



CASE STUDY

THINK OUTSIDE THE BOX

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Scheme I Consolation Prizes by IIBF for FY 2019-20



THINK OUTSIDE THE BOX

Introduction

The case is based on a real case held at one of the branches of a PSB in Andhra Pradesh. It shows the implications of not taking right decision at appropriate time by the Bank and the adverse impact/implications of it. In the above case, this resulted into customer dissatisfaction, huge NPAs, drain on profits, and loss of sizable deposits. The present Case is an example where some Bankers are called fair weather friends in which case they give umbrella to others when weather is good and take it back when it starts raining.

The Case

Mr Bhushan was posted as Chief Manager at R.C.Pet Branch of XYZ Bank (a public sector Bank). R.C.Pet is a semi urban branch having an advances portfolio of around 80 cr and identified as a potential centre for SME and Agricultural and allied activities. The centre was having potential entrepreneurs despite their low academic back ground. A Branch of PQR Bank, i.e. another Public Sector Bank (PSB) is also established at the centre. The volume of the advances of the PQR Branch was also as much as that of R.C.Pet branch of XYZ Bank. It was offering stiff competition to the R.C Pet branch of XYZ Bank. Four other PSBs were having their branches in the surrounding areas.

Mr Bhushan is an outspoken person and a man of straightforwardness. He strongly believes in his own perceptions leaving no scope for entering into others shoes. In the process, some gaps were created between him and his controllers. This enabled him to restrict the communication with them to minimum levels. He was also keeping an arm's distance with his customers and not mingling with them.

Apart from Agriculture, the other activities covered in the area were Rice Mills, Poultry, wholesale fruit business. Finance to Rice Mills was around 25% of total business of the Branch. Similarly, finance to Poultry also was around 30% of the business. NPA percentage of the Branch was around 1% of total advances and there were no NPAs

under Rice Mills and Poultry activities. In Poultry portfolio there were around 26 accounts belonging to 8 groups formed as different partnership concerns. The total exposure of the branch under Poultry was around Rs 25 cr. The Agricultural lands belonging to the partners and their kith and kin were offered as collateral security for the

loans. The market value of the agricultural lands was shooting up at the time of processing the proposals, due to boom in real estate. The transactions of real estate at that juncture were high in volume and also in number. The prevailing market rate of land at the time of sanction of loans was around Rs 15 lacs per acre in and around R.C Pet. However, the Branch conservatively arrived at the value as Rs 12 lacs per acre. Consequent upon the sanctions, over a period of six months the real estate boom in the area got slowed down and land value was impacted adversely on account of that. The value of the agricultural lands in R.C Pet also got deteriorated to an extent of 20% to 25%. This had a bearing on the value of collateral security offered by the poultry units also. However, as the units were prompt in repayment, the Branch viewed this in a lighter way.

The centre is around 80 km away from sea coast of Bay of Bengal and often affected by depressions. Unfortunately, some time back the centre was affected by a depression that turned to be a cyclone. The sheds of the Poultry units of the branch were partially damaged. Around 25% of the birds died. The units had to invest considerable amounts towards revival/renovation of the units. The pace of the activity got affected adversely for some time due to the cyclone. Since Mr Bhushan, was away from the head quarters at the time of cyclone, he could visit the units only 15 days after the cyclone, and by that time major renovation work was completed by the units, in order to bring normalcy in the activity.

Consequent upon the cyclone, all poultry units of the locality conducted a meeting in order to discuss on various aspects pertaining to the impact of cyclone on poultry industry. During the meeting, they decided to request their respective Banks for rephrasing their loans. All other Banks were sympathetic towards the poultry units and considered their request favorably. Accordingly rephrasing of the loans took place. Keeping this in view, one day the Managing partners of the eight groups of poultry units of the R.C Pet branch of XYZ Bank also approached Mr Bhushan seeking rephrasing of the Agl Term Loans of their poultry units. They said that they had to invest huge amounts to revive their units by borrowing funds from their relatives. Mr Bhushan did not accede to their request to rephrase the loans and expressed his inability in this regard. The perceptions of Mr Bhushan on the basis of which the request of the units turned down

include (1) The damage on account of cyclone was not much, (2) the insurance claims would take care of the damages caused on account of cyclone, (3) all the people of R.C Pet were engaged in finance business (money lending), and there would be no need of any financial assistance to them and they were capable of investing their own funds for

any purpose in their business. Therefore, Mr Bhushan found no reason to consider the request of the units to rephase the Agl Term Loans. Mr Bhushan was also having the perception that the funds raised out of rephasing of the loans would be diverted towards other activities like finance business/money lending.

Few days after this, all the Managing partners of the Poultry units of the branch called on the Regional Manager of the Region. They explained the outcome of the meeting with the Chief Manager Mr Bhushan and requested for consideration of the proposal of rephasing the loans. After ascertaining all details, the Regional Manager said that the rephasing proposals could not be initiated at his end. It is up to the Branch to examine the merits and demerits of the issue and put up to him with their recommendations, duly substantiating with the circumstances and reasons for rephasing. He expressed his inability in this regard in the absence of any communication from the Branch. The Managing partners of the units once again discussed on the matter with both the Chief Manager and the Regional Manager and found no positive response forthcoming from either of them and also there was no coordination and proper communication between them.

Finally, all Poultry units conducted a joint meeting among themselves and discussed the matter. During the discussions, four out of eight groups started bursting out and expressed their decision to stop repayment of loan instalments. They were of the opinion that, if the Bank proceeds legally it might take many years for completion of the legal process. Till such time the units could enjoy the funds. However, rest of the four groups did not agree to this proposal. They decided to repay promptly keeping in view the importance of maintaining good relations with the bank. They thought that the Bank might be useful to them at any time in future provided they maintain good rapport with it. They wanted to keep up good track record maintained by them so far. In the process, the Poultry units of the Branch got divided into two groups and started continuing their business without consulting each other. In the process, four groups continued their repayments promptly and other four groups stopped repaying the instalments of their Agl Term Loans.

When four of the eight groups were not repaying, Mr Bhushan and field officer of the Branch started visiting the defaulting units frequently. Though the Managing partners of the units were not harsh with the Branch officials, they were practically showing their protest by means of non payment of instalments. Six months passed and the branch found the over-dues mounting up to an unmanageable level. In the light of this, the branch submitted irregularity reports to their controllers. Subsequently, the Regional Manager of the region along-with two other officials arrived at the branch. They had gone through the state of affairs of the poultry portfolio of the branch, including that of collateral security,

and found the situation to be alarming. The units were also inspected by the Regional Manager along-with his team and had a dialogue with the Managing partners of the units. The Managing partners of the units expressed their inability to repay the over-dues as the business was not encouraging. Since the discussions with the units did not yield desired result, the Regional Manager instructed the Branch to call up the loans in question. Two months passed and the Branch got instructions from the controllers to file suits with Debt Recovery Tribunal (DRT). The Managing Partners and other partners of the defaulting units again met in a meeting and decided to continue the trend of non repayment of instalments. Further, adding fire to fuel, they took a decision to shift all deposits pertaining to friends and relatives of the four Poultry groups, to other Banks. In this regard they started spreading the message among their kith and kin and also their well-wishers, to withdraw all deposits from the branch. Thus, the Branch lost deposits to an extent of around Rs 7 cr. The NPA position of the Branch shot up to the level of around Rs 15 cr.

Subsequently Mr Bhushan was transferred from R.C.Pet Branch. One month after his transfer the Regional Manager of the region also got transferred and subsequently the new Chief Manager took over the charge at the branch. Having found the alarming NPA position of the branch he visited the units and ascertained the details pertaining to the high NPA position of the branch. Within few days, the new Regional Manager also took over the charge. In the light of mounting NPAs and deteriorated value of agricultural landed property (offered as collateral security) pertaining to Poultry units, it was finally decided to settle the matter by means of a compromise. After lengthy discussions held in several meetings with the units coupled with protracted correspondence with regard to approvals etc., the compromise proposals were settled. In the process the Branch had to sacrifice an amount of Rs 3.5 cr. This was as much as the profit earned by the branch during two years during the material time.

Points to ponder/Questions

- 1) What are the shortcomings in the process of decision making by the Bank and what are the merits and de-merits to be kept in mind while doing so?
- 2) The importance of effective communication between Branch officials and their controllers? What are the shortcomings prevailing at the Branch in this regard?
- 3) What are the lapses of the Branch when the value of Agricultural lands went down aftermath of real estate boom?

- 4) Did the Chief Manager justify his perceptions that enabled him to put a back step for rephrasing the Term loans of the Poultry units?
- 5) What are the lapses of the controllers that let the situation going beyond the control of both the Branch and Controllers?

TEACHING NOTES

Target Group

Officials positioned as controllers, Branch Managers, Credit officers, Field officers etc.,

Objectives

The case is written to enable the operating staff understand and appreciate:

- 1) The importance of cordial relations between controllers and branch officials and the importance of effective communication between them.
- 2) The importance of taking correct decision at appropriate time by the Bank
- 3) The importance of working with vision in respect of business by the Branch heads and Controllers of the Branches
- 4) The importance of watching the activities of other Banks in the locality
- 5) The importance of doing business while taking care of the aspect of customer orientation and protecting bank's interests and keep a balance of both of them

Methodology

- 1) Every participant will be asked to go through the case study
- 2) All participants will be formed into small groups for discussion and each group will be making presentation
- 3) Summing up, highlighting the important points and clarifying doubts.

Time duration

Individual Reading & group formation	: 15 minutes
Discussion in groups	: 10 minutes
Presentation by groups	: 15 minutes
Summing up	: 05 minutes
Total Time	: 45 minutes

Learning Points

When a group of units with high level of exposure are adversely affected by natural calamity, the Branch should assess the degree of loss incurred by the units. It is also required to observe the severity of the calamity and to what extent it affected the activity/productivity of the unit without having pre-conceived notions. In the light of the above a decision has to be taken accordingly without prejudices, in order to ensure normal functioning of the units, thereby ensuring anticipated cash accruals and in turn repayment of the instalments. When the branch learned that other banks had extended support to their respective units by rephasing the loans, and their units also sought similar support, such matters are required to be brought to the notice of the controllers, fully appraising the situation. Besides this, detailed discussions are required to be made in this regard, in order to take a decision on considering of the request of the units depending upon the merits and demerits. An effective communication between the branch and controllers is invariably required in order to enable the controllers to take an appropriate decision.

A timely decision by the Bank enables the units to revive and bring back the normal pace of the activity of the units at the earliest. This ultimately ensures the economic viability of the units. Any delay in this regard may adversely affect on earnings and repayment process, thereby landing the Bank in trouble. A timely assistance of the Bank not only helps the units but also makes the units loyal to the Bank thus ensuring prompt repayment and further business to the Bank.

The value of collateral securities of the branch are required to be re-assessed from time to time particularly where there are considerable fluctuations in their value. If considerable deterioration in the value of the securities is found, the branch officials are required to take up the matter with the units and find out the possibility of obtaining additional collateral securities to strengthen the security position.

The Branch officials as well as the controllers are required to foresee the implications of not considering the request made by the units with regard to rephasing of the loans. A vision in this regard would avert us from possible mishaps and avoid the possibility of the borrowers becoming willful defaulters. A vision enables us to have an assessment of possible permutations and combinations. An analysis basing on this contributes to the process of taking right decisions.

It is very essential to watch the activities of our competitors/counterparts in the locality. Despite the fact that they are our competitors, our cordial and friendly relations with them enable us to exchange valuable information in order to have a check on our decisions/initiatives and take corrective measures where necessary. It is essential to bring to the notice of the controllers the information on the policy matters and strategies of other banks in order to through enough light on the same and bring-in new initiatives, and initiate corrective measures if warranted at their level.

It is the responsibility of the controllers to make necessary enquiries on the state of affairs of the units with sizable exposure. It is more so when a natural calamity like a cyclone occurs. They should take initiative to discuss with branch heads and suggest them suitably, in order to initiate timely action at the branches. Their role is like that of a friend, philosopher and guide. A close monitoring of advance portfolios of the branches under them and providing desired direction out of their experience and maturity, averts the branches from facing any untoward incidents.

For any business organization, it is the customer who provides the bread and butter. Therefore, a customer oriented attitude is pre-requisite for the progress and success of any organisation. A timely help to the customer in case of need would always have great impact on furtherance of business and progress of the organisations. On the other hand any laxity or lapses in this regard may have disastrous consequence. The customer simply stop dealing with us and start doing business with our competitors. Their bad publicity would have adverse effect on the business manifold. It results in loss of existing as well as future business and bearing on our profitability. Thus, before taking any crucial decision, it is essential for a business organization to “*think outside the box.*”