

## Catches Win Matches

**Lakshmi Ramakrishna Srinivas  
Ramdas Krishna Kamath**

Kishorilal, a valued SME customer, had come to the branch to invite the Branch Manager for his daughter's wedding. The invitation card came with a box of dry fruits and dripped wealth. When Kishorilal met Rajaram, Relationship Manager (RM), Rajaram congratulated him and assured Kishorilal that he would attend the marriage at Raipur, Kishorilal's hometown. As soon as the borrower left, Rajaram punched the invitation card and filed it with the loan documents. Manoj, the new Support Officer (SO), asked Rajaram why he was filing the invite with loan documents.

Rajaram smiled and said, 'Manoj, this invite is an authentic document, and none of the information in this card, say, the names, contact details, etc, will be wrong. Kishorilal's account is showing a few 'early warning signals' and if I require to send a legal / SARFAESI notice, this document will help me. I propose to seek the Branch Manager's permission to attend the wedding for inspection purposes. I want to know more about Kishorilal's reputation in his hometown, his unencumbered assets and his current repayment capacity.'

Rajaram also told Manoj as to how, years ago, as a SO, he had, just by looking at the stock statement closely, found that the quantum of debtors reported within three months' cover period, was more than the sales clocked by the unit in the last six months.

The RM added that even in a consortium account, as a leader especially, the bank should not take for granted the proportionate routing of sales through each member bank, but verify it through scrutiny of statements of accounts. Rajaram smiled and said that Manoj would do well to pay attention to EWS.

'Early warning signal means?' Manoj asked.

Monitoring an account is perhaps a lot like the game of cricket in which merely having a strong batting order is not enough. Strong fielding is also equally important. In credit, we keep chasing business targets, but if strong fielding, i.e., effective follow-up and monitoring is lacking, it is more likely that the match is lost. Keeping a watch on early warning signals and taking proactive steps is a sign of a good fielder. Often, the account shows early warning signals, but we overlook these either because of lack of knowledge or due to other priorities/work pressure. Gradually, things spiral out of control and the account turns NPA, putting the bank at risk of financial and reputational loss.

Ignorance of fielding is not bliss in cricket and may prove a game-changer in a negative sense. Ignorance, lethargy or complacency are anathemas in credit. This piece attempts to reiterate some of the common major early warning signals (EWS). EWS may be analysed under four parameters of behaviour, ie, Financial, Operational, Market and Attitudinal.

**Financial early warning signals** are those which can be detected without moving from one's desk just by meaningful scrutiny of available monitoring tools like Statements of accounts, stock statements, financial follow-up reports (FFRs), Quarterly Information System (QIS), Monthly Select Operational Data (MSOD), cheque referred and returned register and Balance Sheet, etc. These are the unit's periodic health certificates. Financial early warning signals include:

- a) Non-submission / delayed submission of stock statements
- b) Non-submission / delayed submission of financial statements like FFRs, QIS, MSOD, etc.

- c) Not routing transactions through the loan account
- d) Requests for frequent overdrawing
- e) Bouncing of cheques (Normally, bouncing of three cheques within 30 days irrespective of amount but for the reason 'Insufficient Funds')
- f) Not servicing interest / principal amount on time
- g) Devolvement of Letters of Credit (LCs)
- h) Invocation of Bank Guarantees (BGs).

**Operational Early Warning Signals** are those early warning signals which operating staff can observe during a unit inspection. Unit inspection must be meaningful, covering an entire gamut of activities including sales and marketing, production and purchases, inventories, collections, HR / labour aspects, borrowings from other banks, statutory aspects, etc. Casual enquiries with workers often throw up important insights, eg, number of shifts being run, labour relations, the position of payment of wages, demand for the unit's products, company's promoters' / key personnel's involvement in the unit's working, etc. A few observations which can be considered early warning signals are:

- a) Piling up of stocks - Non-moving, slow-moving / obsolete stocks
- b) A gross mismatch between stock statement submitted to the bank and physical stock available (if not reconciled)
- c) Machinery lying idle
- d) Attrition in workforce / labour unrest (strike notice, lunchtime demonstrations, etc)
- e) Non-payment / delayed payment of statutory dues
- f) Not maintaining proper books and registers
- g) Hypothecation board not displayed / company unwilling to display lending bank's board
- h) Use of old / outdated redundant machinery
- i) Untidy, unkempt premises; issues with electricity supply, etc.

**Early warning signals from market** play a vital role, and the field staff needs to catch these promptly like an alert fielder. Competition is a significant threat for any company, and the entry of a strong competitor is always a cause for concern even for an established player. A case in point is the impact of the entry of Jio on major telecom players. Regular study of the industry is like a fielder watching each move of the players in the rival team. In addition to the competition, a few major signals which we can catch from the market are:

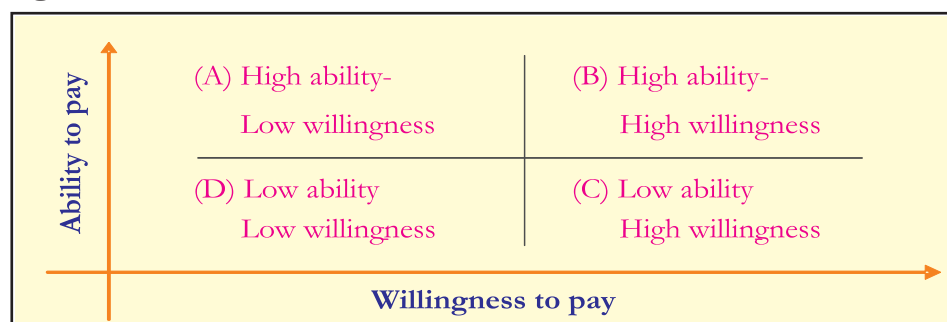
- a) Low demand for the product
- b) Adverse feedback from customers
- c) High return of goods
- d) Consistent fall in the share price of the company
- e) Media may also play a vital role in this regard. For example, if there is unrest or any untoward incident at a unit located in Himachal Pradesh but where the loan is availed at Hyderabad, it is most likely to reach us through media reports. Often, news about a court case against the company which the borrower did not disclose, reaches us through the media.

**Early warning signals due to change in attitudinal behaviour of the borrower** are precursors to a serious problem in the company:

- a) The borrower does not answer our calls and does not call back
- b) Borrower neither visits the branch nor allows bank officials to visit his office / unit
- c) Stock statements / Balance sheets or other periodical returns are not received in time; even if submitted, the papers may be fudged.

The above are the major early warning signals usually observed while monitoring a loan account. When the

**Figure 1**



account starts showing signs of incipient sickness, it must be classified as a 'Special Mention Account' (SMA).

Now, the advanced monitoring skills of the RM / Credit officer come into play. An immediate meeting must be arranged with the borrower for two purposes - one, to educate the borrower of the consequences of the account slipping to NPA, and second, to understand the root cause of the problem to decide the strategy to be adopted.

The strategy will often be different for short term issues and long-term problems. For deciding the strategy, it is suggested that the borrowers be categorised based on their ability and willingness to pay.

#### (A) High ability - Low willingness

This kind of borrowers, or 'wilful defaulters', usually intentionally default on repayment, despite having the ability to pay. Hard recovery measures are warranted in such cases.

#### (B) High ability - High willingness

These are generally the more affluent and disciplined customers. Since they have the ability and willingness to pay, the repayment is regular, and accounts are standard. If the branch NPA is, say 6 percent, this is the category of 94 percent, ie, normally well-run companies whose accounts provide a good income to the branch.

#### (C) Low ability - High willingness

The branch needs to focus on such accounts as far as NPA management is concerned, for three reasons:

1. The borrower is accessible.
2. He has the inclination to repay the loan though circumstances are unfavourable at present.
3. NPA management does not mean recovery always. There are other options which may be explored here, within the guidelines of the individual banks and RBI. If the problem is short term or temporary, the branch may be able to help the company overcome the crisis, by extending ad hoc limits /reasonably justified concessions, etc.

If the problem is long term in nature, restructuring or re-phasing the loan may be a better solution. If both the options are not workable, either compromise settlement or applicable one-time settlement (OTS) scheme may be suitable.

#### (D) Low ability - Low willingness

There is no future for this category of account; as the borrower has neither the ability nor the inclination to repay the loan. In such a scenario, the bank may have no other option but to call up the advance and initiate the legal action.

Thus, depending upon the category of the borrower, a hard or soft recovery strategy may be adopted. To conclude, being alert like an expert fielder on the ground is an essential skill for a credit officer. Effective monitoring and catching early warning signals in time and taking proactive measures will, in most cases, result in curtailment of NPAs and bring about a win-win situation for banks and borrowers. Catching EWS in time certainly helps the bank in winning the test of maintaining a healthy and robust loan portfolio.

#### About the Author



**Lakshmi Ramakrishna Srinivas** is General Manager & Director, State Bank Institute of Consumer Banking. She joined SBI as a PO, and has had rich experience of over three decades in retail and corporate banking, Board Secretariat, and the training. She has worked as Personal Banking Division Head, Relationship

Manager in a Corporate Accounts Group branch, VP (Credit) in New York branch, Commercial Branch in Corporate Clients Group Head, and Senior Faculty.

An Honours graduate in English Literature from Calcutta University and a Post Graduate from Osmania University, Ms Srinivas has keen interest in music and reading, and has published poetry and human interest articles in reputed magazines and newspapers.

She can be reached at [lakshmi.r.srinivas@sbi.co.in](mailto:lakshmi.r.srinivas@sbi.co.in) or [director.sbicb@sbi.co.in](mailto:director.sbicb@sbi.co.in)



**Ramdas Krishna Kamath** is AGM and Faculty, State Bank Institute of Consumer Banking, Hyderabad. He has rich experience in banking for more than 35 years especially in high value credits and consortium advances. He has been invited by other banks and institutions as a visiting faculty.

He has authored six books of fiction and interviews of eminent personalities. His articles are published in various magazines. He was awarded with PAN India 'Best Faculty'.

He can be reached at [ramdas.kamath@sbi.co.in](mailto:ramdas.kamath@sbi.co.in)