPA of Individual Public Sector Banks in Agriculture [2008-11][Rs. crore]								
Bank	March 2008		March 2009		March 2010		March 2011	
	Agriculture	%$	Agriculture	%$	Agriculture	%$	Agriculture	%$
United Bank of India	134 [17.56]	04.2	191 18.7]	04.9	204 14.9]	04.3	320 [23.6]	05.6
Vijaya Bank	55 [10.75]	01.4	75 10.7]	01.7	93 09.4]	01.8	363 [28.8]	07.3
IDBI Bank	42 [03.08]	00.9	118 08.2]	01.4	297 13.9]	02.4	244 [08.8]	01.6
State Bank of B &J	26 [05.95]	00.6	7 01.4]	00.1	7 01.1]	00.1	098 [11.8]	01.3
State Bank of Hydera	34 [10.81]	00.7	23 04.7]	00.3	55 08.4]	00.7	079 [06.9]	00.8
State Bank of India	2915[23.18	05.1	1789[11.8]	02.6	2322[13.0]	02.8	4518[19.6]	04.8
State Bank of Indore	40 [15.00]	01.3	18 [05.9]	00.5	19 [03.8]	00.5	00	00
State Bank of Mysore	30 [08.42]	01.0	25 [06.8]	00.7	43 [07.2]	01.1	282 [32.6]	05.3
State Bank of Patiala	193							
[37.10]	04.2	110 [19.1]	02.2	119 [11.8]	01.5	243 [17.6]	03.5	
State Bank of Saurash	28 [15.79]	01.3	-----	--	-----	--	-----	----
State Bank of Travanc	54 [09.53]	01.5	29 [05.3]	01.0	25 [03.8]	00.8	047[05.6]	00.8
Total	8266 [20.8]	03.3	5708[13.0]	01.9	8330[14.5]	02.2	14487[20.4]	03.5

Figures in parentheses indicate NPA % to total NPA $ indicates NPA % to outstanding agricultural credit

Table 7								
NPA of Individual Private Sector Banks in Agriculture [2008-11][Rs.crore]								
Bank	March 2008		March 2009		March 2010		March 2011	
	Agriculture		Agriculture		Agriculture		Agriculture	
Bank of Rajasthan	22 [17.47]	01.9	4[02.3]	00.4	7[02.5]	00.5	00	00
Catholic Syrian	8[05.85]	01.0	16[09.6]	02.3	7[04.6]	01.0	10 [05.0]	01.1
City Union Bank	6 [06.70]	01.9	4 [03.5]	01.0	16 [17.1]	02.4	26 [23.5]	02.2
Dhanlaxmi Bank	3 [04.41]	00.6	4 [05.6]	00.7	4 [05.3]	00.5	06 [08.6]	00.6
Federal Bank	36 [07.75]	01.5	68 [11.5]	02.7	65 [08.0]	01.9	135[11.8]	03.8
ING Vysya Bank	32 [27.96]	03.2	32 [15.5]	01.9	36 [16.1]	01.8	42 [28.0]	01.7

Private Sector Banks

The share of aggregate NPA in agriculture in the total NPA as also its percentage to outstanding agricultural credit remained almost the same level in 2008 and 2010 except significantly declining in 2009 because of massive loan waiver.

There was significant variance in the share of agricultural NPA in total NPA as also its percentage to outstanding agricultural credit among individual banks.

Two banks in 2008 and three banks in 2009 [each with NPA more than Rs.1.00 billion] accounted for 74.3% and 76.2% NPA in total NPA in agriculture whereas three banks in 2010 and four banks in 2011 [each with NPA more than Rs.1.00 billion] had a share of 82.1% and 83.6% in total NPA in agriculture.

Two banks, namely SBI C& I and Yes bank did not report any amount of NPA in agriculture in any of the four years.

NPA in SHGs & MFIs

Overall NPAs in loans to SHGs increased by 26% [Rs27.87billion] in 2013, against Rs22.13 billion previous year. Gross NPAs increased from 6.09% in 2012 to 7.08%in 2013. Banks' lending to MFIs has, also, not been insulated from increased NPA. With regard to bank loans to MFIs, NPA increased by Rs6.30 billion as against increase in NPA by Rs5.75 billion in SHG-bank linked programme.

Recovery of loans, a Must

The dispensation of credit by credit institutions for modernizing, mechanizing and commercializing Indian agriculture should be viewed from banks' ability to recycle the funds so disbursed for continuous development. Non-repayment of loans

Table 7								
NPA of Individual Private Sector Banks in Agriculture [2008-11][Rs.crore]								
Bank	March 2008		March 2009		March 2010		March 2011	
	Agriculture		Agriculture		Agriculture		Agriculture	
J & K Bank	28 [05.83]	03.4	30 [05.3]	01.6	32 [07.0]	01.4	47 [09.1]	01.6
Karnataka Bank	48 [12.68]	05.5	49 [11.1]	04.2	51 [09.2]	03.2	93 [13.3]	04.7
KarurVysya Bank	4[02.22]	00.3	5[02.4]	00.5	7 [02.9]	00.4	08 [03.7]	00.3
Laxmi Vilas Bank	5[03.59]	00.8	10 [06.7]	01.2	10 [03.1]	01.0	16 [10.2]	01.3
Nainital Bank	4[23.85]	02.5	4[21.6]	02.1	8[34.9]	03.5	03 [14.5]	01.1
Ratnakar Bank	3[09.22]	02.8	2 [11.9]	02.0	2 [08.6]	01.8	03 [17.2]	01.3
SBI C & I Bank	00	00	00	00	00	00	00	00
South Indian Bank	18 [09.70]	01.2	15 [05.7]	00.8	12 [05.7]	00.4	12 [05.0]	0.35
TamilNad M Bank	24 [19.58]	03.0	21 [17.5]	02.1	10 [09.0]	00.7	14 [10.2]	00.8
Axis Bank	109[22.47]	02.2	123[13.8]	01.5	248[19.1]	02.3	419 [26.4]	02.6
Centurion Punjab	56[10.36]	02.2	------	---	------	--	------	--
DCB	1[01.89]	00.1	9[03.0]	01.2	14 [04.3]	01.5	16 [06.0]	02.1
HDFC Bank	36[04.00]	00.4	101[05.1]	00.7	110[06.1]	00.6	145[08.7]	00.6
ICICI Bank	981[12.97]	03.9	874[09.1]	02.8	1303[14.1]	04.2	1116[11.4]	07.2
IndusInd Bank	30[07.76]	02.8	34[13.2]	01.1	31[12.0]	01.0	32[12.0]	00.9
Kotak M Bank	10[02.21]	00.5	37[05.1]	01.4	49[06.5]	01.4	27 [04.5]	00.6
Yes Bank	00	00	00	00	00	00	00	00
Total	1467[11.3]	02.5	1441[08.5]	01.9	2023[11.6]	02.2	2172[12.1]	02.4

is either due to inept appraisal of loan proposal or borrower's unwillingness to repay it. Thus, the success of institutional agricultural credit is determined by the extent to which the credit generates the ability and will amongst the borrowers to produce more than before and return the loans on schedule. Thus, a major concern of the policy makers has been to ensure banks' "financial viability". The reason for this is that institutions without financial viability cannot survive without their dependence upon annual appropriations from the Government to help cover costs and are, therefore, susceptible to political influence. Since costs exceeding revenue and inflation plus defaults erode banks' capital structure. Thus, while hassle-free, adequate and timely disbursement of loan has been acknowledged as sine qua non to stimulate, sustain and stabilize agriculture, on time repayment of farm loans is very much desirable,essential and pre-requisite for following reasons.

- To build confidence of the general public in the soundness of banking system that can motivate and encourage them to deposit their savings
- To reinforce the confidence of the lenders thereby increasing the flow of credit to large number of vulnerable and weaker sections of the society
- To reduce the cost of credit operations significantly by way of avoiding litigations
- To help bank management to quicken decision-making process in regard to its lending policies, procedure, system and operations
- To augment loanable resources to accelerate the pace of farm growth and development
- To assist credit institutions to access significant amount of refinance from refinancing institutions, such as NABARD
- To improve the efficiency of the operational staff and help them devote more time to develop new farmer-friendly savings, credit, insurance and payment products

Reasons for mounting overdues

Studies:

The RBI appointed Datey Committee on cooperative overdues [1974] observed that "one of the most potent reasons for non-recovery of loans was political patronage to defaulters, highlighting the retrogressive character of the rich peasant-dominated political complex in the country. Political patronage to defaulters is usually covert and invisible. Public statements by politicians impressed the borrowers that cooperative dues need not be repaid".

Even genuine borrowers interested in prompt repayment has second thoughts due to faulty/inept lending policies of the Rural Financial Institutions, viz. inadequacy of loans, cumbersome legal procedure of documentation, delays in sanction/disbursements, unrealistic due dates of repayment, lack of effective supervision, monitoring, follow-up over the end-use of credit, among others.

The Committee on Agricultural Lending by Commercial Banks while analysing factors contributing to unsatisfactory recovery of bank loans broadly classified factors into two groups, [i] internal factors for which bank/branches are responsible, viz. identification/selection of borrower, inept processing of loan proposal, inadequacy of loans, cumbersome legal procedure of documentation, delays in sanction/disbursements, unrealistic due dates of repayment, lack of effective supervision, monitoring, follow-up over the end-use of credit and [ii] external factors, viz. bad harvests, natural disasters [drought, floods, cyclone etc.],change in economic condition causing farm prices to drop, infructuous investment and insufficient income.The third reason for delinquency/default is not related to borrower's inability but rather to a self-imposed or guided unwillingness to repay.When enough funds are available farmers define priorities for their use. Apparently, repaying public sector bank credits is low priority. In some cases, farmers have the impression that credit is a gift made to ensure their loyalty and future support.Government often encourages it in times of political uncertainty/gains. Low interest rates and interest subvention, also, encourage delinquencies.While internal factors accounted for 16% of the total, external factors and wilful defaults had as high as 84% share of default.

The farmer's lack of enthusiasm towards repayment is aggravated by an observed general unwillingness of the Union and State Governments, through their credit institutions, to impose sanctions on those whose debts are overdue. If land is mortgaged as collateral credit institutions rarely foreclose since it has very lengthy, cumbersome and expensive legal procedure to follow.Denial of new loans is the usual penalty for failure to repay.Lack of proper records and of an effective collection procedure/system also contributes to poor repayment performance.

One of the important factors responsible for the ever-increasing level of NPAs in the Indian banking industry is the weak legal system. According to an international rating agency called FITCHIBCA, "The Indian legal system is sympathetic towards the borrowers and works against the banks' interest. Despite most of their loans being backed by security, banks are unable to enforce their claims on the collateral when the loans turn non-performing, and therefore, loan recoveries have been insignificant."

RBI's Initiatives

The RBI, in line with the international practices and in accordance with the recommendations made by the Committee on the Financial System, has introduced, in a phased manner, prudential norms for income recognition, asset classification and provisioning for the advances portfolio of the banks including agricultural loans so as to move towards greater consistency and transparency in the published accounts. The RBI acknowledges that the policy of income recognition has to be objective and based on record of recovery rather than on any subjective considerations. Similarly, banks have to classify their assets on the basis of objective criteria which would ensure a uniform and consistent application of the norms. Besides, provisioning has to be invariably made on the basis of the classification of assets based on the period for which the asset has remained non-performing and the availability of security and the realisable value thereof. Accordingly, the RBI advised commercial banks comprehensive guidelines covering the clearly defined concepts of income recognition, asset classification and provisioning norms for standard, sub-standard, doubtful and loss assets in respect of commercial bank's advances portfolio including specific requirements for agricultural credit portfolio. Banks have instantly responded the adoption of these guidelines being updated from time to time with latest update in July 2013.

In fact, the RBI had introduced the concept of classifying bank assets based on its quality andinstructed all domestic commercial banks on November 7, 1985to implement the Health Code System focusing on status of the quality (or health) of individual account under the eight defined categories, with a health code assigned to each borrowable account. This comprehensive Health Code System mandated banks to critically analyse and monitor quality of credit recovery system. This system, inter alia, provided information regarding the health of individual credit accounts, the quality of the credit portfolio and the extent of deteriorating condition of accounts in relation to total credit portfolio. This information proved to be of significant value to banks to initiate timely action to improve the financial health of the deteriorating account. The Narasimham Committee recognised the significance of income recognition and provisioning as fundamental to preserve the strength and stability of the banking system. Accordingly, the Committee revealed that the classification of assets according to the health codes was not in accordance with international standards. It was, therefore, necessary to bring to match the international standards particularly in respect of income recognition and provisioning norms based on asset classification. This required that Indian banks, prior to complying with the capital adequacy ratio norms, had to revalue their assets on a more realistic basis of their realisable value. Considering this fact the RBIinstructed scheduled commercial banks to implement prudential norms viz. income recognition, capital adequacy ratio, asset classification and provisioning requirements. There has been significant awareness among all stakeholders to continuously improve the financial health of the banking industry including co-operative credit institutions.

Need for focused attention

- While one or other part of the country annually witnesses drought, floods or such natural disasters impacting the recovery, the farmers' income need to be substantially improved through better technology, diversified activities and market access. Over the period of time the scheme of higher Minimum Support Prices [MSP] has helped mostly progressive and resourceful farmers and that too confined to selected pockets of a few States depriving universal benefits to all.
- Despite India has the largest irrigated land and ranks second in terms of arable land the yield of most of the crops is 20-40% of the world's best levels. As for example, yield of rice in 2011 in India was 3.2 tons per hectare as against 7.5 tons in USA, 6.7 tons in China and average of 4.3 tons for the world. Similar low yields of 1.0 ton per hectare for coarse cereal in India were noticed as compared with 2.7 tons in USA and 2.1 tons in China. Even the most productive States in the country fall short of world standards in terms of yields. During 2010-11, Punjab with the highest yield in rice produced 3.8 tons per hectare as against the world average of 4.3 tons. Yield of oilseeds in Tamil Nadu, the highest in India, at 2.1 tons per hectare was lower than 2.7 tons in China and the USA. Further there exists a wide variation in productivity of these crops within the same agro-ecological regions in India. A study carried out by ICAR to assess the size of untapped yield reservoir in different crops and in different agro-ecological regions at currently available levels of technology showed that the difference between the yield of demonstrations in farmers' fields and the average yield of the area varied by a factor 3 to 6. Annual Report [2007-08] of ICAR on the available exploitable production potential points out that integrating agricultural credit with technology and production inputs farmers can increase wheat production by 30 million tones or around 40% and double paddy production at current levels of technology. This can be achieved by bridging the existing gap between the actual crop yields at field level and the potential yields.
- The longer-term solution lies in putting appropriate risk mitigation systems in place for crop production. While crop insurance can be revisited in the light of international experiences the real longer-term issue lies in putting climate proofing systems in place especially in "climatic hot spots"
- The RBI appointed Committee to Review Arrangement For Institutional Credit for Agriculture & Rural Development in 1979 emphasised that " credit institution should have tailor-made loans according to the needs of specific areas and specific target groups" Banks, therefore, should not only develop need-based loan products for borrowers and location-specific area but also while sanctioning loans should fix realisticrepayment schedules based on the cash flows of borrower including other income, rather than one size-fits-all approach.
- Lending only those with investment opportunities sufficient to produce a significant marketable surplus can reduce defaults.
- To reduce delinquencies is to link repayment with marketing/processing of crops such as tobacco, cotton, sugarcane, fruits, tea, coffee etc.
- Improvement in bank's lending methodology is a continuous process which each bank can undertake rather than waiting for expert committees' reports and instructions issued by the RBI. There is need as also ample scope to improve lending methodology by individual bank in location-specific areas rather than making universal for the country as a whole.
- State-of-the-art technology to review, monitor and follow-up the individual accounts is a must.
- About 65 per cent of the cropped area in the country continues to be dependent upon vagaries of monsoon. This area is highly susceptible to total or partial crop failures. The farmers also are often the victims of the uncertainty of marketing of products. Besides, most individual farmers suffer from one calamity or the other. These circumstances warrant provision of relief for which the RBI has already issued instructions regarding the conversion and rescheduling of loans. In practice, however, these

facilities are rarely granted. As a result, the farmers are termed as defaulters and further credit is denied to them. It is, therefore, absolutely necessary for the field staff to appreciate the significance of RBI's instructions regarding provision of relief and granting fresh loan to the distressed farmers on time.

- In any case Government should not announce wholesale write-off loans and interest waiver. In case of crop failures in arid mono-cropped, unirrigated tracts and natural calamities banks must implement RBI's instructions for conversion and rescheduling existing loans and sanctioning fresh loans which must be monitored closely.
- Recovery and NPA management requires qualified, experienced and trained manpower with specific expertise in agriculture and rural banking and credit operations. The Government of India appointed Agricultural Credit Review Committee in 1987 emphasized that " a rural banker has to have not only the knowledge of banking per se, banking laws and practices but also various other skills. For instance, he has to have the right approach, attitude and a style of management, which is conducive to the genius and ethos of rural areas. He should also have the ability to assess the economic potential of the area in terms of activities, which offer scope for developing bank's lending business. Effective communication ability is another quality which a rural banker has to possess so that he could deal with the rural clientele and earn their confidence. A banker may need to have business acumen to perceive rural areas as a country's gold mine".
- Bank's staff should improve their contacts with the farmers and extend technical guidance and know-how on cropping intensity, use of fertilizers, optimum use of irrigation facilities etc. so as to enable the farmers to make productive use of credit and other resources. These contacts and technical support would bring about qualitative improvements in farm lending leading to a perceptible impact on the recovery performance.
- Role of field officers needs to be reoriented to satisfactorily perform dual task of [i] solving chronic overdue problems for old loans relating to incomplete, infructuous, failed investments and misutilized loans and [ii] introducing a more viable credit delivery system able to provide growing volumes of high quality loans to all eligible farmers including small farmers. More specifically, credit institutions need to strengthen their organization and introduce clearly/ well-defined structured activities and responsibility for field officers and their superiors, in terms of contacts with the farmers, training and guidance, and improving/ restructuring communication system between higher and lower level staff. Besides, field officers should establish and strengthen links with institutions supporting credit operations, viz. agriculture, irrigation, animal husbandry, input supply. marketing, electricity etc.
- There is need for banks to strengthen organizational machinery and streamline follow-up and supervision procedures and skills to pre-empt misuse of credit and diversion of funds for other purposes. Banks need to arrange for various facilities and supervisory services in collaboration with the concerned Government agencies and other organizations, where necessary, to enable farmers to make optimum use of credit. These would include supply of various inputs at appropriate time, facilities for transport, storage, marketing etc. and technical advice to help farmers adopt the technology and package of practices.
- Effective coordination among all stakeholders, viz. individual banks, Ministries and departments of Finance, Agriculture, Cooperation, Rural Development, NABARD and RBI is necessary to understand the ground level problems affecting the productivity, production and profitability of farming as an enterprise under Indian condition in each of country's agro-ecological regions separately where number of marginal, small and tenant farmers, share croppers, oral lessees are increasing and agricultural land per capita is significantly declining.
- For the development of agrarian economy the State Government and Banks represent two sides of the same coin and, therefore, the problem of recovery should no longer be viewed as an exclusive concern of the banks There are innumerable cases where borrowers wilfully evade their repayments obligations even though they have adequate repaying capacity and the bankers are forced to take recourse to their landed property where mortgaged to the banks. In such a situation, their inability to realize the security often encourages other fellow-borrowers for wilful defaults. Both should jointly create credit consciousness among farmers and educate borrowers through arranging meetings, is-

suing illustrative pamphlets, brochure, organizing audio-visual shows, producing documentaries on the subject and arranging for their screening in the villages and propagating the need for proper use of credit and prompt repayment through slogans, comics, dramas, folk songs, cartoons, stickers, slides etc. The ultimate focus should be to disseminate cardinal principles among the rural clients, viz. [i] credit must be used in accordance with the most suitable methods of Science and Technology [ii] the terms and conditions of the credit or techno-economic parameters must be fully respected [iii] work must be done with skill so as to increase productivity and income [iv] a part of the additional income generated by the credit must be saved and [v] loan instalments must be repaid on time and regularly so as to recycle credit.

- State Governments should get themselves involved in the matter of recovery of bank dues. This would motivate branch staff to lend more and more to improve the concerned State Government's rural economy.
- Public sectors banks and RRBs in particular are overburdened with implementation of a plethora of social welfare programs in which bank credit is invariably linked to Government's capital subsidy. Borrowers in these cases are motivated to access credit just to secure capital subsidy and not interested to acquire assets, generate income and repay credit. Since 1980s the central Government has introduced a plethora of schemes which are linked to bank credit. The District Rural Development Agencies and Government departments in order to achieve their physical targets create pressure on banks to sanction and disburse loans. These loans suffer from weaknesses like lack of proper planning, critical appraisal of the assumptions made in the Government schemes and importantly, lack of requisite manpower to implement schemes properly and monitor the benefits from implementation. Absence of a well-planned approach ultimately resulted into heavy overdues.

Monitoring studies required:

- In order to contain and efficiently manage NPAs in agriculture, data on NPAs [absolute amount, its percentage in outstanding agricultural credit, its share in total NPAs, etc.] for individual banks operating within a district must be collected and analysed each year to assess comparative performance among banks. This would help Bank managers identify the factors responsible for building up NPAs in agriculture in the district, discuss at District Level Coordination Committee meeting and seek cooperation of village Panchayats, Block& District Authorities to reduce NPAs.
- Each Bank's controlling office in each State must undertake similar studies each year and analyse data on NPAs district-wise within the State and discuss at the State Level Bankers Committee [SLBC] meeting to find solution to problems contributing the growth of NPAs.
- Data on NPAs must be incorporated district-wise & bank-wise in the Annual State Focus document prepared by NABARD for discussion in the SLBC meeting with a view to reducing the NPAs under any circumstances.
- Union and State Governments should create enabling environment, more importantly by investing adequately in connecting progressively all villages by roads, transport & communication network; strengthening research and extension services; establishing State-of-Art agricultural meteorology in all regions; developing floods & drought codes and irrigation facilities; creating food processing, storage and marketing infrastructure, and in any case not vitiating repayment climate.
- Each bank should focus on its farmer-friendly lending procedure, system & methods; human resources development & training policy and concentrate on financial literacy & credit counselling of farmers

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A CRITICAL REVIEW OF SOME MEASURES TO QUANTIFY CREDIT RISK IN LENDING

The methodological inconsistencies of Credit Risk measures coupled with the constraints of banks undermine the assessment of Credit Risk in lending

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BANKS have historically financed the risky credit loans with relatively safe deposits (Allen and Santomero, 2001). The Basel Committee on Banking Supervision (BCBS) in 1999 (Basel II, 1999a), classified the financial risks as: Credit Risk (CR), Market Risk and Operational Risk. CR is the classic risk (Allen and Santomero, 2001) and the greatest risk faced by banks (Hull, 2012). Basel II (1999b) described CR as the economic loss of the outstanding loan amount from the potential default by the counterparty or obligor or the borrower, i.e., non-repayment of the interest and principal due according to the schedule and terms agreed upon prior to granting the loan. Basel II (1999b) identified measurement of CR as an essential element of CR Management. It has acquired traction in the recent past for a host of reasons, such as: global financial crisis 2008 and structural increase in bankruptcies worldwide, greater accessibility of expanding capital markets to medium and small firms that is expected to leave behind more borrowers with weaker credit worthiness to raise funds from banks, increased competition for these lower quality borrowers that shrinks the interest rate spreads, asset bubbles, credit derivatives, technology and Basel II (Saunders and Allen, 2002).

In this context, this study aims to understand the measures used by banks to quantify credit risk. The rest of the paper proceeds as follows. Section II describes the concepts that underlie the risk measures. Some select credit risk measures are explained in the section III. Section IV critiques the strengths and weaknesses in the CR measures. The final section consists of the conclusion of the study.

Conceptual Building Blocks

Statistical Concept of Risk:

Risk analysis investigates answers to a set '{.}' of triplets '⟨.⟩': identification or description of scenarios (S_i), probability of that scenario (P_i), and measure of damage or consequence (L_i). An elementary representation of risk is $R = \{\langle S_i, P_i, L_i \rangle\}$; where i = 1, 2, 3,…,N. The scenarios are arranged in order of increasing severity of damage, i.e., $L_1 \leq L_2 \leq \ldots \leq L_N$. Ideally $N \rightarrow \infty$ but in reality few scenarios are available. If x represents a vector of stochastic observation that constitute the sample space, then the decision rule $\delta(x)$ is to estimate S from x. For a given S_i, the loss (L_i) likely to be incurred for the decision rule is $L(S_i, \delta(x_i))$. If E_S denotes the expectation operator over S, then the risk function, $R(S, \delta) = E_S\, L(S, \delta(x)) = \int L(S,\delta(x))\,dP_s(x)$ (Kaplan and Garrick, 1981).

Financial Concept of Risk:

Loans are often great monetary claims. Therefore, risk in Finance, primarily denotes the extent of loss, despite the conditional foundations of risk in statistics and the expected losses do not suffice in general. Let default occur on a loan (*C*) at time (*t*) between today (*0*) and the maturity (*M*) of the loan, *PD* denote the probability that the borrower will default, and exposure at default (EAD) or credit exposure (*CE*) is the maximum amount that the bank may lose at the time of default, then $CE(C, t) = \mathrm{Max}_{0 \leq t \leq M}\{0, PV[V(C, t)]\}$, and the credit loss $L = CE(C, t)[1 - R(C,t)]$; where *V(C, t)* is the value of the amount outstanding at time *t*, *PV[.]* converts the future values to present values, the rate of amount that can be recovered after default is *R(C,t)* and the factor *[1 - R(C,t)]* is referred to as the Loss Given Default (*LGD*). CR measurement methodologies, at present, differ in assumptions during calculations of these three components. Simple methodologies assume the *CE* to be notional value of the loan and multiply to it a fixed percentage that incorporates *PD* and *R* to estimate the *L*, whereas sophisticated methodologies create distributions of *PD, CE*, and *L* (Aziz and Charupat, 1998).

Credit Risk Measures

The following subsections explain in brief the methodologies that measure CR:

"Expert" Systems – 5 C's of Credit Quality:

Until 1980s, experts, i.e., bankers relied extensively on their subjective judgment over the cycle or macroeconomic conditions and 4 C's of borrower's profile, i.e., character or reputation, capital or leverage, capacity or volatility of earnings and collateral to predict the bankruptcy. The subjectivity from lack of relative importance among the 5 C's was overcome with flexible and adaptable Artificial Neural Networks (ANN), which could be trained. To explain, the structural matches of defaulting firms were found from database of historic repayments (or defaults) and weights assigned to each of the explanatory variables (5 C's) in the bankruptcy prediction function. The database was updated at every new loan evaluation (Saunders and Allen, 2002).

Accounting Based Credit Scoring Systems:

Univariate Analysis:

Lenders analyze key accounting ratios of a corporate borrower over time and compare with industry peers to estimate the credit worthiness and bankruptcy possibilities. The ratios used to gauge credit risk can be divided into the following broad categories: liquidity, financial leverage, turnover (of receivables), operational performance and valuation – Tobin's q (1969).

Multivariate Analysis:

Multivariate models combine and weight the key accounting variables to create (predict) a credit-risk score (PD). Loans proposals whose scores lie below certain thresholds are rejected or subjected to stringent conditions. Four such approaches are: linear probability, probit analysis, logit analysis, and discriminant analysis (DA). Logit model assumes that the cumulative PD values follow a logistic function and lie between 0 and 1. DA, the most popular approach, aims to ascertain a linear association of the accounting and market variables to provide a credit score and discriminate the borrower into possible repayment and default category (Altman and Saunders, 1998). Altman (1968) pioneered the use of DA on the accounting ratios for 66 publicly traded manufacturing companies, 33 of which filed for bankruptcy in the US from 1946 to 1965, and the rest were solvent, each with asset size between $1 million and $25 million, for the same period, to develop a discriminant function,

$$Z = 0.012X_1 + 0.014X_2 + 0.033X_3 + 0.006X_4 + 0.999X_5;$$

$$X_1 = \frac{\text{(Working Capital)}}{\text{(Total Assets)}}$$

$$X_2 = \frac{\text{(Retained Earnings)}}{\text{(Total Assets)}}$$

$$X_3 = \frac{\text{(Earnings before Interest and Taxes)}}{\text{(Total Assets)}}$$

$$X_4 = \frac{\text{(Market Value of Equity)}}{\text{(Book value of liabilities)}}$$

$$X_5 = \frac{\text{Sales}}{\text{(Total Assets)}}$$

Historically, credit rating agencies have used Z scores to rate borrowers (Saunders and Allen, 2002).

Latent Variable Models:

In these models default is triggered

when a variable for asset value falls below a certain threshold of liabilities, i.e., it becomes latent (Saunders and Allen, 2002).

Structural or Firm Value Models:
The Risk of Ruin or options-pricing models (OPM's) rely on the capital structure of a borrower to model CR. Merton (1974) conceived a model where a firm's equity is a European call option on the value of its assets, with strike price equal to the repayment required on the debt. In other words, the value of company's equity at maturity *M*, $E_M = \max(0, V_M - D)$, and now, $E_0 = V_0\Phi(d1) - De^{-rM}\Phi(d_2)$; where *D* is the amount of the debt outstanding at M, V_M (V_0) is the value of its assets at *M* (now), Φ_A is the volatility of assets, *r* is the risk-free rate, Φ(.) is the standard normal cumulative distribution function (CDF), $d_1 = \frac{\ln(V_0/D)+(r+\sigma_A^2/2)M}{\sigma_A\sqrt{M}}$, distance to default ($d_2$) $= d_1 - \sigma_A\sqrt{M} = \frac{\ln(V_0/D)+(r-\sigma_A^2/2)M}{\sigma_A\sqrt{M}}$ is the number of Φ*A*'s the V_0 must fall by to equal *D* and trigger default at time *M*. The firm defaults when the option is not exercised, and $PD = \Phi(-d2)$. (Saunders and Allen, 2002).

Intensity Based (IB) or Reduced Form (RF) Models:
Unlike OPM's, which assume the default process to be gradual, RF or IB models assume the default to be random. Default is reduced to a point process, with the stochastic default intensity or hazard rate for a surviving company as λ(t). If SR(t) is the survival probability, i.e., cumulative probability of no earlier default, then the probability of default between times t and t + Δt conditional on no previous default,

$\frac{SR(t)-SR(t+\Delta t)}{SR(t)} = \lambda(t)\Delta(t).$ Taking limits,

$-\frac{dSR(t)}{d(t)} = \lambda(t)SR(t)$ and integrating,

$$SR(t) = e^{-\int\lambda(t)d(t)} = e^{-\bar{\lambda}(t)} \Longrightarrow PD(t) = 1 - SR(t) = 1 - e^{-\bar{\lambda}(t)},$$

where $\bar{\lambda} = \frac{s(M)}{LGD}$ the average hazard rate till time τ, and s(*M*) is the observed credit spread of the loan, with maturity *M*, over the risk-free rate (Hull, 2012).

Mortality Based or Acturial Models:
Initially developed for bonds, Actuarial models endeavor to construct mortality tables for annual default rates like that in actuarial science. The tables can be used to combine the default rates and loss exposure to forecast the loss function that resembles a Poisson distribution. If μ is historic mean default rate and n = 0, 1, 2,… be the defaults percentage in an exposure band, then $p(n) = \frac{e^{-\mu}\mu^n}{n!}$. Expected losses in that exposure band = μ × *V*(exposure band), where *V*(.) denotes the money value. If unexpected loss rate at αth percentile =*k* such that $\sum_{n=0}^{k} p(n) \geq$ (α/100), then unexpected losses in that exposure band = *k*× *V*(exposure band). At present, Actuarial Models are employed by the Credit Rating agencies and by banks under the Standardized Approach, Basel II. (Altman and Saunders, 1998; Saunders and Allen, 2002).

Credit Value-at-Risk (VaR) Models:
Vasicek's Model:
Credit *VaR* is the credit loss (*L*) that will not be exceeded over some time horizon (*T*) with a specified confidence level α ∈ (0,1). If the probability distribution of losses be given by $P(L \leq l)$, then $VaR_\alpha(L) = \inf\{l \in R, P(L \leq l) \geq \alpha\} = \inf\{l \in R, P(L>l) \leq 1-\alpha\}$. Vasicek (1987) defined the worst case default rate, $WCDR_\alpha(T)$, as the αth percentile default rate distribution during *T* equals $\Phi\left(\frac{N^{-1}(PD)+\sqrt{\rho}N^{-1}(\alpha)}{\sqrt{1-\rho}}\right)$; where $\rho \cong 0.12(1+e^{-50PD})$ (BCBS, 2001) is the copula correlation between for each pair of loans with same *EAD* and *PD*. $VaR\alpha(T, L_i) = EAD_i \times LGD \times WCDR\alpha(T)$. In a large portfolio of m loans, where $M = \sum_{i=1}^{m} EAD_i$ and each $EAD_i << M$, portfolio $VaR_\alpha(T) \cong \sum_{i=1}^{m} VaR_\alpha(T, L_i)$. Vasicek's (1987) model can be (is) used to estimate (compute) economic (regulatory) capital (BCBS, 2001). Actuarial models can also compute Credit *VaR* (Hull, 2012).

A Critique of Credit Risk Measures
Loans, unlike securities, are not always traded. Hence a history of daily price fluctuations and following loss distribution is not available. Moreover, defaults are often non-recurring events and rare compared to negative returns from securities. Therefore, unlike in market risk, daily measures of CR exposure cannot be framed. These challenges are exacerbated for firms that are not publicly traded.

The objective and consistent ANNs that improved over the subjective expert systems have three substantive drawbacks. First, the model can over-fit to a particular database. Second, ANNs proliferate copiously and are costly to operate. Third, ANNs cannot be checked for accuracy and transparency due to the lack of economic interpretation of steps. Structural errors manifest only when the PD estimates are conspicuously inaccurate. The accounting based multivariate models are also objective and consistent like ANNs but inexpensive to apply. Besides, the DA models are less likely to misclassify good loans as bad than ANNs. Multivariate models are strikingly similar in their use of accounting ratios that have the most statistical power to differentiation a solvent firm from a defaulter. But these models cannot sufficiently explain why the explanatory variables influence default. Second, accounting data is available after discrete time lags and cannot monitor CR like capital markets. Third, the real word is not linear unlike represented in the DA. Subsequent credit models are better aligned with financial theory. Merton's (1974) model and its extensions offer robust and more frequent estimates of the risk-neutral PDs that are lower than physical or real world PDs. Economic and Regulatory Capitals require physical and not risk-neutral PDs. This under prediction problem is severe for firms with low leveraged and equity-price volatility. However, the risk-neutral PDs can be calibrated to obtain physical ones. Besides, firm's assets do not obey lognormal assumptions. Also, the Model is static: it does not distinguish between debts as per seniority, collateral and covenants; the firm never changes its debt structure; and interest rate term structure is constant. Furthermore, equity markets have anomalies, and price volatility is not a reliable proxy for credit risk. Finally, default in OPM's, occur with ample warning at maturity. In real world, however, defaults are sudden events. This aspect is addressed by RF Models. Besides, IB models decompose debt prices and can better reveal complex term structure of defaults. But the pricing of bonds is often unreliable, even in the developed markets, which distorts the results of IB models. Actuarial models that simply require historic default data to model mean default rates and compute expected (unexpected) losses are straightforward, but the volume of data required to minimize the standard error and render estimates statistically reliable is humungous. Besides, the assumption of mean default rate should equal its variance is not true, especially for poor credit quality firms. In reality, defaults are correlated and higher (lower) in expansions (contractions). VaR does not always satisfy subadditivity property of a coherent risk measure, i.e, sometimes $VaR_\alpha(L_1 + L_2) > VaR_\alpha(L_1) + VaR_\alpha(L_2)$. This may lead to concentrated and risky optimal portfolios. (Altman and Saunders, 1998; Allen and Santomero, 2001; Saunders and Allen, 2002; Hull, 2012).

Conclusion

This study indicates that every Credit Risk measure has its strengths and weaknesses. Historically banks employed accounting based measures to appraise individual borrowers. But sweeping changes in the global financial system in the past two decades have led banks to rely more on sophisticated credit risk models that can predict default and losses at early stages and measure Credit Risk of large loan portfolios at more frequent intervals. However, these measures produce remarkably different estimates for Credit Risk and also have methodological inconsistencies, especially as regards loans. Moreover, banks lack huge and accurate long-term time series database of loan default experiences needed to render the outcomes of the models statistically reliable. All these constraints undermine assessment of Credit Risk in lending.

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MA

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'WE ENCOURAGE WOMEN TO TRANSFORM INTO ENTREPRENEURS'

MS. USHA ANANTHASUBRAMANIAN, CMD, Bharatiya Mahila Bank

Q & A

MA How is Bharatiya Mahila Bank different from the other banks? Are there differences in work culture?

First and foremost, Bharatiya Mahila Bank is very similar to any other Public Sector Bank in India and is governed by all the rules, regulations and guidelines as applicable to any other Public Sector Bank. At the same time, the Bank is unique in more than one way. This is the only Bank in India that has been formed with a vision of economic empowerment of women. This is the only Bank that has within 12 months of its formation, opened 37 branches across the country – all branches on Core Banking Solutions and with onsite ATMs. This is the only Bank that has, within one year of its operations launched Internet banking facility for its customers with many value added features. This is a new age Bank among Public Sector Banks.

The Bank, while has all general banking products, it predominantly lends to women and towards this end, designs products and services taking into account the core strengths of women.

The work culture in the Bank is a capricious blend of domain knowledge, expertise and innovation in the banking sector. On the one hand there are officials at various levels in the Bank drawn from other banks on deputation as well as from the open market. On the other hand, there are also the Direct Recruit Officers DROs who have been inducted afresh into the banking mainstream through IIBF. The expertise and domain knowledge of the one segment coupled with the fresh and innovative thinking of the newgen officers becomes an added advantage to the work culture of the Bank as a whole. The diversified unity in the work culture, ultimately results in benefitting the customers.

MA What is your vision for the bank? What have been the major initiatives taken during your tenure with this organization?

My vision is translating the vision of the Bank into reality – the vision of Economic empowerment of women. We are striving to reach maximum number of women in maximum number of households in India within the shortest possible time.

As to the initiatives, the setting up of the Bank in itself was a challenge. Many banks have commenced operations consuming more timeframe. Bharatiya Mahila Bank (BMB) commenced operations within 55 days of the licensing from RBI. Formulating of policies, rules, regulations, the various systems and procedures are all now in place. We have been working to increase our footprints across India and today you can see a BMB branch in almost all the States.

Besides the traditional products like Home Loan, Car Loan and basic deposit products, we introduced several women centric loan products to make women contribute to the economic growth of the country. The Bank won the Core Banking System Initiative Award of the year 2014 by the Asian Banking and Finance - Retail Banking Awards 2014, Singapore.

The Bank is also an active participant in Prime Minister's Jan Dhan Yojana.

MA Is there a need to set up a separate bank for women? How will this bank be beneficial for women?

India is the second most populous country in the world. Women who constitute almost half of the country's population are truly under leveraged economic assets. If they can become part of mainstream economy, engaging in any economic activity, it can mean a lot. It is a bitter truth that only 26% of women have regular, formal bank accounts and only a very negligible percentage of them have formal access to banking. In terms of economic empowerment of women, according to a study by Booz and Co., India is ranked 115, out of 128 countries. In India, generally most of the decisions relating to money and finance are taken by the male members on behalf of women. However, Indian women have a long history of saving and borrowing. Women for their financial needs depend mostly on the local moneylenders, despite knowing that it would be too long before they get out of their clutches. It is also a fact that the Indian woman, irrespective of her literacy level, is shy of going to a Bank; shy of entering into the Bank and interacting with the officials of the Bank.

MA What are the constraints you are facing to expand a new bank with new objectives?

The main challenge is awareness creation among the general public about the Bank. The other challenges relate to brand, manpower, setting up of infrastructure, processes and system. Banking is such an industry that needs brand identity in great degree. As a new Bank, the challenge is to establish the brand.

MA What specific areas of banking are you going to focus currently?

CASA and SME will be the major focus areas. As a start-up Bank, we need to get our core strength from CASA. To achieve our objectives of bringing more women from different economic strata into the main stream of national economy, through formal banking process, we will be focusing on SME and Micro credit and priority sector. We also identify the bottom of the pyramid and SHGs as a key vertical.

> **'AN INDIVIDUAL BANK ACCOUNT ADDS PRIDE AND CONFIDENCE TO WOMEN CUSTOMERS. THE PRODUCT SUITE, CUSTOMER SERVICE AND ABOVE ALL COMPREHENSIVE FINANCIAL LITERACY TO BOTH RURAL AND URBAN WOMEN IS IMPORTANT TO INSPIRE THEM TO OPEN AN ACCOUNT WITH BMB AND CONTINUE THEIR BANKING RELATIONSHIP WITH BMB'**

MA What new products will Mahila bank introduce specially for women entrepreneurs?

We have already introduced many women centric products like BMB Annapurna, BMB Parvarish, BMB Shringaar etc. where the hidden potentials of women can be turned into entrepreneurship. BMB Annapurna is a loan for running catering services even from home. BMB Parvarish is a child day care centre loan. BMB Shringaar is a loan for setting up own beauty parlours/salons. Komal kali, is a unique Recurring Deposit Product for empowering the girl child. We plan to introduce special loan products for Women Enterprises which manufacture "made in India products".

We are also developing a product for Micro Educational loans. This micro educational loan will be for students pursuing short term courses that are offered with assured placement.

MA Rural Women are not much aware and literate to handle all the legal and other formalities of banking. What steps will the bank take to reach out to those rural women?

Our Bank is keen on reaching the unserved. All the branches of the Bank are conducting Financial Literacy Camps on every Saturday. Presently we are in almost all the State Capitals. We are in the process of establishing around 20 rural unbanked centres across the country. We are also participating in the Prime Minister's Jan Dhan Yojana. We will also be introducing Business Correspondent and Business Development and Facilitator Models of Banking. The Bank will leverage technology to its optimum to reach the rural women. The Bank's mobile banking to be launched shortly will be an opportune tech-enabled application to reach out to the rural masses.

MA How do you propose to tackle the problem of collateral, as most women neither own property nor land in their own names?

We understand clearly two things. One – women do not own properties and cannot offer collaterals. Two – they do not need large loans. To help the woman entrepreneur tide over the asset ownership problem, the Bank has tied up with CGTMSE to provide collateral free loans. Generally, women entrepreneurs start with less capital and then scale up gradually. The Bank, encourages women transform into entrepreneurs, with collateral free loan of upto Rupees one crore.

MA What is your further expansion plan? Will the bank take up wholesale banking in a big way?

Besides brick and mortar branches, the Bank will have Business Correspondent, Business Development and Facilitator Models of Banking and tech enabled services.

MA What constraints do women bankers face given the huge pressures in present banking scenario?

It is true that Banking is considered a high pressure job next to IT Sector. Considering the additional roles played by a woman in her home front, the pressure is more on the women employees.

Women need to work double to prove themselves. They are always being watched for quality work they put through.

Women are smart workers but mobility has become a problem and hence they decide to stagnate at certain levels. This is not desirable, as they develop a tendency to remain contended, do not update themselves and they also scuttle their career aspirations. As a result, the Bank loses out on good workers – good workers with limited exposure.

To overcome the work pressures and continue with their improved performance, women need to keep looking for mentors in the offices and maintain a strong support system at home.

MA What strategy do you follow to inspire and encourage women to open an account?

We believe in knowledge and service - Strong knowledge about the products and processes for our officers. Our Direct Recruit Officers are highly enthusiastic and energetic. The DROs are given intensive training on the various products of our Bank. This helps them explain each product in detail and according to the requirement of the potential customer and convert them into a customer. Our field level functionaries including the Branch Heads, take up camp mode activities where they interact with the General Public, understand their needs and then the business conversions happen automatically. The service that we provide endears us to our customers.

The need to have an individual bank account adds pride and confidence to women customers. The product suite, customer service and above all comprehensive Financial Literacy to both rural and urban women is important to inspire them to open an account with BMB and continue their banking relationship with BMB. For example the BMB Savings Bank account offers an interest of 4.5% upto an amount of one lakh rupees and 5% for the entire amount if the amount is above one lakh rupees. Features like this are explained to them during the camps. We also conduct workshop and counselling session for women entrepreneurs towards achieving the vision of our Bank – economic empowerment of women. Be it our branch or camp or workshop, the woman walks in with hope and walks away with an assured confidence, empowered to face the world, with new perspectives.

MA What roles could professionals like Cost and Management Accountants play to assist Bharatiya Mahila Bank in enhancing performance and competitiveness?

First of all, we have an MoU in place to enhance the coming together of BMBians and Cost and Management Accountants. Students pursuing this course can avail of educational loans from BMB and the bonding starts from here.

BMB encourages professionals to start practice and this MoU supports Cost Accountants, particularly women Cost Accountants to set up practice where women practitioners enjoy interest concessions.

'CMAs CAN HELP FIs TO OPTIMISE COST EFFICIENCY WITHOUT COMPROMISING QUALITY'

MR. CHANDRA SHEKHAR GHOSH

Chairman & Managing Director of Bandhan Financial Services Private Limited

Q&A

MA Microfinance institution "Bandhan" has become a bank recently. What is your experience so far in this journey?What are the basic business plans you are working on?

Bandhan was started in 2001 with a vision of poverty alleviation and women empowerment. Looking back I feel glad that we have not deviated from our vision. It has so far been a journey of learning and growth. As a NBFC-MFI we have presence in 22 states and union territories of India, providing financial services including credit, insurance, pension and remittance to around 60 lakh people. As we become bank we will be able to include liability products in our portfolio. We are going through a phase of transition, which comprises of work in area of new product development, IT infrastructure creation, recruitment, training, change management and many more.

MA "Financial inclusion operation" and "banking operation" are two different aspects. How do you plan to manage both?

I donot agree with the opinion of putting "financial inclusion operation" and "banking operation" in two different compartments. For me the purpose of existence of banking operation is to facilitate financial inclusion.

MA Being NBFCs, you may face several challenges for transition into a bank. What are those challenges did you face so far?

How would you deal with all these?
Managing change is always a challenge. Presently we are having around 14,000 employees on our payroll serving a particular segment of the society. As a bank both the depth and width of our services will expand. Managing the human resource, keeping a balance between the existing employees and new recruits is a sensitive issue. Lack of basic infrastructure in remote rural areas is also posing some difficulty.

MA How do you see your organization shaping up to cope with the bigger responsibility?
I am confident of honouring the responsibility entrusted on us by the Reserve Bank of India.

MA What is Bandhan's vision for the next five years down the line?
Our vision is to provide basic banking services to all, specially the population residing in unbanked areas so that there is no financially excluded individual in our country.

MA Who would be your target customers to achieve competitive edge in this industry?
The first goal for the new bank will be having financial viability. Therefore we will tap all the segments as applicable to any bank in our country.

MA How will you differentiateyour products/ services with other existing banks?
We are the first microfinance institution in India to be given an in-principal approval for banking licence. Our work is different. I think we need to communicate with the masses about the work that we have been doing over a decade now.

MA What was the motivation to get license from RBI to operate "Bandhan" as a full-fledged bank?
Like all of us a poor person living in remote area also desires to create wealth, for growing small business, funding consumption needs such as marriages, education of children etc and to overcome life exigencies. They too aspire for a better standard of living. As a bank we will be able to provide them this opportunity by giving the access to a large number of financial products including liability products. As a NBFC-MFI we also have credit ceiling of Rs.50,000, which will go away once we become a bank.

MA How micro finance can help to build a strong economy for the nation?
Microfinance creates a platform for increased accessibility of financial products for those, whom the banks often discard as too small to transact with. In doing so it promotes entrepreneurship. The enterprises in turn create employment opportunity for local people, which ultimately lead to economic growth.

MA What kind of support do you expect from RBI and Government?
They are playing a very supportive role.

MA In the banking business NPA is a burning issue nowadays. What would be your strategy for NPA management?
Maintaining stable relationship of trust with the borrowers and making them financially disciplined hold the key to our present recovery rate of more than 99.5%. To manage NPA efficiently one also has to appropriately analyze cash flow and meet the demand of the borrowers quickly.

MA What is your future expansion plan?
We will provide banking services to all, across the country.

MA Being a successful entrepreneur what message would you like to convey to the new entrepreneurs?
Dream big, be confident, be patient with the failures and keep working very hard to fulfil the dream.

MA Which are the areas, you feel, Cost Management is necessary in the sectors like banking and micro finance? Please suggest in what way Cost and Management Accountants may offer their expertise knowledge in this quest?
Controlling cost increases efficiency in the system. The most cited reason of under achievement in financial inclusion is high cost. So, there is much scope of work in this area. Cost Management Accountants can help the financial sector organizations to reach the optimal level of cost efficiency without compromising the quality of services. They can also help in simplifying the processes, so that there is minimal paper work and reduced dependence on consultants.

STUDY ON INDIA'S NPA MANAGEMENT EFFICIENT BANKS

This survey proposes an Index of NPA Management Efficiency (INPA) to measure the efficiency of banks to manage NPAs instead of the present practice of ranking Indian domestic commercial banks on the basis of proposed index scores

Dr. Manas Kr. Baidya
Malda College, Malda

The biggest challenge for the banks in India is the efficient management of non-performing assets (NPAs). NPAs adversly affect the profitability, liquidity and solvency. While the importance of NPA management of banking institutions is widely recognized, the literature lacks a comprehensive measure that can be used to measure the extent of NPA management efficiency of banks. This research survey attempts to fill this gap by proposing an Index of NPA Management Efficiency (INPA). Present research study tries to rank Indian domestic commercial banks on the basis of proposed index scores. The INPA is a multi-parameters index that captures information on various aspects of NPA management of the banks in one single digit lying between 0 and 1, where 0 denotes the worst NPA management while 1 the best.

I. Methodology

We measure INPA of each of the select banks for the year 2010-11, 2011-12 and 2012-13 following the approach proposed by Sarma 2008. Our proposed index is computed based on the four parameters of NPA management.

1. GNPA Ratio (%) [Gross NPA / Gross Advance]
2. NNPA Ratio (%) [Net NPA / (Gross Advance – Provision for npa)]
3. NPA addition Ratio (%) [Amount of Gross NPA Addition during a particular year / Opening Balance of Gross NPA of that year]
4. NPA Recovery Ratio (%) [Amount of Gross NPA Recovery during a particular year / Opening Balance of Gross NPA of that year]

We first calculate parameter wise index of each bank.

For the first three selected parameters (which indicate lower the value, higher the performance) we follow the formula –

$$p_i = 1 - \frac{(A_i - m_i)}{(M_i - m_i)}$$

For the fourth parameter (which indicates higher the value , higher the performance) we follow the formula –

$$p_i = \frac{(A_i - m_i)}{(M_i - m_i)}$$

where

A_i = Actual value of parameter i
m_i = minimum value of parameter i
M_i = maximum value of parameter i

The above formula ensures that $0 \le pi \le 1$. Higher the value of pi, higher the relative bank's performance in parameter i is.

Index of non-performing asset management (INPA) is then calculated for each bank by the folowing formula -

$$INPA = 1 - \frac{\sqrt{(1-p_1)^2 + (1-p_2)^2 + \quad + (1-p_n)2}}{\sqrt{n}}$$

In the above formula, the numerator of the second component is the Euclidean distance of pi from the ideal point, normalizing it by n and subtracting by 1 gives the inverse normalized distance. The normalization is done in order to make the value lie between 0 and 1 and the inverse distance is considered so that higher value of the INPA corresponds to better NPA management.

II. Sample Banks

The present study selects 30 Indian banks consisting of 26 from public sector banks and 4 from private sector banks in India, operating in 2010-11, 2011-12 and 2012-13. Banks having the amount of gross non-performing assets of 5 digit figure in Million during 2012-13 are selected as the sample banks.

III. Data Source

All the data are annual and secondary in nature. Annual bank level data are obtained from the 'Statistical Tables relating to Banks in India' available on the official website of Reserve Bank of India (http://rbi.org.in).

IV. How the banks are ranked

Estimated index score values clearly rank the Indian Banks in the arear of NPA management. Magnitude of index score measures the extent of robustness of banks relative to other banks towards credit risk management efficiency. In other words, higher the index score the more robust it is.

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NPA Management Efficiency based Ranking of Indian Banks

	2013		2012		2011		
Banks	INPA Score	Rank	INPA Score	Rank	INPA Score	Rank	Composite Rank
Corporation Bank	0.620	5	0.580	2	0.651	1	1
Bank of Baroda	0.562	7	0.555	6	0.568	5	2
Canara Bank	0.511	10	0.569	3	0.552	8	3
Dena Bank	0.570	6	0.568	4	0.528	11	4
Bank of Maharashtra	0.705	1	0.543	8	0.507	15	5
State Bank of Travancore	0.624	4	0.407	21	0.570	4	6
Syndicate Bank	0.674	3	0.545	7	0.490	19	7
Axis Bank Ltd.	0.529	9	0.564	5	0.498	17	8
Allahabad Bank	0.216	29	0.601	1	0.567	6	9
Vijaya Bank	0.695	2	0.495	11	0.453	23	10
State Bank of Patiala	0.539	8	0.486	14	0.499	16	11
Bank of India	0.490	12	0.443	18	0.522	12	12
Federal Bank Ltd.	0.485	14	0.460	16	0.513	13	13
State Bank of Hyderabad	0.509	11	0.515	9	0.453	24	14
Indian Overseas Bank	0.377	21	0.485	15	0.535	9	15
Oriental Bank of Commerce	0.474	15	0.392	23	0.559	7	16
HDFC Bank Ltd.	0.488	13	0.489	13	0.477	20	17
IDBI Bank Limited	0.390	20	0.410	20	0.534	10	18
Punjab National Bank	0.338	25	0.396	22	0.570	3	19
Indian Bank	0.408	18	0.451	17	0.490	18	20
Punjab & Sind Bank	0.391	19	0.496	10	0.432	26	21
United Bank of India	0.344	23	0.423	19	0.508	14	22
Central Bank of India	0.282	28	0.102	30	0.617	2	23
Andhra Bank	0.335	26	0.494	12	0.451	25	24
Union Bank of India	0.454	16	0.365	25	0.391	27	25
State Bank of Bikaner & Jaipur	0.376	22	0.349	26	0.470	21	26
State Bank of Mysore	0.341	24	0.373	24	0.459	22	27
ICICI Bank Ltd.	0.431	17	0.310	28	0.221	29	28
State Bank of India	0.317	27	0.233	29	0.291	28	29
UCO Bank	0.160	30	0.320	27	0.181	30	30

3 - Days Workshop on 'Values & Ethics for Professional & Leadership Excellence'


The Directorate of Research and Journal of the Institute in collaboration with The Rabindranath Tagore Centre for Human Values, Kolkata conducted a 3-days workshop workshop on 'Values & Ethics for Professional & Leadership Excellence' from November 28, 2014 till November 30, 2014 at EIRC Auditorium of the Institute. Professor (Dr.) S.K Chakraborty, Mentor Emeritus, Rabindranath Tagore Centre for Human Values, Prof. B.K Sarkar, Vice Principal, Prof. (Mrs.) Anupurba Banerjee, Assistant Tagore Fellow were among the eminent dignitaries who took the session and shared their views on the concerned theme. The objective of conducting the workshop was to provide value based knowledge on "Rajarshi Parampara" or "Model of Leadership", its fundamentals and how it affects in Leadership styles in modern day's management. On the very first day, the discussion topic was "Holistic Performance Effectiveness - Human Values & Ethics", where holistic effectiveness - its essential components, triple psychological forces - "sattwa", "rajo" and "tamo" guna, the "lower" and "higher" self and the moral law of "cause" and "effect" were covered vividly. On the second day, the "Art & Science of work" and "Work and its Secret" were discussed in depth with real life case studies. It was explained that let us perfect the means; the end will take care of itself. Third day started with the teaching of "Rajarshi Model" in action, the importance of the discipline of leader and utility of cohesive teamwork. "Rajarshi model of Leadership" ('Raja + 'Rishi') was discussed in a splendid manner for inculcating the concept amongst the next generation of Leaders. There were discussions mainly based on the examples from "The Foundation of Indian Culture" by Shri Aurobindo and "The Complete Works of Swami Vivekananda". Examples like "simply the possession of power would not be the knowledge", 'seeing' must precede 'doing' in every sphere of life etc. were illustrated in a befitting approach. CMA Bibekananda Mukhopadhyay, Secretary, EIRC was the Chief Guest in the opening session. The workshop has been able to transmit a positive thought wave amongst the delegates that "with the means all right, the end must come". This three days workshop was ended with the maiden valedictory speech of CMA Manas Kumar Thakur, Chairman, Research, Innovation & Journal Committee of the Institute. The workshop was attended by people from different strata of society viz. United Bank of India, UCO Bank, Garden Rich Shipbuilders & Engineers, Coal India, Professors from different colleges. Delegates who attended the workshop may afterwards can do the self SWOT analysis of "Why", "When" and "Where" lies the defect in the characteristics of an individual and if tried sincerely, one can easily exceed those defects with the help of the noble ideas and thoughts imparted by the expert faculties engaged in the workshop.

From the Research Desk

NPA Management and Corporate Debt Restructuring (CDR)

Role of CMAs

- **Non Performing Assets Management -** An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. A non performing asset (NPA) is a loan or an advance where interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan. NPA can affect adversely the profit of the bank, asset valuation, bank rating, Capital adequacy ratio and Cost of funds adversely. Thus CMAs can act as consultants and suggest the preventive measures on accounts which provide distress signal.

- **Techno-Economic Viability of the Project -** Due to inapt technology and Management Information System (MIS), market driven decisions on real time basis cannot be taken. If proper MIS and financial accounting system is not implemented in the banks, it will lead to poor credit collection, resulting creation of NPA. All branches of the bank should be computerized with techno-viable MIS. In this regard, banks may consider verification of all financial and business transactions, books of accounts in order to ascertain real factors that contributed to sickness of the borrower. Hence professionals like CMAs with proven expertise and track record can assist in preparation of techno – economic viability study of the projects of the borrowers.

- **Selection of Borrower -** The CMAs can lend a hand for effective pre-enquiry by the bank for sanctioning the loan to a customer, ensure credibility of the borrower and find out the original purposes of the loan required by the borrower by feasibility study of the project. Combining traditional wisdom with modern statistical tools like Value-at-risk analysis and Markov Chain Analysis CMAs can assess the creditworthiness of the borrowers. In case of new borrowers, especially corporate borrowers, proper analysis of the cash flow statement of last five years is to be checked. Proper identification of the guarantor should be checked including scrutiny of his/her wealth.

- **Risk Mapping -** NPAs influence the degree of risk, uncertainty, quality of assets and profitability of a bank adversely. The non-standard and non-productive assets of a bank is a major encumbrance faced by banking industry and financial institutions. Alarming growth rate of NPAs, willful defaults, faulty processing of loan proposals are the causes for loan assets becoming NPAs. NPAs impinge on the cost competitiveness, revenue generation, interest income, operational surplus, profits, and provisions. The CMAs can help in the risk management procedure by Resource Mapping and Risk Mapping techniques. The problem of NPAs can be tackled only with proper credit assessment and risk management mechanism.

- **Controlling Embezzlement and Diversion of Funds -** The CMAs can assist the banks for effective and regular follow-up of the end use of the funds sanctioned. This process can be undertaken every quarter so that any potential NPA can be properly identified and accounted for.

- **Corporate Debt Restructuring -** This mechanism is highly applicable in the management of Non Performing Assets. The CMAs can initiate appropriate measures for reduction and recovery of NPA by understanding the psychology of the borrowers, analyzing the causes of default and adopting a practical and pragmatic approach and removing the fear prevailing among the decision makers. CMAs would help to conduct viability study in case of restructuring or rehabilitation and also aid in ensuring the correctness of methods/systems adopted by borrowers in pricing their products.

- **Credit Audit and Concurrent Audit -** Constructive management of Non Productive Assets is an utmost necessary for growth and sustainability of the business. The CMAs can carry out Credit Audit and Concurrent Audit to facilitate banks in identifying potential Non Performing Assets (NPA) which would help the management to take necessary action before the assets become bad.

NPA scenario of Banks in India

Bank Name	Net Non performing Assets			Market Capitalization		Problem Asset Ratio	
	"Mar-2013 (Rs. In Cr)"	"Mar-2014 (Rs. In Cr)"	"Growth over 2013"	"Mar-2013 (Rs. In Cr)"	"Mar-2014 (Rs. In Cr)"	Mar-13	Mar-14
Allahabad Bank	4126.76	5721.81	38.65%	6325.38	4947.78	2.512846	3.658723011
Andhra Bank	2409.18	3342.47	38.74%	5288.03	3770.56	2.538489	3.499332793
Axis Bank	704.13	1024.62	45.52%	60891.99	68618.45	0.702736	0.820900803
Bank of Baroda	4192.03	6034.76	43.96%	28738.04	31173.14	1.458977	1.800730618
Bank of India	5947.31	7417.22	24.72%	18025.98	14701.33	1.936632	2.070621548
Bank of Maha	392.93	1807.32	359.96%	3001.01	3268.29	0.971821	2.094437271
Canara Bank	5278.07	5965.46	13.02%	17031.14	12193.41	1.516974	1.537829204
Central Bank	4988	6650	33.32%	6988.24	6752.2	3.151197	3.962430235
City Union Bank	96.39	197.29	104.68%	2837.31	2919.73	0.753359	1.172529849
Corporation Bank	1410.88	3180.56	125.43%	5874.04	4635.83	1.058015	2.130363711
DCB Bank	49.13	74.02	50.66%	1066.72	1525.7	1.904043	1.070245024
Dena Bank	917.18	1818.92	98.32%	3129.54	3256.48	1.280332	2.093509499
Dhanlaxmi Bank	261.02	301.88	15.65%	389.52	455.24	2.749374	3.307039661
Federal Bank	431.94	321.56	-25.55%	8220.25	8168.23	2.17974	1.450450897
HDFC Bank	468.95	820.03	74.87%	148498.36	179652.89	0.583092	0.607999783
I O B	4027.21	5658.12	40.50%	6025.13	6300.29	2.700919	3.281309879
ICICI Bank	2230.56	3297.96	47.85%	120586.35	143843.63	1.788277	1.760119147
IDBI Bank	3100.36	4902.3	58.12%	10695.32	10497.79	1.998027	3.023581676
Indian Bank	2384.3	2763.65	15.91%	7452.21	5355.07	2.189794	2.435424185
IndusInd Bank	136.76	184.05	34.58%	21165.52	26335.16	0.62347	0.711999483
ING Vysya Bank	9.1	102	1020.88%	8636.76	11832.22	0.221248	0.434781171
J & K Bank	55.27	101.99	84.53%	5773.24	7451.62	0.897324	0.996467299
Karnataka Bank	377.75	538.04	42.43%	2462.68	2208.95	1.535669	1.772231172
Karur Vysya Bank	108.74	139.91	28.66%	4842.39	4011.75	0.611507	0.540734953
Kotak Mah. Bank	311.41	573.56	84.18%	48619.19	59930.2	0.905815	1.209608823
Lak. Vilas Bank	283.81	443.39	56.23%	793.41	694.14	2.603261	2.6459046
Oriental Bank	2902.66	3904.42	34.51%	7305.67	6689.65	2.080597	2.55006627
Pun. & Sind Bank	1110.38	1918.6	72.79%	1479.67	1241.51	1.909463	2.698590847
Punjab Natl.Bank	7236.5	9916.99	37.04%	25361.47	26941.63	2.811432	3.428074318
S B T	988.58	1928.5	95.08%	2594.25	2107	1.721143	2.922474926
South Ind.Bank	249.53	281.67	12.88%	3286.02	2990.18	0.871312	0.786489298
St Bk of Bikaner	1303.28	1137.93	-12.69%	2891.35	2307.9	2.459999	3.001243645
St Bk of India	21956.48	31096.07	41.63%	141782.31	143214.52	3.263174	3.432875113
St Bk of Mysore	1208.75	1630.27	34.87%	2595.76	2046.43	3.093424	3.804075285
Syndicate Bank	1124.77	2720.6	141.88%	6618.44	6027.2	1.384561	1.830819934
UCO Bank	4069.31	3556.42	-12.60%	4195.91	7402.31	3.584039	2.763345554
Union Bank (I)	3353.37	5340.25	59.25%	13013.01	8647.72	2.021092	2.6967882
United Bank (I)	1969.98	4664.11	136.76%	2113.36	1733.59	2.58589	5.689631441
Vijaya Bank	909.69	1262.37	38.77%	2324.08	3415	1.381254	1.445748468
Yes Bank	6.99	26.07	272.96%	15368.66	14912.05	0.095173	0.160462993

"Market capitalisation: The market capitalisation shows how much it would cost to purchase the entire company at the current share value
Formula: outstanding shares x share value = market cap
Problem Asset Ratio= (Gross NPA/ Total asstets) X 100
It is an indicator of severe stress inside a bank because it shows the bank's ability to withstand loan losses."

Source: Compiled from various sources

READING THE ROSETTA STONE: THE NEW GST CONSTITUTION AMENDMENT BILL

The GST Constitutional amendment Bill awaits a crucial passage through the parliament and ratification by the states. Even in its present form, it seems like an on-going work-in-progress and no Rosetta Stone of tax softening

Dr. Ravindran Pranatharthy
Advocate – Indirect Taxes & IPRs

The Rosetta Stone that provided the key to decipher Egyptian hieroglyphics

"The Arrears of taxes which lay on the peoples of Egypt he (Ptolemy V) remitted, an amount immense, how much is not known"

- Rosetta Stone Inscription, Egypt 200 BC

According to Charles Adams, the tax historian, the Rosetta Stone was essentially a tax compact to notify mainly the grant of tax immunities and for the forgiving of oppressive tax debts which was issued by King Ptolemy V in an act of desperation to buy peace with his rebellious subjects. It was considered noteworthy that the tax document was inscribed on durable stone rather than written on papyrus. Over time, the phrase Rosetta Stone has come idiomatically to signify a clue to understanding of any field of knowledge. The present Tax story in India could be said to be at a similar crossing in history. India's governments – Union, State, and Local – have been expanding areas of expenditure and are in dire need of a new tax system to shore up their spending fortunes. Far from considering a tax softening for the citizens, they are contemplating a new Tax system that would produce additional revenues of a considerable kind. No government would obviously be interested in a new tax model if it were to fetch lower collection of revenues. The GST as a cure for several economic maladies afflicting the country is the panacea high on the shopping list. The government is willing to abandon the present decades-old indirect tax structure and is ready to plump for the new GST model. They have seen the GST around the world and are not disappointed of course. No government in the world has been worse off for having introduced the GST. The aftermath of GST could be a different tale of policy, strategy and wisdom. The Union government has laid out a bold gambit by pushing ahead with a new constitutional amendment bill on the much-trumpeted GST, instead of waiting endlessly for the elusive total consensus with the States. The States, especially the consuming states, have been told that they would pocket sizable additional revenues under the GST arrangement and that the centre would compensate them for as long as five years on a tapering scale if it so happened that they incurred tax losses under the GST. The second wind to the GST Constitutional amendment has set the stage for interesting times in the Indirect tax scenario in our country. The amendment is essential to unveil the GST statutes later. The resolute move of the Union government has been welcomed by the industry and business even though no one has any clearer idea on the crucial things such as the rate of taxation and who gets or loses what. The Industry will be happy for the singular blessing of having a common indirect taxation across the country in the place of a plethora of such taxes. The tax certainty should facilitate stable business pricing, but dual collection by the Center and the states could be a dampener. The struggle on the rates of GST that would be levied could come later. All things considered, the one hundred and twenty second constitutional amendment bill is the key to the shape of things to come with the GST. In this Article, we will look at the prominent contours of the new GST constitution amendment bill and discuss the clues it offers for the coming GST framework. As of this writing, it has been introduced in the Lok Sabha and the government hopes that there will not be any need to refer it to any panel which will result in delay since the lapsed earlier GST bill has been extensively studied and the new bill is claimed to take off from the bill that failed. The Government has even stated that States can take time to make up their mind to join the GST bandwagon but not later than a year in any case.

The GST constitution bill defines some fundamental terms and delineates the all-important GST Council. The principal features of the bill are analyzed herein below:

Who can levy GST?

A new Article 246A provides that the Union and the States as well as a Union Territory with a legislature will simultaneously be able to levy the Good and Services tax except the inter-state GST which will be the domain of the Union Parliament.

"246A. (1) Notwithstanding anything contained in articles 246 and 254,

Parliament, and, subject to clause (2), the Legislature of every State, have power to make laws with respect to goods and services tax imposed by the Union or by such State.

(*2) Parliament has exclusive power to make laws with respect to goods and services tax where the supply of goods, or of services, or both takes place in the course of inter-State trade or commerce".*

The bill does not provide any clue as to the maximum GST that can be levied nor the floor rates. This is understandable since the rate of taxation is a matter of flexible policy tied to circumstances that the governments would be faced with. The Bill does not give any indication as to whether there will be simultaneous dual collection of the same tax by two different tax agencies. A single tax collection by a single tax agency across India is what the citizens ardently desire besides a benign and unoppressive rate of taxation.

The proposed definition of GST - disquietingly wide

New entries are proposed in Article 366 as follows:

"(12A) "goods and services tax" means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption".

(ii) after clause (26), the following clauses shall be inserted, namely:—

'(26A) "Services" means anything other than goods;

(26B) "State" with reference to articles 246A, 268, 269, 269A and article 279A includes a Union territory with Legislature;'

The above meanings are notable for the omission of what constitutes supply for levying the GST. Citizens would want to know if the taxable supply included grant, assignment or surrender of rights and obligations per se or underlying a transaction. Perhaps, what is intended by the government is wide latitude to the legislature in determining the scope and extent of what is supplied so as to attract the GST. Planned in this manner, the GST is bound to become a virtual income tax on the transactions. There have been disputes in the advanced GST jurisdictions abroad on the scope of what constitutes supply for GST purposes. For example, in a recent case involving the airliner Qantas, it was reported that the High Court of Australia ruled that non-refundable airfares are subject to the deduction of GST even if the passenger did not show up and there was materially no supply of air-travel provided by the airliner. If these trends are any indicator, the Indian GST is likely to be far more rigorous than the current Indirect taxation in the country which has been somewhat liberal as compared to a GST scenario obtaining in select GST jurisdictions abroad. However, the die cast been cast since July 2012 in the area of service tax by the insertion of section 66E in the Finance Act 1994 which includes a controversial provision that would tax obligations and rights. Transactions on account of say, forfeiture, fore-closure, guarantee, business-compensation and cooperative corporate behaviour for mutual benefit could well be brought within the scope of taxable supply.

GST on Inter-state supply of Goods and services:

In a major departure from the present Central Sales Tax system, the GST amendment bill provides vide Article 269A that:

"269A. (1) Goods and services tax on supplies in the course of inter-State trade or commerce shall be levied and collected by the Government of India and such tax shall be apportioned between the Union and the States in the manner as may be provided by Parliament by law on the recommendations of the Goods and Services Tax Council.

Explanation.—For the purposes of this clause, supply of goods, or of services, or both in the course of import into the territory of India shall be deemed to be supply of goods, or of services, or both in the course of inter-State trade or commerce.

(2) Parliament may, by law, formulate the principles for determining the place of supply, and when a supply of goods, or of services, or both takes place in the course of inter-State trade or commerce.

Institutional Framework for Common GST Policy

The constitutional amendment bill by means of a new Article 279A provides for the creation of a GST Council and describes it at some length. This structure will be headed by the Union Finance Minister as Chairman and will have the Union Minister of State for Revenue and all State Finance/Taxation/ nominated Ministers as members. The Council is tasked with the following items of work to be mentioned in the Constitution:

"The Goods and Services Tax Council shall make recommendations to the Union and the States on—

(a) the taxes, cesses and surcharges levied by the Union, the States and the local bodies which may be subsumed in the goods and services tax;

(b) the goods and services that may be subjected to, or exempted from the goods and services tax;

(c) model Goods and Services Tax Laws, principles of levy, apportionment of Integrated Goods and Services Tax and the principles that govern the place of supply;

(d) the threshold limit of turnover below which goods and services may be exempted from goods and services tax;

(e) the rates including floor rates with bands of goods and services tax;

(f) any special rate or rates for a specified period, to raise additional resources during any natural calamity or disaster;

(g) special provision with respect to the States of Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand; and

(h) any other matter relating to the goods and services tax, as the Council may decide.

(5) The Goods and Services Tax Council shall recommend the date on which the Goods and Services tax be levied on petroleum crude, high speed diesel, motor spirit (Commonly known as petrol), natural gas and aviation turbine fuel".

The workload of the GST Council is obviously heavy since the Council is intended to act as the homogenizer and overseer of the GST law in the country. There is no explicit guarantee that its recommendations are of a binding nature. But clauses 9 & (10) of Article 279A providing for the establishment of this Council give a clue as to the unmissable significance of the Council's recommendations and how they will not be a mere debating club of governments, in the following words:

"(9) Every decision of the Goods and Services Tax Council shall be taken at a meeting, by a majority of not less than three-fourths of the weighted votes of the members present and voting, in accordance with the following principles, namely:—

(a) the vote of the Central Government shall have a weightage of one third of the total votes cast,

and

(b) the votes of all the State Governments taken together shall have a weightage of two-thirds of the total votes cast, in that meeting.

"(11) The Goods and Services Tax Council may decide about the modalities to resolve disputes arising out of its recommendation."

If the intention is not to have an effective GST Council with a binding nature of its recommendations, there would be no need to refer to the finalized parleys of the Council as "decision" and to think about resolving inter-governmental disputes arising from the decisions of the Council.

The Veto in the Union Vote

The GST council as an Apex deliberating mechanism is all fine, but acrimonies in its discussions cannot be ruled out. The central government does not want the potential discords to derail the GST council and as the prime mover and an important stake-holder it seeks to legitimize its well-intentioned stewardship of the GST system. The mechanism to achieve all this is the effective veto it has given itself in the voting pattern prescribed for the Council by the amendment bill vide clause (9). Since for a council decision to weigh upon all the governments it needs a minimum 75% vote of the members present and voting in the council, the Central government with its 33% plus voting power could freeze any unwelcome recommendation by any combination of the states (including all the states voting en bloc for a proposal which is not favoured by the Union government) in the Council which collectively have only 67% voting power which is not enough to make a binding recommendation. On the other hand, if the Union government wishes to carry through a proposal which it likes, it does not need the votes of all the states. It would require additionally just below 42% of the voting power of the states collectively. Thus, it can afford some amount of dissent by some of the states. The quorum for the Council meetings is set at 50%. The votes have the weighted basis as follows:

Illustration:

In terms of clause (9) of the proposed article 279A, the "weighted votes of the members present and voting" in favour of a proposal in the Goods and Services Tax Council shall be determined as under:

$WT = WC+WS$

Where,

$$WT = WC + WS = \frac{WST}{SP} \times SF$$

Wherein—

WT = Total weighted votes of all members in favour of a

IT IS UNDERSTANDABLE BUT UNFORTUNATE THAT THE COMPULSIONS OF CARRYING THE STATES ALONG AND THE FISCAL INSUFFICIENCIES DO NOT MAKE FOR A PERFECT FIT

proposal.
WC = Weighted vote of the Union = i.e., 33.33% if the Union is in favour of the
proposal and be taken as "0" if, Union is not in favour of a proposal.
WS = Weighted votes of the States in favour of a proposal.
SP = Number of States present and voting.
WST = Weighted votes of all States present and voting i.e., i.e., 66.67%
SF = Number of States voting in favour of a proposal

It is curious that the voting illustration is given not in the proposed amendment of the constitution but in the statement of objects and reasons accompanying the bill. The illustration makes the Union vote a positive exercise where the central government favours a proposal and where it does not, its vote is taken as zero but that zero is inconsequential because the combined voting power of the states will not be enough to come anywhere near the 75% mark required to make their decision count.

Sop to "Origin" states: 1% additional non-vatable tax

As if the windfall from the GST harvest will not be enough, the Union government has dangled a sweetener of 1% additional non-vatable tax on the inter-state clearances of goods and services. The proceeds will be given to states from where the taxable supply of goods and services originates. Though this extra taxation is said to be for a period of two years or as recommended by the GST council, it is almost certain that it will be difficult to eradicate this tax once the "origin" states get used to the revenues. This will be an additional burden that the people of this country would have to bear.

The objectives stated by the GST Constitution amendment Bill

In the Statement of Objects & Reasons as well as in the Financial memorandum accompanying the bill, it is stated that –

1. The goods and services tax shall replace a number of indirect taxes being levied by the Union and the State Governments and is intended to remove cascading effect of taxes and provide for a common national market for goods and services.

2. The proposed Bill, which seeks further to amend the Constitution, inter alia, provides for—

(a) subsuming of various Central indirect taxes and levies such as Central Excise Duty, Additional Excise Duties, Excise Duty levied under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955, Service Tax, Additional Customs Duty commonly known as Countervailing Duty, Special Additional Duty of Customs, and Central Surcharges and Cesses so far as they relate to the supply of goods and services;

(b) subsuming of State Value Added Tax/Sales Tax, Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States), Octroi and Entry tax, Purchase Tax, Luxury tax, Taxes on lottery, betting and gambling; and State cesses and surcharges in so far as they relate to supply of goods and services;

(2). The objective {is} that the introduction of goods and services tax will make the Indian trade and industry more competitive, domestically as well as internationally and contribute significantly to the growth of the economy.

These principles would be put to the test when the government comes out with the actual GST statute. The sting is usually in the details. The tax legislations are notorious for their fine print of significant impact.

Conclusion

The GST Constitutional amendment Bill awaits a crucial passage through the parliament and ratification by the states. Even in its present form, it seems like an on-going work-in-progress and no Rosetta Stone of tax softening. The exclusion of a range of petro products is also a cause for concern. It is understandable but unfortunate that the compulsions of carrying the states along and the fiscal insufficiencies do not make for a perfect fit with the preferable GST principles. The eventual GST features on the threshold turnover, rates of taxation, exemptions withdrawn and inter-state trade rules will be keenly watched by the taxpayers. The policy-makers would do well to remember that all the significant economies in India's Asian neighbourhood barring Pakistan have GST rates of 12% or less. The pundits have asked for a rate of exactly the same. Anything like the figures of 16% or 20% or the unconscionable 27% being bandied about will surely pull the curtains down on the GST-induced prospects of an eagerly awaited India growth story. The GST idea has caused unease in some circles that it would end tax competition among the states to the distinct disadvantage of investing businesses. However, the benefits of a common tax law and stable rates of taxation for the country as a whole hopefully at moderate levels should come as a blessing for the Indian industry and business. MA

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TAXING DEEMED DIVIDENDS

The law on taxation of dividends is complicated when we apply the deeming provisions. We can take comfort in the fact that such deeming provisions will have to be interpreted strictly, but circulars issued by the Board may not always bring out the correct position in the law

TCA Ramanujam
Chief Commissioner of Income Tax (retd.), Advocate High Court, Madras

TCA Sangeetha
Masters in Law

One of the most complicated provisions in the Income Tax law relates to the taxation of dividends. There was a time when private companies chose to accumulate profits without distributing the same to the shareholders in order to avoid high super taxes on companies in vogue at that time. To check this practice, we had Section 104 in the Income Tax Act, 1961. Later on, there was refinement in the tax law. What was to be checked was the practice of avoiding taxation through the medium of loans and advances to shareholders or for their individual benefits without paying tax. If it is paid out as dividends, the shareholder will have to pay tax on such dividends. If it is given as loans, it will be a capital payment. Section 2[22] was introduced in the Act to check this malpractice. The Section applies to a company in which the public are not substantially interested within the meaning of Section 2(18) of the Act. The company should have made the advance or loan to a shareholder who beneficially owns atleast 20% of the equity capital, if it is made before 1st June, 1987. After this date, the Section will hit a shareholder who beneficially owns atleast 10% of the equity capital or, a HUF, firm, Association of Persons, or Body of Individuals in which such shareholder who is beneficially entitled to atleast 20% of the income or the loan is made to company in which the shareholder beneficially owns atleast 20% of the equity capital. At the time of making the loan, the company should possess accumulated profits and the payment of loan will be deemed to be dividend to the extent of such profits. Mere book entries or misappropriation of the company's funds will not constitute payment by the company. Repayment of the loan within the same financial year will not affect taxability (Sarada vs. CIT 229 ITR 444). The Section applies to a person who is a registered shareholder and not a beneficial shareholder.

The severity of the provision is mitigated by exceptions to the rigors of the law. Regular business transactions between concerns cannot be treated as loans and advances and will not fall within the ambit of deemed dividends. Trade advances made in the ordinary course of business will not also be taxed.

CIT vs. SurajDev Dada (2014) 367 ITR 78 (P&H)

In this case, Suraj Dev Dada was engaged in trading of vehicles and spare parts. An advance was made to the shareholder and there was a running account in the company. It was a current account. The shareholder was making advances to the company as and when required for the purposes of business. But, on 55 days in the accounting year there was a credit balance in the account of the shareholder. Revenue sought to tax the same as deemed dividend. The question was whether section 2[22] [e] of the ACT can be invoked to bring such credit to tax as deemed dividends. It was noted that for most time it was the individual shareholder who lent money. Section 2[22](e] was meant to stop the misuse of the taxing provisions by the assesses by taking the funds out of the company by way of loans or advances instead of dividends and thus avoid tax. There was a running account which showed credit balance on some days. No real benefit was derived by the shareholder. It was held that Section 2[22] (e) will not apply. This was a genuine business transaction between two entities and funds of the Director were infact lying with the company for most of the time. There was no intention to evade tax. The Punjab High Court held that Section 2[22] (e) will not apply to the facts of the case.

AT THE TIME OF MAKING THE LOAN, THE COMPANY SHOULD POSSESS ACCUMULATED PROFITS AND THE PAYMENT OF LOAN WILL BE DEEMED TO BE DIVIDEND TO THE EXTENT OF SUCH PROFITS. MERE BOOK ENTRIES OR MISAPPROPRIATION OF THE COMPANY'S FUNDS WILL NOT CONSTITUTE PAYMENT BY THE COMPANY. REPAYMENT OF THE LOAN WITHIN THE SAME FINANCIAL YEAR WILL NOT AFFECT TAXABILITY (SARADA VS. CIT 229 ITR 444)

CIT Vs. Impact Containers (P) Limited 367 ITR 346 (Bom)

In this case, Revenue made a determined bid to get a restatement of the law on this subject so as to rope in advances to a concern in which the shareholder is beneficially interested substantially. Credit balances were shown in the name of Impact Containers (P) Limited in 4 private companies in which a Director of Impact Containers (P) Limited held more than 10% of the shares. But Impact Containers (P) Limited was not a shareholder in any of the 4 companies. The question was whether section 2[22] (e) will apply to the case of a loan to the concern in which the shareholder was substantially interested. Reliance was placed on the Explanatory Circular issued by the Central Board of Direct Taxes in 1987 (Circular No.495 dt.22nd Sept, 1987). The Board took the view that Section 2[22] [e] will apply to the borrowing concern in which the shareholder had substantial interest. The Circular was relied upon to indicate the intentions of the legislature. It was argued that if the borrowing concern was left out of Section 2[22] [e], the intention of the legislature would get frustrated and defeated.

The Bombay High Court reviewed the entire case law on the subject. All payments by way of dividends have to be taxed in the hands of the recipient of the dividend, namely, the shareholder. The Bombay High Court rejected the argument that the Section does not contemplate any requirement of the loanee being a shareholder. It referred to a number of Supreme Court Rulings and judgments of other High Courts and pointed out that the tax on dividends can be levied only in the hands of the shareholders and not on the borrowing concern in which he is interested. The decision should be read with care as it will benefit all Corporate Secretaries dealing with transactions between the company and the shareholders with substantial interest.

CIT vs. VIR VikramVaid (2014) 367 ITR 365 (Bom)

The question considered in this case was whether Section 2[22] [e] will apply in the case of expenditure incurred on premises in which the owner of the premises is a majority shareholder. The premises were let out to the company. The company incurred expenses towards construction and improvement of the premises. Revenue wanted to tax such expenditure in the hands of the landlord shareholder. The rent was found to be lower than the prevailing market rate. Section 2[22] [e] was invoked by the Revenue even though there was no loan or advance. The company had taken the premises on rent. There was no payment by the company on behalf of the assessee shareholder or for his individual benefit. The expenditure was only on repairs and renovation. The High Court negative the claim of Revenue on the ground that there was no loan or advance.

Critics have doubted the correctness of the above judgment. Benefit to a shareholder of the type contemplated in the above case was considered an indirect way of circumventing section 2[22][e]. Reference may be made to the Ruling of the Supreme Court in Alagu Sundaram Chettiyar's case 252 ITR 893.

Conclusion

The Section casts an artificial liability on the substantial shareholder. The initial burden to prove that Section 2[22] [e] is attracted is on Revenue. However it is open to the affected taxpayer to show that he falls in the exception to the main provision. It will also be noted that w.e.f 1.4.2003, tax is levied on the company on profits distributed as dividends under Section 115[o]. Simultaneously, ordinary dividends in the hands of shareholders are exempted under Section 10 [34].

The law is complicated when we apply the deeming provisions. We can take comfort in the fact that such deeming provisions will have to be interpreted strictly. Circulars issued by the Board may not always bring out the correct position in the law as we have seen above in the case of CIT vs. Impact Containers (P) Ltd 367 ITR 346 (Bom). MA

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TAX TITBITS

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SHOME PANEL – ALARMING RECOMMENDATIONS

Shome Panel's final recommendations are such as to require immediate reaction not to accept any of them. Economic Times dated 4th December 2014 has already raised its voice against the third report of the Panel, but revenue consideration may prompt tax administration to accept such recommendations, so that awareness of the seriousness of the proposals merits attention

(i) Fringe Benefits Tax (FBT) – Proposal for revival

Fringe Benefits Tax (FBT) has been a tax, which has been tried and dropped. It is a tax supposed to tackle evasion of tax by the employees on their fringe benefits in cash and kind. But the scope of FBT had gone far beyond this object, which could have been easily tackled by a closer attention to the emoluments in cash and kind. In fact, Rule 2BB and Rule 3 of the Income Tax Rules, if enforced, are sufficient to counter any leakage of revenue. This tax targets legitimate business expenditure of an assessee by providing for ad hoc disallowances. Manufacturing industries with a large work force, which deserve encouragement for creating employment, are worst hit by this tax. Revival of FBT would be a step in the reverse gear. The recommendation should not be entertained by the Government.

(ii) Banking Cash Transaction Tax (BCTT) – Another proposal for revival

Banking Cash Transaction Tax (BCTT) has the object for curbing tax evasion by cash transactions. In fact, the superstition that cash payments are not genuine, while banking transactions are, is already embodied in sections 40A(3), 269SS and 269T requiring transactions above Rs. 20,000 to be in account payee cheques and account payee drafts. Any cost-benefit analysis would show, that the purpose is not served, in respect of transactions covered by these provisions, which affect only genuine transactions. There cannot be a more retrograde step on the part of Government, if this law is brought back. There has been absolutely no innovative approach from the Panel in the past or present recommendations.

(iii) Tax on agricultural income

The proposal to bring back tax on agricultural income beyond Rs. 50 lakhs overlooks the constitutional limitation. The limit is so high, that the revenue will not be commensurate with the effort involved. Agricultural income is already included for rate purpose. It is only large plantation companies in corporate sector, which would be affected, but it can be easily avoided by splitting the income by demergers as is being done by individuals by way of gifts and joint families by way of partition. The recommendation for taxing agricultural income is on account of widespread practice of unaccounted income being brought to books as agricultural income. It is a matter for investigation and not for blind application of taxing all agricultural income, which will affect the most important agricultural sector.

(iv) TDS – Review is recommended

Shome Committee recommendation for revamping and extending TDS (Tax Deduction at Source) is meant more to favour additions of more items. It is only a vicarious liability imposed on the taxpayer made worse by faulty interpretations and failure to exercise responsibility in issue of tax deduction certificate under section 195(2)/ (3) or 197. In fact, upward revision of minimum limit even in present provisions is necessary. There is a case for dropping the horrendous provision of disallowance of payment itself for non-deduction over and above the payment of tax failed to be deducted with interest and possible penalty.

(v) Amnesty – Proposal not to resort to it

The recommendation to discourage any proposal for amnesty is ill-timed. Mr. S.Gurumurthy, veteran journalist, has recommended amnesty for gold deposits by way of Gold Bonds. In fact, infrastructure funds scheme and gold bond scheme may be simultaneously introduced without any question as to source of investment, so as to mobilise considerable amount of subscriptions to substitute foreign direct investments, which are hot moneys liable to be withdrawn in times of stress. These schemes may be accompanied by law providing for confiscation of gold beyond prescribed ceiling as recommended by him. In order to remove any inhibition against tax free amnesty scheme, tax may be levied on withdrawal of gold at the market rate of gold under the Gold Bond Scheme and taxation of entire amount on encashment of infrastructure bond in the year of encashment. There is lesser likelihood of withdrawal of gold or encashment of the bonds, if they are made taxable on redemption. An independent authority to monitor the gold and these bonds may be created. Such limited amnesty is not much different from immunity offered by way of interest waiver and penalty waiver under section 273B of the Act.

NATIONAL TAX TRIBUNAL ACT, 2005 IS DECLARED UNCONSTITUTIONAL

New body to substitute the High Court under National Tax Tribunal Act, 2005 stands aborted before it is born on its being struck down by the Supreme Court in Madras Bar Association v. Union of India [2014] 368 ITR 42 (SC). The reasons are that this Act constitutes an encroachment on the supervisory powers of the High Court over the Tribunal and that the selection process of members of such Tribunal does not conform to the requirements of appointment of judicial personnel. The delicate balance of power between three wings of the Government viz. legislative, executive and judiciary is breached. Permissibility of Chartered Accountants and Company Secretaries to argue legal matters of importance was felt to be adverse to the spirit of the Constitution in not ensuring justice according to law. This decision of the Supreme Court would cause widespread disappointment to the Chartered Accountants and Company Secretaries as their expertise is under-rated by the Supreme Court for practice of law, even where the disputes involves intricacies of accounting or corporate law. In fact, there is a case for a more active role for Cost Accountants in resolving disputes relating to manufacturing industries.

TRANSFER PRICING - NOT APPLICABLE FOR TRANSACTIONS ON CAPITAL ACCOUNT

An important decision has been rendered by the High Court on transfer pricing. The issue of shares at a premium less than what it is justified by the transfer pricing rules allegedly constituting an understatement of premium by about Rs.13,000 crores, it was held, cannot affect assessee's taxable income, so that the addition was held unjustified in Vodafone India Services Pvt. Ltd. v. Union of India [2014] 368 ITR 1 (Bom). It is hailed as a Daniel come to judgement removing a hurdle to the flow of non-resident investments to India. Determination of arm's length price cannot apply for capital transactions. This decision, it is reported, will be accepted by the Government. MA

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DIRECT TAXES

Case Laws

- **No clubbing of interest-free loan given by 'Shahrukh Khan' to his wife from whom she had purchased assets -** 'Shahrukh Khan' gave interest-free loan to his wife, Gauri Khan, who in turn, purchased a residential house and jewellery from said loan amount. The department clubbed the value of loan amount in the net wealth of 'Shahrukh Khan'. Extending cash loan to wife does not come within the definition of 'asset' as provided under section 2(*ea*) of the Wealth tax Act and thus, it could not be said that there was a transfer of asset; the impugned loan amount was not includible in net wealth of assessee - *Shah Rukh Khan* v. *Assistant Commissioner of Wealth Tax, Central Circle-29, Mumbai* [2014] 52 taxmann.com 252 (Mum. - Trib.)
- **ITAT invokes MFN clause to import make available clause from India-Portugese DTAA into the India-Sweden DTAA -** Swedish-company could claim Fee for Technical Services ('FTS') received from its Indian subsidiaries as tax-exempt if 'make available' condition was not satisfied, as India-Sweden DTAA contained Most Favoured Nation clause ('MFN' clause) as per which 'make available' clause in India-Portuguese DTAA could be imported into the India-Sweden DTAA - *Sandvik AB* v. *Dy. DIT (International Taxation)* [2014] 52 taxmann.com 211 (Pune - Trib.)
- **"Stake money" or "prize money" paid by race clubs to horse owners would not attract TDS under section 194B -** The term 'any other similar game' found in *Explanation* (*ii*) to Section 2(24)(ix) is inclusive definition and has to be read *ejusdem generis* and as such, activity of owning and maintaining horses cannot by any stretch of imagination fall in the definition of 'card game or other game of any sort' found in section 194B. Therefore, the "stake money" or "prize money" paid by race clubs to horse owners would not attract the provisions of section 194B of the IT Act - *Bangalore Turf Club Ltd.* v. *Union of India* [2014] 52 taxmann.com 290 (Kar.)

Statutes

- **CBDT notifies limit of 50% Govt. grant for deeming university/hospitals as substantially funded by Govt -** For the purposes of sub-clauses (*iiiab*) and (*iiiac*) of clause (*23C*) of section 10, any university or other educational institution, hospital or other institution referred therein, shall be considered as being substantially financed by the Government, if the Government grant to such university or other educational institution, etc. exceeds 50% of its total receipts during the year. - Notification No. 79/2014 [F.No.142/12/2014-TPL], dated 12-12-2014
- **Resident undertaking transactions of Rs. 100 crores or more can apply before AAR to determine his tax liability -** Before the enactment of the Finance (No. 2) Act, 2014 an advance ruling could be obtained for determining the tax liability of a non-resident. This facility was not available to resident taxpayers, except Public Sector Undertakings. Thus, the Finance (No. 2) Act, 2014 has expanded the scope of advance ruling so as to enable resident taxpayers to obtain an advance ruling in respect of their income-tax liability above a defined threshold.

  The Government has notified the category of resident applicant for this purpose. Now a resident is eligible to obtain advance ruling in relation to his tax liability arising out of one or more transactions valuing Rs.100 crore or more in total which has been undertaken or proposed to be undertaken by him - Notification No. 73 [F. No.142/6/2014-TPL], dated 28-11-2014

SERVICE TAX

Case Laws

- **Service tax on advocates/arbitrators is constitutional -** Levy of service tax on services provided by advocates and arbitral tribunal is constitutionally valid and not violative of article 19(1)(*g*); further, exemption to services provided to individuals and small businessmen having turnover upto Rs. 10 lakhs is based on intelligible differentia and not violative of Article 14 - *P.C. Joshi* v. *Union of India* [2014] 52 taxmann.com 311 (Bom.)
- **Tribunal cannot dismiss appeal for default -** Tribunal cannot dismiss appeal filed by assessee for want of prosecution or for default; it ought to decide appeal on merits even if assessee or its counsel was not present when appeal was taken up for hearing - *Balaji Steel Re-rolling Mills* v. *CCE&C* [2014] 52 taxmann.com 107 (SC)
- **Hiring of cabs liable to service tax -** Hiring and renting of cab are not distinguishable; service tax is leviable on hiring/renting of cabs irrespective of who enjoys control over vehicle - *CST* v. *Vijay Travels* [2014] 51 taxmann.com 72 (Gujarat)
- **Items used in intermediate eligible for credit, if duty payable on final product -** Cenvat credit cannot be denied on capital goods used in manufacture of exempt intermediate products, which are used captively in manufacture of finished goods chargeable to duty - *CCE* v. *Samsung India Electronic Ltd.* [2014] 51 taxmann.com 8 (All.)
- **Dyes and chemicals used in dyeing, liable to works contract tax -** Where assessee had used dyes and chemicals in works contract of dyeing, there was transfer of dyes and chemicals used in execution of works contract and sales-tax/VAT was payable - *State of Tamil Nadu* v. *A. Vairavel* [2014] 52 taxmann.com 148 (Mad.)
- **Buyer may recover excess duty from manufacturer -** Section 11D of Central Excise Act, 1944 does not bar a civil suit by buyer to recover excess collection of excise duty made by seller - *Pioneer Tubewell Industries (P.) Ltd.* v. *State of West Bengal* [2014] 52 taxmann.com 134 (Calcutta)

Statutes

- **Rule 5A(2) providing for service tax audit has statutory backing ; CBEC directs officers to audit service tax assessees -** Service Tax Audit is valid; Rule 5A(2) of Service Tax Rules, 1994 substituted - Circular No. 181/7/2014-ST, dated 10-12-2014.

VALUE ADDED TO VALUE MANAGEMENT – ROLE OF CMAs

A deep understanding of the activities, processes and systems of a company and the ability to monitor and assess the performance of each unit, product and business line has catapulted CMAs from value adding to value management advisor

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RECENT years have seen a plethora of new management approaches for improving organizational performance: total quality management, flat organizations, empowerment, continuous improvement, reengineering, kaizen, team building, and so on. Many have succeeded—but quite a few have failed. Often the cause of failure was performance targets that were unclear or not properly aligned with the ultimate goal of creating value. Value-based management (VBM) tackles this problem head on. It provides a precise and unambiguous metric—value—upon which an entire organization can be built.

The thinking behind VBM is simple. Value is created only when companies invest capital at returns that exceed the cost of that capital. VBM extends these concepts by focusing on how companies use them to make both major strategic and everyday operating decisions. Properly executed, it is an approach to management that aligns a company's overall aspirations, analytical techniques, and management processes to focus management decision making on the key drivers of value.

When VBM is working well, an organization's management processes provide decision makers at all levels with the right information and incentives to make value-creating decisions. Take the manager of a business unit. VBM would provide him or her with the information to quantify and compare the value of alternative strategies and the incentive to choose the value-maximizing strategy. Such an incentive is created by specific financial targets set by senior management, by evaluation and compensation systems that reinforce value creation, and—most importantly—by the strategy review process between manager and superiors. In addition, the manager's own evaluation would be based on long- and short-term targets that measure progress toward the overall value creation objective.

Vale management requires -A value creation mindset means that senior managers are fully aware that their ultimate financial objective is maximizing value; that they have clear rules for deciding when other objectives (such as employment or environmental goals) outweigh this imperative; and that they have a solid analytical understanding of which performance variables drive the value of the company. They must know, for instance, whether more value is created by increasing revenue growth or by improving margins, and they must ensure that their strategy focuses resources and attention on the right option.

Adopting a value-based mindset and finding the value drivers gets you only halfway home. Managers must also establish processes that bring this mindset to life in the daily activities of the company. Line managers must embrace value-based thinking as an improved way of making decisions. And for VBM to stick, it must eventually involve every decision maker in the company.

There are four essential management processes that collectively govern the adoption of VBM. First, a company or business unit develops a strategy to maximize value. Second, it translates this strategy into short- and long-term performance targets defined in terms of the key value drivers. Third, it develops action plans and budgets to define the steps that will be taken over the next year or so to achieve these targets. Finally, it puts performance measurement and incentive systems in place to monitor performance against targets and to encourage employees to meet their goals.

These four processes are linked across the company at the corporate, business-unit, and functional levels. Clearly, strategies and performance targets must be consistent right through the organization if it is to achieve its value creation goals.

VBM may force a company to modify its traditional approach to these systems. In particular, it shifts performance measurement from being accounting driven to being management driven. All the same, developing a performance measurement system is relatively straightforward for a company that understands its key value drivers and has set its short- and long-term targets. Key principles include:

1. Tailor performance measurement to the business unit. Each business unit should have its own performance measures—measures it can influence. Many multi business companies try to use generic measures. They end up with purely financial measures that may not tell senior management what is really going on or allow for valid comparisons across business units. One unit might be capital intensive and have high margins, while another consumes little capital but has low margins. Comparing the two on the basis of margins alone does not tell the full story.

2. Link performance measurement to a unit's short- and long-term targets. This may seem obvious, but performance measurement systems are often based almost exclusively on accounting results.

3. Combine financial and operating performance in the measurement. Too often, financial performance is reported separately from operating performance, whereas an integrated report would better serve managers' needs.

4. Identify performance measures that serve as early warning indicators. Financial indicators can only measure what has already happened, when it may be too late to take corrective action. Early warning indicators might be simple items such as market share or sales trends, or more sophisticated pointers such as the results of focus group interviews.

Cost and Management Accountants possess expertise in the areas of Cost management and can ably support creation and preservation of value of the organization through the following aspects :

- Provide timely and relevant information backed with appropriate analysis for improvement of the productivity of all the resources, resulting in optimum utilisation of resources and minimization of wastages.
- Provide information for strategic planning and decision making thus enabling management to take appropriate decisions for sustained growth.
- Provide segment and product wise business profitability so as to enable management to decide for discontinuance of a product line / pull out from a market segment
- Help companies in proper costing enabling them to provide goods and services at a price that is affordable by marginal consumers in the rural, semi-urban areas and the common man.
- Protect the interests of the investors through focus on waste minimization, and optimum utilization of scarce resources.
- Assisting organizations in better corporate governance and value creation by focusing on efficient use of resources and thus enable Indian enterprises to effectively compete in the dynamic market environment.
- Provide Product/ activity wise cost details that are highly useful to the Independent Directors to effectively and efficiently discharge their duties.
- Continuously monitor and evaluate corporate performance and its economic / operational efficiency.
- Provides information for validation of financial statements and prevent inventory manipulation.
- Ensure maintenance of proper cost records for fulfilling the objectives laid down under National Voluntary Guidelines (NVG) for economic, environmental and social responsibilities of business as the information provided by the cost records is compatible with the information requirements under NVG.
- Provide reliable Cost Accounting data and Cost Assurance essential for early identification of industrial sickness.
- Set benchmarks for various activities and processes of the organization both in cost and physical terms
- Carry out variance analysis for monitoring operational costs and revenues for ensuring that the organization realizes its plans
- Provide specific critical information to the management for strategic decision making

CMAs provide strategic information and analytical support to the management of an organization for creation, preservation and enhancement of the stakeholders value. The deep understanding of the activities, sub-activities and the processes and systems of the company and the ability to monitor and assess the performance of each unit, product, business line through appropriate analysis has catapulted the CMAs from value adding to value management advisor. MA

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Round Table Discussion on "Relevance of Micro Finance in India"

A Round Table Discussion was held on December 18, 2014 on the theme 'Relevance of Micro Finance in India' at EIRC Auditorium organized by the Directorate of Research & Journal of the Institute. Shri Chandra Sekhar Ghosh, Chairman & Managing Director, Bandhan Financial Services Pvt. Ltd being the Chief Guest discussed in brief about 'Bandhan' and said that 'Bandhan' is basically engaged in the delivery of microfinance services to the unprivileged section. The main thrust of 'Bandhan' is to work with the people who are socially disadvantaged and economically exploited and Shri Ghosh feels that women are the best protector of money. Aspiring to holistic development of the poor, 'Bandhan' offers development activities in crucial fields of education, health, unemployment, livelihood and the like through its not-for profit entity. According to Shri Ghosh if we could be able to cut the Cost of Fund, the interest rate will get reduced; thus reducing the burden of the poor sections of the society. The aim of 'Bandhan' is to give low income people an opportunity to become self-sufficient by providing a means of saving money and to make them free from the moneylenders. Its commitment towards triple bottom-line values is strongly asserted by its intervention in development activities. The Reserve Bank of India granted "in-principle" approval for banking licence to Bandhan and Bandhan Financial Services, the first microfinance institution in the country to win a bank licence, is also one of the youngest entities to be allowed to enter the banking space. Shri Kuldip Maity, MD & CEO, Village Financial Services Pvt. Ltd asserted that Microfinance is not just about giving micro credit to the poor rather it is an economic development tool whose objective is to assist poor to work their way out of poverty. He said that Micro Finance program have grown & touched the lives of thousands of poor families by providing them credit for income generating activities. It is also helping them to become economically self sufficient, sensitizing women about empowerment issues and bringing about a qualitative change in them and their families related to standard of living & their own status in the society. He said though MFIs cannot replace the banking sector yet, are acting a vital role as friend, philosopher and guide to the unprivileged sections of the society especially the women. Shri Suparna Pathak, Business Editor, ABP Ltd. discussed on the KIOSK Technology, abysmal facts of India, relevance of Micro Finance Companies to provide the fund etc. Professor Samar Kumar Datta, Entrepreneurship Development Institute of India, Gujarat discussed thoroughly on Micro Credit, pre and post contractual problems, sharp contrast on SHGs and JLGs, typologies of Micro Credit Institutions etc. He also narrated certain illustrations of Warana, Annapurna Pariwar etc who are working efficiently assisting the poor to work their way out of poverty. Prof. CMA Sudipti Banerjea, Calcutta University, the Moderator of the discussion session highlighted on the relevant points viz. Cost Structure of Micro Finance Institutes, Performance Evaluation, Calculation of Transaction Cost, Risk Management in MFIs etc. CMA Manas Kumar Thakur, Chairman, Research, Innovation and Journal Committee, also shared his views on the concerned theme. There was an interactive questionnaire session beautifully resolved by the eminent dignitaries on the dais. CMA (Dr.) Debaprosanna Nandy, Director, Research and Journal, ICAI concluded the programme with a vote of thanks.

MANAGEMENT ACCOUNTING – RESEARCH AGENDA FOR THE NEXT DECADE

CMA Dr. Asish K Bhattacharyya

The objective of this article is to provide an agenda for management accounting research in the next decade. Without getting into details, we shall discuss the agenda broadly to enable a researcher to identify specific research questions that he is motivated to investigate based on his interest, capabilities and availability of data. Management accounting is a very broad subject and research opportunities are abundant. Therefore, researchers will be able to identify many research questions in areas that we shall not cover in this article.

Management Accounting

Before we get into the main theme of this essay, let us understand the nature of contemporary management accounting. Readers interested to understand the evolution of management accounting in U.S.A. may refer to Kaplan (1984)[1].As regards the nature of management accounting, Kaplan (1984)[2] wrote, "Management accounting must serve the strategic objectives of the firm. It cannot exist as a separate discipline, developing its own set of procedures and measurement systems and applying these universally to all firms without regard to the underlying values, goals and strategies of particular firms." Kaplan had articulated the purpose of management accounting as an organisational support system. There is wide acceptance of Kaplan's view. Management accounting is primarily concerned with 'planning and control' and 'performance management'. Performance management subsumes formal processes that firms use to implement strategies and to adapt to the circumstances in which they operate. Management accounting serves no purpose if it is divorced from the management and the organisation. We may recall that in 1980, in U.S.A. (and must be in other territories as well) management accounting lost relevance because it lost touch with the management and the organisation. Johnson & Kaplan argued this in their famous 1987 book 'Relevance Lost: The Rise and Fall of Management Accounting'. In order to remain relevant, management accounting must adapt itself to changes in the business model, organisation structure, organisation culture and decision-making process, and external environment. Management accounting practices, in turn, affects the internal environment, for example, behaviour of managers and their motivation level.

Management Accounting Research

Management accounting research should aim at providing solutions to 'planning and control' and performance management problems that firms face with rapid changes in the business environment. For example, with increase in competition, firms face challenges in designing the organisation structure and in designing planning and control, and performance management systems. Research outcomes should help firms to address those challenges. Research outcome should provide guidance on why a system works effectively in a particular situation but fails in another situation.

There is consensus that the aim of management accounting research is to benefit firms and the society. However, there is no consensus on whether management accounting theories, similar to the-

1 Kaplan, Robert. S., 2004, "The Evolution of Management Accounting", The Accounting Review (July 1984), 390-418
2 ibid.
3 Zimmerman, J.L., 2001. "Conjectures regarding empirical managerial accounting research", *Journal of Accounting and Economics*, 32, 411-427

ories in other social sciences, for example, like economic theory, can be developed. Zimmerman (2001)[3] raised the issue and argued in favour of developing management accounting theory. However, many (for example, Malmi etal. 2009)[4] do not agree. Management accounting is a practical subject. Most management accounting researches are based on case studies followed by field studies and then generalisation of observationsusing results of research in other social sciences like economics, organisation behaviour and psychology. Researchers in the area of finance and economics work with hard data that is available publicly. Researchers in management accounting have to work with soft data. Survey based research also does not produce desired results because of biases that creep in responses to questionnaire. Therefore, it is difficult, if not impossible, to build management accounting theory like finance theory or theories in economics. We shall assume that researchers will use the pedagogy that is being followed by most management accounting researchers.

Management Accounting Research in India – Past Fifty Years

Kaplan (1984)[5] noted that, in U.S.A., during the period from 1925 to 1984, there was no significant development in management accounting practice and management accounting research. We may very well presume that in India also there was no significant management accounting research during that period. Prior to the opening up of the Indian economy in 1991, Indian firms did not face competition and were operating in the suppliers' market. Therefore, they did not face any significant problem in planning and control or performance management. Consequently, there was neither much scope nor motivation for research and innovations in management accounting. The focus was on determining the product cost as accurately as possible for the valuation of inventory for the purpose of preparing financial statements. The government mandated maintenance of cost records for selected industries since mid 1960s and that improved the methods for calculating product cost. The focus was on manufacturing industry and allocation of overheads. The only management accounting tools that found extensive use was the budgetary control system and standard costing system. Managers had started using decision-making techniques like marginal costing and relevant costing. The use of non-financial information for performance evaluation was absent.

Opening up of the economy has changed the external environment and Indian firms now face competition not only from Indian firms but also from multinational companies. Indian firms have adapted to the new environment and many Indian firms have grown very significantly during the last twenty-three years. New leaders have emerged in different industries. Many Indian firms have spread their business outside India. New business models (e.g., e-tailing) have emerged. Use of technology has increased very significantly. Transition of Indian firms from a closed economy environment to an open economy environment provided a good opportunity for management accounting researchers to study the management accounting systems and tools being used by successful companies and companies that could not succeed. However, a casual online search brings up very little India-specific research in the area of management accounting. Research has been mostly confined to assessment of the extent of Indian companies' use of new management accounting tools (e.g., ABC and balanced score card) developed in U.S.A. While it is possible that there may be some research that is not available online, a literature search would have brought up citations to such research if it had existed. We may conclude that during last fifty years Indian management accounting research could not contribute significantly to the body of knowledge of management accounting.

Research Agenda for the Next Decade

Atkinson et al. (1997)[6] provided a research agenda for researchers in management accounting. I find it interesting and still relevant. Se-

4 Malmi, Timu. and Granlund, Markus., 2009. "In search of management accounting theory", European Accounting Review, 18, 597-620
5 ibid.
6 Atkinson, Anthony A. and Balakrishnan, Ramji. 1997, "New directions in management accounting research", Journal of Management Accounting Research, 9, 97-108

rious researchers in the area of management accounting should read that paper. I do not want to propose a very ambitious research agenda for the next decade. The research should be relevant and contextual to Indian environment. We must appreciate the values and cultures of Indian firms and their internal environment are different from those in U.S.A., Europe and other Western countries. For example, the motivation to continue to work in a family business in India might be much different from that in professionally managed firms in U.S.A. Researchers should visit Indian firms to develop case studies and should conduct field studies. The research outcome should not be a mere description of the systems of planning and control and performance management established by firms. The research report should provide an insight into why a particular firm has chosen a system over other systems and what factors the firm has considered in choosing the system. For example, firms that do not use balance scorecard use some other system to achieve the same purpose. It is important to understand what the alternative system is and why in a particular environment it is more effective than the balanced score card. It might also be interesting to understand how firms modify the basic budgetary control system to their advantage and in which situations the budgetary control system stifles creative response to emerging situations and has dysfunctional effects. Therefore, researchers should focus on 'why' and 'how'. Similarly, researchers should provide an understanding of 'what' is the impact of a particular system on the internal environment, for example, on the culture, organisation structure, goal congruence and motivation of employees.

I consider the following areas/ topics as hot for research in the next decade:

(i) Performance by definition is multi-dimensional and performance from the perspective of different stakeholders differs. It will be interesting to understand what performance metrics firms develop to satisfy different stakeholder groups and how they balance and link those different performance measures.

(ii) Transfer pricing will be an interesting research area. Extant transfer pricing mechanisms might not be appropriate in related party transactions. For example, the market-based transfer pricing defeats the basic purpose of bringing the activity or transaction within the Group. One of the benefits of bringing a transaction within the boundaries of the firm or the Group is to minimise the transaction costs. Market-based transfer pricing system fails to take cognizance of this fact.

(iii) Sustainability reporting (e.g., GRI and integrated reporting) will provide significant research opportunities. It will be interesting to analyse how sustainable reporting impact decision making within a firm and how it impact the incentive structure.

(iv) The current theory of cost behavior may be revisited. The

SERIOUS INDIA-CENTRIC RESEARCH CANNOT BE DELAYED FURTHER. INDIA... PROVIDES HUGE OPPORTUNITIES FOR RESEARCH IN THE AREA OF MANAGEMENT ACCOUNTING

concept of sticky cost should be examined from Indian perspective and the causes for that cost behaviour should be analysed to improve decision-making.

(v) Cost management techniques being used by firms should be studied in the context of strategy implementation. It will be interesting to understand what cost and revenue information firms use in strategy formulation and how cost management perspective is embedded in the strategy formulation process.

(vi) Planning and control system and performance management systems in service industries should be studied. For example, it will be interesting to analyse how service cost is determined in a hospital and how it assigns overheads to cost objects and what non-financial information it uses for performance measurement from the perspective of various stakeholders.

(vi) Study of management accounting practices in voluntary organisations and government will throw interesting insight into the management of those sectors.

The Role of the Institute of Cost Accountants of India

We should not expect much research output from academia. There are several reasons for the same, which are as follows:

(i) Research based on the pedagogy that is most suitable for research in the area of management accounting seldom earns respect from peers who do research in other areas, for example, in the area of financial accounting, economics, and finance. In the quest to earn respect, researchers endeavour to develop management accounting theories based on results of research in other disciplines and produce results that are useless to managers.

(ii) Indian universities have adopted the western model of 'publish or perish'. Therefore, faculty members in universities are under pressure to publish in peer-reviewed journal. Although, it might not be universally true, most journals do not consider a research 'rigorous' unless the researchers have used econometrics or statistical models. It is difficult to use those models with soft data because of the nature of data and the sample size. This discourages faculty members of universities from engaging in research in the area of management accounting.

(iii) Research in management accounting does not attract Ph.D. scholars, because they want to complete the research within a period of three to four years. Their interest is to obtain the degree without much hassle. Use of the management accounting research pedagogy exposes Ph.D. scholars to the risk of delay in completion of the research work.

(iv) Case study and field study based research is costlier than research based on publicly available data, both in terms of financial resource and research efforts. Most universities do not have enough resources to allocate for management accounting research.

As management accounting research is unlikely to get support from academia, it is the Institute of Cost Accountants of India, which is responsible for developing the profession of management accounting, should spearhead management accounting research. It should promote research and invite keen researchers, industry experts capable of giving research inputs and other resourceful person, who are out of the threat of 'publish or perish' and professionals to take up research in the area of management accounting. It should persuade industry to support management accounting research, because research is only possible with active support from industry. Management accounting research is a collaborative effort – collaboration between the industry and the profession. The Institute should strengthen its own research wing to produce more quality research work for the benefit of the industry in particular and society and economy in general.

Conclusion

Serious India-centric research cannot be delayed further. India being a large growing economy provides huge opportunities for research in the area of management accounting. I am sure that firms will open up in sharing information with researchers for their own benefits, provided they are convinced that the research outcomes would make organisations and society better off.

About the author: Advisor, Advanced Studies, Institute of Cost Accountants of India
Professor & Head, School of Corporate Governance & Public Policy, IICA,
Former professor at IIM-Calcutta and former Director at IMI Kolkata

A Report on SAFA Board Meeting, International Seminar on IR & Awards Ceremony

• **37th meeting of SAFA Board**

37th meeting of the SAFA Board was organized on 4th December 2014 at 08:00 hours at Hotel Mayfair, Bhubaneswar.

The meeting was attended by the heads of member bodies of India, Sri Lanka, Bangladesh and Nepal. The meeting was chaired by CA Subodh Kumar Agarwal, President, SAFA.

• **International Seminar on Integrated Reporting**

The International Seminar on Integrated Reporting was organized by the Institute at Orchid Hall, Hotel Mayfair, Bhubaneswar, Odisha on 4th December 2014 at 09:30 hours. Mr. Upendra Nath Behera, IAS, Additional Chief Secretary, Finance, Government of Odisha was the Chief Guest of the seminar. CMA Dr. S.C. Mohanty, Immediate Past President, ICAI Chairman, Organising Committee gave the welcome address and set the tone for the sessions to come. CMA Dr. A.S. Durga Prasad, President ICAI, presented the Presidential Address while CA Subodh Kumar Agarwal, President, SAFA and Mr. Arjuna Herath, Vice-President, SAFA also addressed the participants. CMA Sanjay Gupta, Chairman, International Affairs Committee & Council Member, ICAI presented the pleasantries and gave the vote of thanks.

The first session of the seminar was on '**Why Integrated Reporting (IR)?**', which covered the need and emergence of IR and Conceptual Framework behind IR and CSR. The session was chaired by Prof Lakshaman R Watawala, President, CMA Srilanka. CMA Dr. Asish K Bhattacharyya, Advisor, Advanced Studies, the Institute of Cost Accountants of India was the main speaker of the session. CMA T.C.A. Srinivasa Prasad, Council Member, the Institute of Cost Accountants of India presented the vote of thanks.

The second session of the seminar was on '**Role of Professional Accountants in IR**' which covered Aligning Financial Accounting and Reporting with IR and Embedding CMA into IR. The session was chaired by Mr. Showkat Hossain, President, ICA Bangladesh. Dr. S.K. Gupta, Group Head, (Internal Audit and Legal) and Company Secretary, Spentex industries Limited was the main speaker of the session. CMA DLS Sreshti, Council Member, the Institute of Cost Accountants of India presented the vote of thanks.

The third session of the seminar was on '**Current Status of IR**' which covered IR - Sharing of experiences and examples, including Pilot Programs. The session was chaired by Mr. Lasantha Wickremasinghe, Vice-President, CA Sri Lanka. Dr. Aditi Haldar, Director, GRI Focal Point India was the main speaker of the session. There was also a panel discussion on Progress of IR in SAFA Countries, which was attended by Mr. Mohd. Salim, President, ICMA Bangladesh, CMA Sanjay Gupta, Chairman, International Affairs Committee & Council Member, ICAI, Mr. Arjuna Herath, Vice-President, SAFA and Mr. Hennanayake Bandara, Council Member, CMA Sri Lanka.

The sessions were well attended and deliberated by the speakers and participants. The crux of the discussions was that the traditional business reporting model was developed for the industrial age and focuses on historical financial performance. The business environment has changed significantly since that time. Globalization has caused major changes in the way businesses are conducted, how businesses create value and the context in which the business operates. Stakeholders are now concerned about resource scarcity. Environmental matters, accountability and transparency. Integrated Reporting demonstrates linkages between strategies, governance and performance reflecting Economic, Social and Environmental aspects. This approach provides the stakeholders with a holistic view of the business. An integrated report aims to provide insight about the resources and relationships used and affected by an organization – these are collectively referred to as 'the

capitals' in the IR Framework. It also seeks to explain how the organization interacts with the external environment and the capitals to create value over the short, medium and long term.

The seminar, attended by more than 60 participants, was sponsored by NTPC Limited and NALCO Limited while the delegate kit was sponsored by PFC Limited.

• **Presentation of SAFA BPA Awards and SAARC** Anniversary Awards for Corporate Governance Disclosures
The Best Presented Annual Reports Awards is an annual event organized by SAFA. The purpose of the Awards is to encourage the publication of timely, accurate, informative and well-presented annual reports for shareholders, stakeholders, employees and others who may have an interest in the performance and activities of the organizations in question and to recognize and honor the organizations for their exemplary achievement in producing such reports. It is presented to encourage excellent financial reporting presentation and a wider scope of disclosures beyond the minimum regulatory requirements that are in tandem with the needs of investors and other stakeholders such as employees, creditors and the general public. The award was introduced to increase awareness through the encouragement of social responsibility reporting that businesses and organisations are responsible to the community both as employers and corporate citizens.

Presentation ceremony of SAFA BPA Awards and SAARC Anniversary Awards for Corporate Governance disclosures was organized in the evening of 4th December 2014 at Hotel Mayfair, Bhubaneswar. The ceremony was kick started with the welcome address by CMA Dr. A.S. Durga Prasad, President ICAI. This was followed by the opening remarks by Mr. Lasantha Wickremasinghe, Chairman - SAFA Committee on Improvement of Transparency, Accountability & Governance and address by CA Subodh Kumar Agrawal, President SAFA.

The event was apt for the release of SAFA history document titled 'History of South Asian Federation of Accountants - A glorious Journey spanning last three decades' by the Chief Guest Dr. Pradeep Kumar Panigrahy, Hon'ble Minister of State (I/c) for Higher Education, Science & Technology and rural water supply, Government of Odisha. This was followed by the presentation of awards by the Chief Guest. The Chief Guest presented awards to the awardees in the following order; Merit Awards, SAARC Anniversary Awards for Corporate Governance disclosures, sector awards – 2nd runner-up, 1st runner-up, winners and overall winner Award. A total of 72 awards in various categories were presented.

The presentation of awards was followed by the address of Chief Guest and pleasantries to the dignitaries. CMA Dr. S.C. Mohanty, Immediate Past President, ICAI presented vote of thanks. On request of the President, SAFA a group photograph of awardees with Chief Guest and other dignitaries on dais was also organized.

The event was concluded with a glittering cultural program by the Odisha Folk Artists.

The Institute of Cost Accountants of India

(Statutory Body under an Act of Parliament)

Kolkata
Dated the 26th December, 2014

NOTICE

In pursuance of Clause (3) of Schedule 2 of the Cost and Works Accountants (Election to the Council) Rules, 2006, as amended, the addresses of different polling booths at a place where there are more than one polling booth for the ensuing Election to the Council and four Regional Councils for the term 2015 – 2019 are notified as follows :-

WESTERN REGION

Mumbai	The Institute of Cost Accountants of India, Western India Regional Council, CMA Bhawan, Rohit Chambers, Janmabhoomi Marg, Fort, Mumbai – 400 001.
Mumbai	D.G. Ruparel College of Arts, Science and Commerce, Opp. Matunga Road Station (W. Rly.), Senapati Bapat Marg, Mahim, Mumbai – 400 016.
Mumbai	Ramniranjan Jhunjhunwala College of Commerce & Economics, Ghatkopar (West), Mumbai – 400 086.
Mumbai	K J Somaiya College of Arts and Commerce, Vidyanagar, Vidyavihar (E), Mumbai – 400 077.
Mumbai	Karmaveer Bhaurao Patil College, Sector 15 A, Vashi, Navi Mumbai 400703.
Mumbai	MMK College of Commerce & Economics, 32nd Road, TPS III, Bandra (West), Mumbai – 400 050.
Mumbai	St. Rocks College of Commerce & Science, Talephakri, Eksar Villeage, Near Aquaria Club, D.N. Mhatre Road, Borivali (West), Mumbai – 400 092.
Pune	Poona College of Arts, Science & Commerce, Camp, Pune – 411 001.
Pune	ATSS College, C2, MIDC, Opp. Niramaya Hospital, Chinchwad Station, Pune – 411 019.

SOUTHERN REGION

Bangalore	The National Degree College (Autonomous), Pampa Mahakavi Road, Basavanagudi, Bangalore – 560 004.
Bangalore	Institution of Agricultural Technologists (IAT), No. 15, Queen's Road, Bangalore – 560 052.
Chennai	The Institute of Cost Accountants of India, Southern India Regional Council, CMA Bhawan, 4, Montieth Lane, Egmore, Chennai – 600 008.
Chennai	Southern India Chamber of Commerce & Industry, Indian Chamber Buildings, Esplanade, Chennai – 600 108.
Chennai	Lady Sivaswami Iyer Girls Higher Secondary School, 26, East Mada Street, Mylapore, Near Kapaleeswar Temple, Chennai – 600 004
Chennai	Shri Krishnaswamy College for Women, AC-48, 6th Main Road, Shanthi Colony, Anna Nagar West, Chennai – 600 040.
Chennai	The Stenographers' Guild, 1, Guild Street, T. Nagar, Chennai – 600 017.

The Institute of Cost Accountants of India

(Statutory Body under an Act of Parliament)

: 2 :

Hyderabad	Urdu College, 3-6-157/1, Gulshan-E-Habib Gali, Himayatnagar, Hyderabad – 500 029.
Hyderabad	AV College (Andhra Vidyalaya), Gagan Mahal Colony, Domalguda, Hyderabad – 500 029.
Hyderabad	Kasturiba Gandhi Degree & PG College for Women, Street No. 10, Aswini Colony, West Marredpally, Secunderabad – 500 026.

EASTERN REGION

Kolkata	The Institute of Cost Accountants of India, CMA Bhawan, 12, Sudder Street, Kolkata – 700 016.
Kolkata	The Institute of Cost Accountants of India, Eastern India Regional Council, CMA Bhawan, 84, Harish Mukherjee Road, Kolkata – 700 025.
Kolkata	Tirthapati Institution, 142/1, Rashbehari Avenue, Gariahat, Kolkata – 700 029.
Kolkata	Netaji Nagar College, 170/436, N.S.C. Bose Road, P.O. Regent Estate, Kolkata – 700 092.
Kolkata	All India Manufacturer's Organisation, West Bengal State Board, ILACO House, Gr. Fl., 1 & 3, Brabourne Road, Kolkata – 700 001.
Kolkata	Park Institution, 12, Mohan Lal Street, Kolkata – 700 004.
Kolkata	Oindrillas, CK-229, Sector 3, Tank No. 9, Opp. PNB ATM, Near Karunamoyee, Salt Lake City, Kolkata – 700 091.
Kolkata	Behala High School, Behala, Kolkata – 700 060.
Kolkata	Sodepur Club, Kolkata – 700 110.
Kolkata	Mahatma Gandhi Memorial High School, Nabapally, Barasat, Kolkata – 700 126.

NORTHERN REGION

New Delhi	The Institute of Cost Accountants of India, Northern India Regional Council, CMA Bhawan, 3, Institutional Area, Lodi Road, New Delhi – 110 003
New Delhi	S.D. Education Society (Regd.), C/o. J.V.S.D.G.S.S. School, D-II, Link Road, (Opp. St. Hanuman Ji Statue), Near Jhamdewalan Metro Station, Karol Bagh, New Delhi – 110 005.
New Delhi	St. Lawrence Covent, Geeta Colony, Facility Centre, Delhi – 110 031.
New Delhi	Red Roses Public School, D Block, Saket, New Delhi – 110 017.

Any voter in such a place wishing to vote may send a request in writing giving his name, membership number and the address of the polling booth in which he would like to be attached. Such request should reach the Returning Officer at the Institute's Headquarters at CMA Bhawan, 12, Sudder Street, Kolkata – 700 016 within one month from the date of this notice.

(Kaushik Banerjee)
Secretary (Acting)

the MANAGEMENT
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Guidelines for Submitting Articles

1. Contributors are requested to send soft copies (in MS Word format) to The Editor, The Management Accountant at ***editor@icmai.in.***

2. In case of theme article, the soft copy to be mailed to the above stated mail ID latest by 1st of the preceding month in which the article is sought to be published. That is, for an article to be published in February, the same may be forwarded by 1st of January, at least.

3. The articles must be relevant to the economy, society and the nation.

4. The articles should be around 1500 to 2000 words and must be an exclusive contribution for the Journal.

5. The cover page should contain the title of the paper, author's name, designation, official address, contact phone numbers, e-mail address and an abstract of not more than 150 words.

6. References should be given at the end of the manuscript and should contain only those cited in the text of the manuscript.

7. The contribution must be original in nature and is neither published nor under consideration for publication anywhere else. A scanned copy of signed Declaration by the author is to be attached with the article. The format of the declaration is given below.

8. A scanned passport size photograph (at least, 600 dpi) of the author and in case of joint authorship of all the authors should also be mailed along with the soft copy of the article.

9. Figures and tables should be numbered consecutively and should appear near the text where they are first cited. **The figures must be in editable format.** Captions of the figures and tables are to be given at the bottom and at the top respectively. Headlines of the sections sand sub-sections should start from the left-hand margin

10. The final decision on the acceptances or otherwise of the paper rests with the competent authority / editorial board and it depends entirely on its standard and relevance. The final draft may be subjected to editorial amendment to suit the Journal's requirements.

11. If an article is not published within 4 months from the date of submission, the author(s) may withdraw the article with prior permission from the Editor **OR** keep the article with the Institute for future publication, unless it is **accepted/rejected.**

12. The copyright of the contributions published in the Journal lie with the publishers of the Journal.

Declaration

I/We affirm that the article titled '____________' is my/our original contribution and no portion of it has been copied from any other source, and it would not be sent elsewhere for publication. The views expressed in this article are not necessarily those of the Institute or the Editor of the Journal.

Date:
Place:

(Signature)
Name:
Designation:
Organization:
E-mail ID:
Contact No:

All authors are requested to keep to the word limit of 1500–2000 words for articles.

Eastern India Regional Council

Glimpses of Regional Students Conference 2014, December 21, 2014, held in Kolkata

Bhubaneswar Chapter of Cost Accountants

The Chapter inaugurated the 53rd session of Oral Coaching on November 23, 2014 and Shri H.P. Nayak, IRAS, Director (Finance), OPGC Ltd was the Chief Guest and Shri Nilamani Mohapatra, one of the Founder Members & Past Chairman of the chapter was the Guest of Honour of the occasion. On December 3, 2014 the chapter organized a seminar on 'Role of Professional Accountants in the Emerging Scenario'. Dr. Aditi Haldar, Director-GRI Focal Point India was the Guest Speaker on the occasion and other national and international dignitaries like CMA Dr. A.S Durga Prasad, President, CA. Subodh Kumar Agarwal, President, SAFA,

CA Lasantha Wikeramasighe, Vice President CA, Srilanka, CA. Soukat Hossain, President, ICA, Bangladesh and CMA Mohammed Salim, President, ICMA, Bangladesh also addressed on the occasion. On the same day the chapter organized one campus Interview for its qualified students in June, 2015 term examination at its premises. The executives of M/s Balasore Alloys Ltd., Balasore conducted the interview in two stages, written and personal interview.

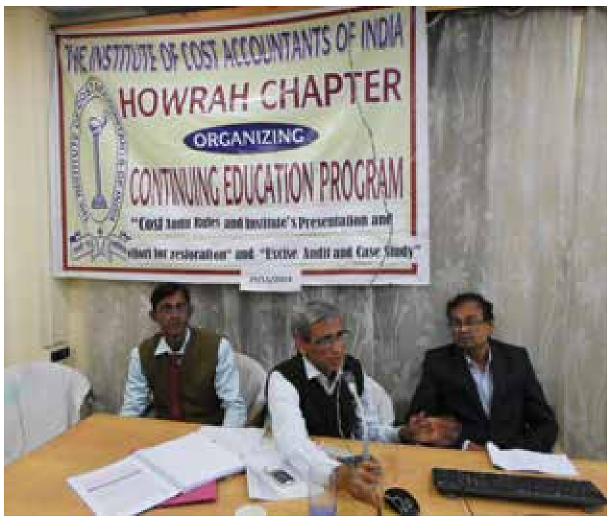
South Odisha Chapter of Cost Accountants

A career counselling programme had been conducted by the Chapter on December 2, 2014. Dr. R.C. Mohapatro, HOD, Kodala College, and Shri Biswanath Mahapatro, Sr. Lecture, R. C. M College, Khallikote were present in the programme where the queries had been satisfactorily clarified by the speakers. Shri Ajit Kumar Behera, counseling adviser from Khallikote was also present in the occasion.

Patna Chapter of Cost Accountants

A Career Counselling Programme was organized by the Chapter in Patna on December 3, 2014. The programme was attended by CMA Manas Kumar Thakur, Chairman Research Innovation & Journal Committee, CMA A.N. Singh, Vice Chairman, Patna Chapter and CMA Chiranjib Das, Joint Director, Academic, Tax Research & Studies department of the Institute. The program was attended by a good number of students and was highly interactive.

Howrah Chapter of Cost Accountants



On November 29, 2014 the Chapter organized CEP program on 'Cost Audit & Excise Audit & case study on Excise Audit' at its premises. CMA

Somnath Mukherjee, former Council Member and an eminent cost practitioner deliberated on the draft rules of the Cost Audit, case study on cost audit and also on excise audit, especially on valuation audit and CENVAT audi under section 14 & 14AA of the Central Excise Act. He also discussed the practical problems with illustrations in the field of profession and industry. CMA Pranab Chakrabarty, Chairman of the chapter explained the recent activities and importance of the chapter towards CMA profession.

Northern India Regional Council

Chandigarh-Panchkula Chapter of Cost Accountants

The Chapter organized study circle meeting on November 1, 2014 based on the theme 'Liability Insurance – Professional Indemnity Insurance and Directors & officers Liability Insurance'. CMA S K Jain was the distinguished speaker and he discussed the issues related with the liability insurance. The programme was attended by CMA Balwinder Singh, CMA K K Sinha, Secretary and around 45 members.

Southern India Regional Council

Coimbatore Chapter of Cost Accountants

On November 7, 2014 the Chapter arranged a career counseling programme for higher secondary school students. A session of communication & soft skill program was conducted during third week of November, 2014 at the chapter for intermediate postal students. The chapter organized a students' meet in connection with the Flag Day Celebrations on 25 November, 2014. CMA A.R. Ramasubramania Raja, Chairman of the chapter in his address to the students emphasized the need for fostering communal harmony and national integration.

Erode Chapter of Cost Accountants

On November 28, 2014 the Chapter conducted a stock audit seminar at its premises. Chief Guest CMA J Murugesan explained the importance of conducting a stock audit seminar. CMA R Saravanan, fac-

ulty discussed briefly the stock audit and also explained the queries raised by members during interaction session. CMA R Gopal, Chairman of the chapter rendered his welcome address.

Visakhapatnam Chapter of Cost Accountants

The Chapter organized a Professional Development meet on 'How to Succeed as a Cost & Management Accountant' on Dec 6, 2014 at its premises. CMA Dantu Mitra, Practicing Cost Accountant, Hyderabad the Chief Guest graced the occasion and

CMA T. Harinarayana, secretary of the chapter welcomed the gathering. CMA U. Prakash, Chairman of the Chapter presided over the meeting.

Hyderabad Chapter of Cost Accountants

On November 1, 2014 the Chapter jointly with SIRC organized a program on the theme 'MSME and role of cost accountants'. Shri Arvind Patwari, Director, MSME Development Institute, the Chief Guest in his presentation provided an overview of MSME sector, current challenges and expectation of the sector from CMA professionals. CMA Ch Venkateswarlu, Vice-Chairman, SIRC recommended the chapter to set up MSME helpdesk at Sanathnagar premises in which both the chief guest and Managing Committee of the chapter have expressed their consent. CMA KVN Lavanya, Practicing Cost Accountant, highlighted various management accounting techniques that could be adopted by CMAs in the MSME companies. CMA P Uday Shankar, Director Ni-MSME shared a case study of the MSME sector. Various career counselling programmes had been conducted by CMA Radha Krishna Komaragiri and CMA A. Vijay Kiran, Chairman and Vice Chairman of the chapter, CMA Dr PVS Jagan Mohan Rao, Central Council Member on different dates of November 2014. On November 11, 2014 ICWAI Management Accounting Research Foundation scheduled a one day program on 'Internal Audit in Public Enterprises' in five cities across India. CMA Vijay Kiran Agastya, vice chairman of the chapter highlighted the differences between Internal Control, Internal Audit and Risk Management and shared a summary of results from the Global pulse survey conducted by the Institute of Internal Auditors, USA. CMA Ch Venkateswarlu, Vice Chairman, SIRC shared a few examples of Internal Control adopted by Public Sector companies and CMA DLS Sreshti, Central Council Member discussed about control of Fraud. CMA Dr PVS Jagan Mohan, Central Council Member shared his personal experience as an internal auditor and made the session interactive. CA V Raghunandan, Partner, Bhaskar Rao & Co and vice-chairman, Institute of Chartered Accountants of India, Hyderabad Chapter felicitated the first session titled 'Evolving role of Internal Auditing Function' and Shri H Sambasiva Rao, Dy. General Manager & Principal, Andhra Bank Apex College, took the session on 'Risk Based Internal Audit'. Post lunch the first session was on 'Reporting System, model of reporting and communication skills of Internal Auditor' felicitated by CMA D Zitendra Rao, Practicing Cost Accountant and Sri T. Rama Subramanian, DGM, Internal auditor, BHEL handled the last session titled 'Audit Committee and Internal Audit'. On November 16, 2014 a program on Communication Skills had been conducted by the chapter at its premises. Smt. Suman Rangabhashyam and Shri Satish Govind demonstrated the effectiveness of communication for professionals to be successful in life. On November 24, 2014 CMA Dr. A.S. Durga Prasad, President of the Institute met Sri Nara Chandra Babu Naidu, Hon'ble Chief Minister of Andhra Pradesh as a courtesy visit.

Western India Regional Council

Surat South Gujarat Chapter of Cost Accountants

On November 16, 2014 the Chapter inaugurated the new premises by Guest of Honour, Hon. Shri Chhatrasinh Mori, Minister of state (Food and Civil Supplies, Consumer Affairs, Ind. charge) & Chief Guest, CMA Dr A S Durga Prasad, President. Shri Mori also assured support of Govt. of Gujarat in CAT Courses and other facilities required by institute for betterment of profession. CMA P V Bhattad, Vice President, CMA B.M Sharma, Past President of the Institute, CMA A B Nawal, Chairman WIRC, CMA S.S. Shah & other CCMs and RCMs, senior members of the chapter were also present in the inaugural function. CMA Dr A S Durga Prasad, President, advised the cost accountants to put more efforts in touching greater height of profession. CMA G P Rao, senior member of the chapter and General Manager (F & A) KRIBHCO had been felicitated by the President for extending their support to the fullest extent. Technical sessions on 'Make In India' and 'IFRS' had been conducted by the chapter taken by expert faculties CMA A B Nawal and CMA R M Bhave, founder chairman of the chapter. Senior officials from Reliance, NTPC, GNFC were present and they appreciated the efforts of the profession in organizing such seminar inviting knowledgeable faculties.

Ahmedabad Chapter of Cost Accountants

The Chapter organized two days communication & soft skill training program for Intermediate students on November 8 and 9, 2014. Chairman of student's Soft Skill Training Committee CMA Malhar Dalwadi asserted the need of effective communication and punctuality to achieve success in life. He also briefly stated the role of CMA in reducing and controlling cost in today's competitive scenario. Eminent faculties were invited for delivering lectures on effective verbal in written communication, interview skills, personality development, drafting business letter and how to develop presentation skill. On November 12, 2014 a one day seminar on 'Internal Audit in Public Enterprise' had been organized by the chapter under guideline of ICWAI MARF, New Delhi. The Chief Guest Shri S B Khyalia, Managing Director of MGVCL expressed his view about the responsibility of Internal Auditor in the Public Enterprise. The guest speaker CMA M B Kaka, CA Bimal Bhatt, CA Vivek Rajani, CA Amal Dhruv and CMA S J Joshi were felicitated by the managing committee members.

Aurangabad Chapter of Cost Accountants

A half day seminar on Costing MIS & Product Costing through SAP had been organized by the Chapter on November 23, 2014. CMA Amit Apte, Central Council Member & CMA Neeraj Joshi, Regional Council Member, WIRC were the chief speakers. CMA Apte guided on the use of MIS for analysis of on-line access to the organization's current performance with historical records and CMA Neeraj Joshi explained about the work procedure of product costing and how it is integrated with other modules for making master integrated planning, product cost planning, manufacturing methods, for streamline controlling processes in SAP and other reporting.

The Institute of Cost Accountants of India

(Statutory Body under an Act of Parliament)

Ref. No.: DOS/09/09/2014-15 September 9, 2014

CIRCULAR

Sub: Payment of student fee through STATE BANK OF INDIA

In order to extend a wide reach to students for payment of fee through banks, Institute has entered into an agreement with State Bank of India to facilitate collection of Course fees from applicants (i.e. new entrants) to the CMA Course as well as from CMA students presently pursuing the Course.

The fees shall be either collected in Cash at all its Branches or may even be made on-line - either through Net Banking or through Debit/Credit Card of any Bank. A Guidance Manual - showing the Process flow is attached herewith for information, guide and ready reference.

All concerned are requested to make appropriate communication to attach wide publicity of the same amongst applicants/new entrants to the CMA course as well the existing students pursuing the CMA Course, who may avail this facility also. This is besides the existing partners - Punjab National Bank (PNB), Industrial Development Bank of India (IDBI) and Central Bank of India (CBI).

The following are the summary of facility /convenience charges to be collected per transaction by SBI, furnished for information: (Annexure in Page 2 provides detailed information of charges)

a) NET BANKING thru SBI	Rs. 10 + ST = **Rs. 11.24**
b) NET BANKING thru OTHER BANK	Rs. 15 + ST = **Rs. 16.85**
c) SBI ATM cum Debit Card	Rs. 10 + ST = **Rs. 11.24**
d) OTHER BANK Debit Card	Rs. 170 + ST = **Rs. 191.01**
e) Credit Card	Rs. 170 + ST = **Rs. 191.01**
f) CASH through SBI Branches	Rs. 50 + ST = **Rs. 56.00**
** ST = Service Tax @12.36%	

(Chiranjib Das)
Joint Director, Head - Academics & Tax Research Department
& In-Charge of Directorate of Studies

CMA DOSSIER

A directory of some research papers on 'NPA Management and Corporate Debt Restructuring (CDR)' that appeared in various journals/periodicals/magazines across the world is presented below for the reference of readers. The articles are available at the link provided next to them.

Name of the topic	Author	Reference with date	Link
NPAs: Rising Trends and Preventive Measures in Indian Banking Sectors	Dr. Sushama Yadav	Volume 2, Issue 1, January 2014 International Journal of Advance Research in Computer Science and Management Studies	http://ijarcsms.com/docs/paper/volume2/issue1/V2I1-0015.pdf
A Study on Non- Performing Assets With Reference to Banking Sector	Karteek Madapana	International Journal of Research (IJR) Vol-1, Issue-6, July 2014	http://internationaljournalofresearch.org/index.php/ijr/article/view/283/596
Asset quality of Indian Banks in 2013–2014 -A big challenge	Sekar V. Dr. Balachandran V	International Journal of Advanced Research in Management and Social Sciences Year : 2014, Volume : 3, Issue : 7	http://www.indianjournals.com/ijor.aspx?target=ijor:ijarmss&volume=3&issue=7&article=006
A Study on Analyzing the Trend of NPA Level in Private Sector Banks and Public Sector Banks	Ashly Lynn Joseph	International Journal of Scientific and Research Publications, Volume 4, Issue 7, July 2014	http://www.ijsrp.org/research-paper-0714/ijsrp-p3145.pdf
Use of CAMEL Model: A Study on Financial Performance of Selected Commercial Banks in Bangladesh	Golam Mohiuddin	Universal Journal of Accounting and Finance 2(5): 151-160, 2014	http://www.hrpub.org/download/20141201/UJAF4-12202990.pdf
Corporate Governance Practices: A Study With Reference to State Bank of India	Dr. P. Hari Prasad	Vol 2, No 4 (2013)	http://pezzottaitejournals.net/index.php/IJTGBP/article/view/973
Credit Risk Management Practices of Indian Banking Industry -A Comprehensive Analysis	Dr. D. Thiruvengala Chary P.Laxmi Narsimha Murthi	Indian Journal of Commerce and management (IJOCAM) volume 1 issue 2 Jun/2014	http://ijocam.in/uploads/3/4/0/0/3400848/ijocam_volume_1_issue_2_article_1_to_10.pdf
A Comparative Study of Non Performing Assets of selected Public and Private Sector Banks in India	Ms. Shweta Guwalani	Journal of Management, Issue –I, Vol.-I, Oct.-Mar., 2014	http://jssgiwfom.com/doc/JSSGIW%20Journal%20of%20Management.pdf#page=101
Managing Non-Performing Assets of Banks	Vinit Rokade, Dr. Mukunda Sonavane	Vol 1, No 3 (2014)	http://www.saiompublications.com/journal/index.php/ISSN-2347-7571/article/view/95
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FLASHBACK 2014

January 2014

Strategic Cost Management in Banking and Insurance

An effective Strategic Cost Management programme cannot only lower the costs of an organization but also create a strategic and competitive advantage. Strategic Cost Management helps financial services companies like bank and insurance to measure profitability more accurately and efficiently in richer details.

February 2014

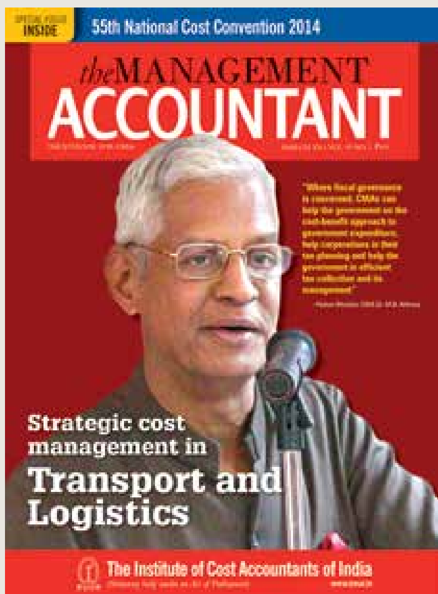
Economics of the Power Sector

Power is subsidized for agricultural and domestic consumers through two sources: (i) state support to State Electricity Boards (SEBs) in the form of subventions or write-off of loans or interest, etc., and (ii) cross-subsidization by charging higher prices from industrial and commercial consumers. Through the conduct of efficiency audit, CMAs may help to determine the exact requirement of energy and optimum utilization of natural resources.

March 2014

Strategic Cost Management in Transport and Logistics

India's focus on infrastructure over the last decade made the country the second fastest growing economy in the world. Planning commission of India has projected an investment of US$ 1 trillion for the infrastructure sector during the 12th Five Year Plan. Various approaches to cost and performance monitoring for logistics and distribution operations can be linked wherever possible to actual company practice.



April 2014

Cost Management in Education Sector

The Indian education sector has been recognized as a booming sector for investment in the recent past as there is a huge demand for upgradation of education since India is expected to have a surplus of 47 million people in the working age group by 2020. CMAs can play an important role in performance evaluation, allocation and distribution of resources and funds, regulatory aspects and governance, obtaining cost efficiency and optimum utilization of resources, etc. of educational institutes as well as the whole system.

May 2014

Price and Cost Competitiveness

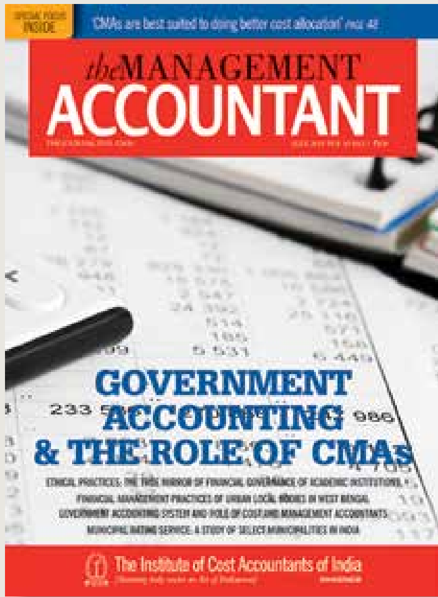
Competitiveness is the ability of a country's enterprises to sustain superior market positions and profitability relative to their domestic and international competitors by producing products and services of superior quality and functionality, at competitive prices, delivered on time to both domestic and international buyers. Competitive cost reduction envisages improvement in product design, production methods or techniques, marketing and finance through budgetary control, standardization of products or services, automation, Operational and Marketing Research and Value Analysis.

June 2014

Ethics of Accountants

Ethics is a branch of philosophy that provides criteria for evaluating right and wrong. It is extremely important for accounting professionals to be ethical in their practices because public rely on the information provided by the accountant professionals and based on their information about companies, public make investment decisions. Cost and Management Accountants have an obligation to provide services at the highest level of ethics possible. Ethics is an integral part of management accounting, and companies need to develop a code of ethics or conduct, to set the expected ethical behavior for an accountant.

FLASHBACK 2014



July 2014

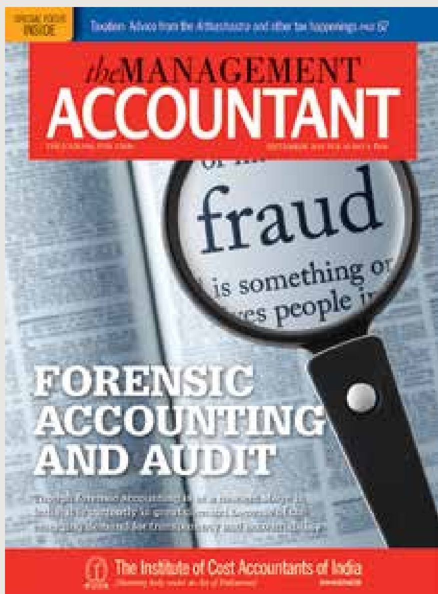
Government Accounting & The Role of CMAs

Government accounting is the process of collecting, recording, classifying, summarizing, communicating and interpreting the financial transactions relating to the revenues and expenditures of government offices. The role of CMAs in Government Accounting can be described under (1) Customs Act, 1962, Section 146A (2) Central Excise Act, 1944 (3) Finance Act, 1944 (Service Tax) (4) Ministry of Corporate Affairs (MCA) etc.

August 2014

Cost Accounting Standards and its Economic Implications

Cost Accounting Standards (CAS) are a set of standards that provide a structured approach to achieve uniformity and consistency in cost accounting principles and practices. In the manufacturing, mining and service sectors, CAS plays an important role for classification of cost, reduction of cost and to minimize wastage.



September 2014

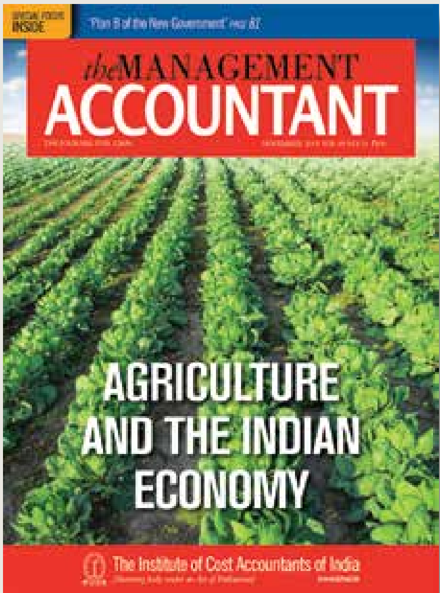
Forensic Accounting and Audit

Forensic accounting can be described as a specialized field of accountancy which investigates fraud and analyse financial information to be used in legal proceedings. A forensic accountant can ensure the integrity and transparency of financial statements by actively investigating for fraud, identifying areas of risk and associated fraud symptoms and a good fraud prevention program can help to create a positive working environment where employees do not indulge themselves to abuse their responsibilities. CMAs can verify discrepancies through performance study of the organization.

October 2014

Urban Development and Economic Growth

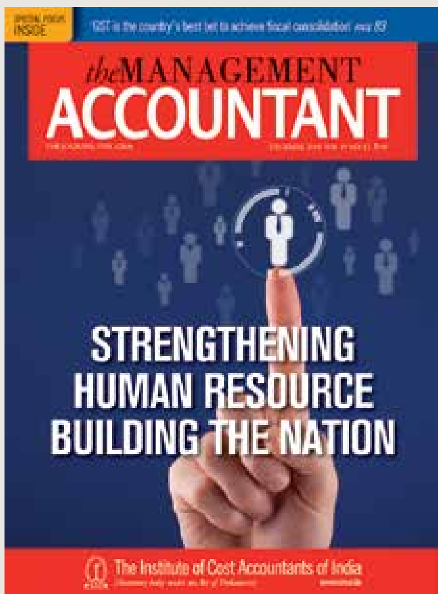
Urbanization is amongst the most important contributors to the economy of the nation as they both are inextricably linked. The indicators in the process of socio- economic development of urban areas of a state can broadly be placed into four categories. The CMAs can suggest suitable strategies by resource mapping to increase efficiency and productivity towards sustainable economic growth of nation.



November 2014

Agriculture and the Indian Economy

Indian agriculture has undergone a rapid transformation in the past two decades. The policy of globalisation and liberalization has opened up new avenues for agricultural modernisation. CMAs can provide their professional knowledge in agriculture sector in the following cases: (1) Raising agricultural productivity per unit of land (2) Minimizing inputs costs (3) Subsidy management (4) Resource mapping and etc.



December 2014

Strengthening Human Resource Building the Nation

Human Resource Information Systems (HRIS) helps the HR function to become more efficient and to take effective decision by providing better information. Performance management is the systematic process by which an organization involves its employees, as individuals and members of a group, in improving organizational effectiveness in the accomplishment of its mission and goals. The CMAs can suggest suitable strategies to the management regarding planning and allocation of resources, creating apt working environment to attain desired target and enhance value maximization of the business.

The Institute of Cost Accountants of India

(Statutory Body under an Act of Parliament)

Ref. No.: DOS/8/11/2014-15 Kolkata, November 19,2014

CIRCULAR

Sub: Simplification of Admission/Registration/Enrolment procedures to the CMA Course by:

(1) Revision in cut-off dates for admission/registration/enrolment:

Notified for general information amendments relating to Revision in time period for admission/registration/enrolment to the CMA Foundation/Intermediate/Final Course.

(A) Foundation Course:

Course	Existing Time Period	**Revised Time Period**
Foundation	At least 150 days prior to the date of examination	*at least **four** months prior to the month in which examination is held"*

Accordingly the revised time line for Foundation Course are:

For March Examination of the next calendar year	31st October
For June Examination of the same calendar year	31st January
For September Examination of the same calendar year	30th April
For December Examination of the same year	31st July

Example:

For June 2015 Examination	31st January,2015
For September 2015 Examination	30th April,2015
For December 2015 Examination	31st July,2015
For March 2016 Examination	31st October,2015

Note: For March 2015 term of Foundation Examination, students admitted upto 21/10/2014 shall be considered, based on the time period of 150 days. The same was notified vide DOS/8/07/2014-15 dated July 28,2014.

(B) Intermediate and Final Course:

Course	Existing Time Period	**Revised Time Period**
Intermediate / Final	at least **six** months prior to the month in which examination is held	*at least **four** months prior to the month in which examination is held"*

Accordingly the revised time line for registration/enrolment to the Intermediate and Final Course are:

For June term Examination	31st January
For December term Examination	31st July

Hence, for June 2015 term, the existing cut-off date of 30th November,2014 is revised to 31st January 2015 for Registration to Intermediate Course and enrolment to Final Course.

Example:

For June 2015 Examination	31st January,2015
For December 2015 Examination	31st July,2015

(2) Increase in time period for Provisional Admission/Registration

Provisional Admission to the	Existing Time Period	Revised Time Period
Foundation Course	Six (6) months	Thirty six (36) months
Intermediate Course	Six (6) months	Eighteen (18) months

All concerned are requested to take a note of this amendment and attach wide publicity to the stakeholders.

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Ref. No.: DOS/8/11-02/2014-15 Kolkata, November 24,2014

-contains**(B) CMSCs (Revised Guidelines) w.e.f.01.11.14**	http://eicmai.org/CMA-Support-Centre/Index.aspx

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