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   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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CREDIT RISK MANAGEMENT IN SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)

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ABSTRACT
Development Financial Institutions now provide primarily direct finance, and as a part of it, they provide project finance. Generally they have earned positive operating and net profits; all of them have fulfilled Capital Risk Asset Ratio requirements; they have diversified their activities till 1998-99, after which they have suffered from the lowering of their asset quality, which is reflected in their high Non-performing Assets. At present the performance of banks would be judged not by conventional indicators such as deposit growth and credit expansion, but by their success in recovery and reduction in Non Performing Assets. Small Industries Development Bank of India (SIDBI) an All India Development Financial Institution was established, to function as an apex bank for tiny and small industries, under takes the Promotional and Developmental measures designed to achieve enterprise promotion resulting in setting up new units and enterprise and strengthening to enable Micro Small and Medium Enterprises (MSMEs) to face the emerging challenges of globalization and growing competition through select interventions. As any financial institution is confronted with the credit risk for the nonpayment, Small Industries Development Bank of India is also not an exception to this. The more prudent a bank is managing its risk, the better is its image and prospects of survival and growth. Since the Non-performing advances or Non Performing Assets is constantly referred to for indicating the performance and the state of health of various types of financial institutions and loans are the largest and most obvious source of credit risk, an attempt is made to analyse the Non-performing assets of Small Industries Development Bank in relation to its outstanding portfolio. The objective of risk management in bank operations is to minimize negative effects the risks can have on the efficiency of a bank. As such, in the present study, the impact of Non Performing Assets on the efficiency variables identified is also assessed. The result of regression analysis shows that the impact of Gross Non Performing Assets ratio as well as Net Non Performing Assets ratio on the efficiency indicators is lesser in SIDBI. Hence the credit risks are better managed by SIDBI.

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KEYWORDS
Efficiency variables, Micro Small and Medium Enterprises, Non-performing assets, Outstanding portfolio, Slippage.

INTRODUCTION
Small Industries Development Bank (SIDBI) was established, to function as an apex bank for tiny and small industries. It functions as the principal financial institution for promotion, financing and development of industrial concerns in small scale sectors and for the coordination of the functions of the institutions engaged in similar activities. SIDBI Provides, financial support by way of refinance to eligible prime lending institutions (PLIs) such as banks, state financial corporation (SFCs), Micro Finance Institutions (MFIs) for onward lending to Micro Small and Medium Enterprises (MSMEs) and direct assistance to MSMEs. SIDBI is the Nodal Agency, for the implementation of some of schemes of Government of India (GoI), for encouraging implementation of technology up gradation and modernization of the MSME sector. SIDBI is committed to attain the national goal of a broad based equitable and inclusive growth by providing micro credit through MFIs for on-lending to the bottom-of-the –pyramid segment of the society with special thrust on un-served and under-served regions of the country. It under takes the Promotional and Developmental measures designed to achieve enterprise promotion resulting in setting up new units and enterprise and strengthening to enable MSMEs to face the emerging challenges of globalization and growing completion through select interventions. The Bank as the principal financial institution for the MSME sector, not only imbibes the corporate social responsibility and good corporate governance within, but also inculcated the same in the MSME sector and the institutions it deals with. Development Financial Institutions now provide primarily direct finance, and as a part of it, they provide project finance. Generally they have earned positive operating and net profits; all of them have fulfilled Capital Risk Asset Ratio requirements; they have diversified their activities till 1998-99, after which they have suffered from the lowering of their asset quality, which is reflected in their high Non-performing Assets. Also, the empirical studies on determinants of bank credits have shown that available of lendable resources, level of NPAs and asset prices are the major determinants of bank credit in India during the period 1996-97 to 2006-07. During the period 2002 -03 to 2006-07, NPA level has emerged a significant variable. (Bhole L.M and Jitendra Mahakud(2009). As any financial institution is confronted with the credit risk for the nonpayment, SIDBI is also not an exception to this. The performance of banks would be judged not by conventional indicators such as deposit growth and credit expansion, but by their success in recovery and reduction in NPA (Murugadoss R. (1993). As the measure of reduction of NPAs,the Bank has devised a system review of fresh slippage of accounts into NPA category to understand and analyse the failure causes thereof. As an effective monitoring tool, Default Review Committees at the operating offices are constituted. Loan Recovery Policy is revisited during the year and suitable modifications are carried out there in. Besides, the NPAs during the latter period from 2009-10 has shown some increasing trend. Since the objective of risk management in bank operations is to minimize negative effects the risks can have on the efficiency of a bank and the quantum of NPAs would directly affect the efficiency of the bank, in this paper an attempt is made to analyse the impact of Non-performing assets of SIDBI on the topic '**Credit Risk Management in Small Industries Development Bank of India'.**

2. REVIEW OF LITERATURE
A brief review of various literatures on non-performing asset will enable to have an understanding of the subject matter and is presented. RBI (1999) has admitted that diversion of funds by borrowers for expansion, modernization, setting up of new projects and sister concerns is mainly responsible for rising non-performing assets. Sujit Sikidar(1997), in his study has suggested that by accelerating credit growth and keeping a check on incremental recovery, banks can bring down their NPA level on percentage terms . V.K. Sudhakar (1998), studied the policies and perspectives of NPA reduction in banks and his study revealed that incremental NPAs result in higher provisioning and consequently lead the bank to charge higher interest on the performing borrower. Vepa Kamesan,(2001), in his article has suggested that the banks will have to put in place effective measures o strengthen their credit appraisal and supervision

mechanism for arresting incidence of fresh over dues/NPAs, they should implement the One Time Settlement scheme as early as possible and take maximum advantage of its provisions . Vasant Anand Kumar(2006), in “Trend in Net NPAs in Banking Industry_ 1996- 2005” concluded that RBI, GoI and commercial banks must concertedly initiate steps to recover dues to banks both from individuals and institutional defaulters at the earliest possible. Sunitha R. and Raju J.K (2013), in “Risk Parameters of Banking Sectors in India-A comparative study” stated that the risks are to be identified at an early stage and should be avoided with no or meager loss. Thakar H.M. and Duble U.S (2011), in their paper “Analytical study of NPA Management in Banks” concluded that the NPAs are the outcome of credit activity of the bank which is their most important function to earn profit. The credit is associated with risk and therefore the bank cannot totally avoid non-performing assets. However, strict compliance of lending norms, steady growth of credit spread over different segments and activities, careful planning, monitoring and follow up, banks can control the advances turning into non- performing advances. Even in case of NPAs, recovery or reduction is possible by adopting various strategies.

3. NEED FOR THE STUDY

The Assets quality of banks is an important indicator of financial health and also reflects the efficacy of banks’ credit risk management and the recovery environment. The assets are classified on the basis of income into two broad categories namely standard Assets and Non-performing Assets. Standard assets are those assets, which do not disclose any problem or ones which carry only the normal risk. They do not require any provisioning. Nonperforming assets have been defined as an asset in respect of which any amount of interest has remained past due for more than two quarters or any amount of principal has remained past due for more than four quarters. Past due has been defined as any amount that remains outstanding for more than one month beyond the due date. The Gross Nonperforming Assets and Gross Loan Assets include provision for NPAs on doubtful and sub standard assets. It indicates the quality of credit portfolio of the bank. Since the Nonperforming Assets create an adverse impact on the financial health of the institution, it must be kept at minimum. Net NPAs refers to the NPAs after subtracting the provisions for sub standard and doubtful assets from the Gross NPAs. It indicates the degree of riskiness in the credit portfolio of the bank. The reforms introduced since 1991 had helped to bring down NPA of all banks to some extent. The total elimination of NPAs is not possible in banking business owing to externalities but their incidence could be minimized. So an effective and prudent management of non-performing assets is essential for checking creation of NPAs in the first place particularly of fresh loans, improving the quality of NPAs and reducing the NPAs. The reduction of NPAs is one of the steps to increase the return on net worth of the bank and the level of NPAs has inverse relationship with the efficiency measure of the bank. Hence to ensure whether SIDBI has effectively managed its credit risk for nonpayment there is a need to benchmark its efficiency by assessing its Gross NPA ratio and its Net NPA ratio.

4. STATEMENT OF THE PROBLEM

Banking is essentially the management of credit risk, liquidity risk and interest rate risk. The more prudent a bank is in managing its risks the better is its image and prospects of survival and growth. Any performing asset do not turn into non-performing overnight. During its journey, every asset is giving out certain signals for warning the banker that something bad to happen. Hence slippage management is essential before the asset becomes NPA. Improved risk management techniques and greater recovery efforts could bring down Gross NPAs. Therefore, Management of NPAs is an important part of operation of SIDBI. In order to curtail the adverse impact of NPAs on the financial health of SIDBI, the Bank undergoes periodic revisions and improvements in the Loan Recovery Policy to suit the portfolio and emerging economic scenario. The review of Loan Recovery Policy enables the Bank to address the specific issues concerning the Bank’s own NPA portfolio. Besides, measures are to be undertaken to prevent the new slippages, to review the progress of recovery, to build adequate safeguards at the time of appraisal / monitoring of the projects/ loans. Generally lower the ratio of Gross Nonperforming Assets to Gross Loan assets, more are the efficient management of Nonperforming assets. Also higher the ratio indicates lower the credit portfolio of the bank and vice versa. Similarly a high Net NPA ratio indicates a high quantity of risky assets of the bank for which no provision has been made. Hence analysis is done to study the NPA in relation to the outstanding portfolio. The efficiency of the bank refers to how effectively the banks are managing their activities in banking and the level of NPAs has inverse relationship with the efficiency measure of the banks. As such, in the present study, the impact of NPAs on the efficiency variables identified is also assessed.

5. OBJECTIVES OF THE STUDY

1. To study the NPAs in relation to the outstanding portfolio.
2. To assess the impact of NPAs on the Efficiency of SIDBI.

6. HYPOTHESIS

The Gross and Net NPAs have insignificant impact on efficiency indicators

7. RESEARCH METHOLOGY

The simple linear regression model is applied to examine the impact of Gross and Net NPAs on efficiency indicators .The fitted model is

$Y = a + b_1 X_{1 + e}$

Where Y - Efficiency indicator

X = Gross Nonperforming assets

b_1 - Regression coefficient

a - intercept

e - Error term

The statistical significance of regression coefficients of Gross NPAs is tested with ‘t’ test.

8. RESULTS AND DISCUSSIONS

It covers

1. The ratios of
   - Gross NPAs to Gross Loan Assets (Gross NPA Ratio)
   - Net NPAs to Net Loan Assets (Net NPA Ratio)
2. Non-performing assets and Efficiency in banks

8.1.1 GROSS NPAS TO GROSS LOAN ASSETS

Table 1 presents the ratio of Gross NPAs as percentage on Gross Loan Assets for the study period.

TABLE 1: GROSS NPAS TO GROSS LOAN ASSETS

Year	Gross Nonperforming Assets **(Rs.)**	Gross Loan assets **(Rs.)**	Percentage
2000 - 2001	637	14571	4.32
2001- 2002	784	13160	5.95
2002 - 2003	892	12728	7.01
2003 – 2004	815	10064	8.1
2004 – 2005	1023	10862	9.42
2005 – 2006	889	13890	6.40
2006 – 2007	70	15661	0.44
2007 – 2008	264	19332	1.37
2008 - 2009	62	33358	0.19
2009 – 2010	77	40365	0.19
2010 – 2011	279	46397	0.60
2011 – 2012	374	54539	0.69

Source: ***Annual Reports of SIDBI*** from the year 2000-2001 to 2011-12

The ratio of Gross Nonperforming Assets to Gross Loan assets of SIDBI had a fluctuating trend for the study period. It had an increasing trend from 2000-01to 2004-05, then had a decreasing trend up to 2009-10 with the minimum of 0.19 per cent. In the last two years 2010-11 and 2011-12, it had been increasing and reached 0.69 per cent.

The Gross Nonperforming Assets to Gross Loan Assets had been ranging from 0.19 per cent to 9.42 with a mean of 3.72 per cent and with a coefficient of variation of 94.09 per cent. The co-efficient of variation is very high, indicates that the performance of SIDBI during the study period in terms of Gross Nonperforming Assets is inconsistent to a large extent. This inconsistency is caused by the efforts taken by SIDBI to minimize the NPAs as per the guidelines of RBI.

8.1.2. NET NONPERFORMING ASSETS TO NET LOAN ASSETS

Table 2 presents the ratio of the Net NPAs to Net Loan assets during the study period.

TABLE 2: NET NONPERFORMING ASSETS TO NET LOAN ASSETS

Year	Net NPAs **(Rs.)**	Net Loan assets **(Rs.)**	Percentage
2000 - 2001	174	13972	1.23
2001- 2002	382	12759	2.99
2002 - 2003	473	12307	3.84
2003 – 2004	226	9475	2.39
2004 – 2005	407	10246	3.96
2005 – 2006	261	13262	1.97
2006 – 2007	22	15709	0.14
2007 – 2008	49	19841	0.25
2008 - 2009	26	32857	0.08
2009 – 2010	69	39731	0.17
2010 – 2011	127	45879	0.28
2011 – 2012	184	53859	0.34

Source: ***Annual Reports of SIDBI*** from the year 2000-2001 to 2011-12

The ratio of Net Nonperforming Assets to Net Loan assets of SIDBI had a fluctuating trend for the study period. It had been increasing for the first five years reaching 3.96 per cent with a fall in the year 2003-04 and then had a decreasing trend up to 0.08 per cent in the year 2008-09 with a hike in the year 2007-08; thereafter had an increasing trend up to the last year 2011-2012.

The Net Nonperforming Assets to Net Loan Assets had been ranging from 0.14 per cent to 3.96 per cent with a mean of 1.47 per cent and with a coefficient of variation of 102.50 per cent. The co-efficient of variation is very high, indicates that the Net Nonperforming Assets to Net Loan Assets of SIDBI during the study period is inconsistent to a large extent. This inconsistency is caused by the efforts taken by SIDBI to minimize the NPAs.

8.3. NON-PERFORMING ASSETS AND EFFICIENCY IN BANKS

The efficiency of the bank is measured by the profitability, turnover, and liquidity. In general, it refers to how effectively the banks are managing their activities in banking. The efficiency of the bank are measured by many variables .In the present study, the efficiency variables identified with the banks are return on assets, return on equity, times interest ratio, non-interest income to total assets, administration expense to total income, assets utilization index, equity multiplier, and profit margin.

8.3.1. IMPACT OF GROSS NPAS ON EFFICIENCY INDICATORS

The simple linear regression model is applied to examine the impact of Gross NPAs on efficiency indicators. The impact of Gross NPAs on efficiency indicators is measured one by one and the resulted regression coefficients of Gross NPAs with their respective statistical significance are shown in Tables 3.

TABLE 3: IMPACT OF GROSS NPAS ON EFFICIENCY INDICATORS

Efficiency indicators	Regression coefficient	S.E	't' statistics
Return on Total Assets	0.04286	0.0474	0.9038
Return on Equity	-0.1267	0.2077	-0.6100
Times Interest ratio	-0.0041	0.0162	-0.2536
Non Interest income To Total Assets	-0.0074	0.0179	-0.4123
Administrative expenses To Total income	0.2578	0.2370	1.0878
Assets Utilisation Index	-0.0088	0.1391	-0.0629
Equity Multiplier	-0.3409	0.1234	-2.7625*
Profit Margin	0.8123	0.5238	0.5508

*significant at 5% level of significance

Source: ***Annual Reports of SIDBI*** from the year 2000-2001 to 2011-12

The Gross NPA ratio has significant impact on Equity Multiplier with the co-efficient of -0.3409 .The analysis shows that the effect of Gross NPA ratio on the efficiency indicators is lesser in SIDBI. Hence NPAs are better managed by SIDBI.

8.3.2. IMPACT OF NET NPAS ON EFFICIENCY INDICATORS

The simple linear regression model is applied to examine the impact of Net NPAs on the efficiency indicators. The impact of Gross NPAs on efficiency indicators is measured one by one and the resulted regression coefficients of Net NPAs with their respective statistical significance are shown in Table 4.

TABLE 4: IMPACT OF NET NPAS ON EFFICIENCY INDICATORS

Efficiency indicator	Regression coefficient	S.E	't' statistics
Return on Total Assets	0.0666	0.1135	0.5871
Return on Equity	-0.3831	0.4784	-0.8008
Times Interest ratio	-0.0255	0.0370	-0.6892
Non Interest income To Total Assets	-0.0101	0.0422	-0.2393
Operating expenses To Total income	0.3923	0.5740	0.6834
Assets Utilisation Index	0.0844	0.3239	0.2605
Equity Multiplier	-0.7217	0.3088	-2.3371*
Profit Margin	1.1275	1.3244	0.8513

*significant at 5% level of significance

Source: ***Annual Reports of SIDBI*** from the year 2000-2001 to 2011-12

The Net NPA ratio has significant impact on Equity Multiplier with the co- efficient of -0. 7217 .The analysis shows that the effect of Net NPA ratio on the efficiency indicators is lesser in SIDBI. Hence NPAs are better managed by SIDBI.

9. FINDINGS

The ratio of Gross Nonperforming Assets to Gross Loan assets of SIDBI had

- a fluctuating trend for the study period.
- The minimum of 0.19 per cent in 2008-09, 2009-10 and maximum of 9.42 in 2004-05.
- The mean of 3.72 per cent.
- Increased during the last three years up to 2011-2012.

The ratio of Net Nonperforming Assets to Net Loan assets of SIDBI had

- a fluctuating trend for the study period.
- The minimum of 0.08 per cent in 2008-09 to 3.96 per cent in 2004-05.
- The mean of 1.47 per cent.
- Increased during the last two years up to 2011-2012.

The simple linear regression model is applied to examine the impact of Gross and Net NPAs on efficiency indicators identified namely return on assets, return on equity, times interest ratio, non-interest income to total assets, administration expense to total income, assets utilization index, equity multiplier, and profit margin. It is found that

- The Gross NPA ratio has significant impact on Equity Multiplier with the regression co-efficient of -0.3409.
- The Net NPA ratio has significant impact on Equity Multiplier with the co- efficient of -0. 7217.

10. RECCOMMENDATIONS AND SUGGESTIONS

- The ratio of Gross Nonperforming Assets to Gross Loan assets and the ratio of Net Nonperforming Assets to Net Loan assets of SIDBI had been slowly increasing in the latter years. Hence preventive measures are to be taken seriously to avoid new slippages.
- Equity multiplier indicates the efficiency of the Bank in multiplying the equity into total operating assets, which in fast generates the business income. As the Gross and Net NPA ratios had significant impact on Equity Multiplier, it would affect the profitability of the Bank. Hence the funds are to be utilized and recovered in an effective manner by initiating steps to recover dues both from individuals and institutional defaulters at the earliest possible.

11. CONCLUSION

The level of NPA of the bank showed its sound loan portfolio, from the year 2006-2007. The major reason accounting for the increase in nonperforming assets in 2007-08 was due to the classification of an infrastructure project as nonperforming. Similarly the considerable increase in the year 2010-11 was due to slippage of one SFC. During the year 2011-12, the level of NPAs under Direct Credit portfolio showed the increasing trend due to the adverse impact of the economic slow-down witnessed in the past. The analysis shows that the effect of Gross NPA ratio as well as Net NPA ratio on the efficiency indicators is lesser in SIDBI. The performance of banks would be judged not by conventional indicators such as deposit growth and credit expansion, but by their success in recovery and reduction in NPA. Hence SIDBI is suggested to make its measures to reduce NPAs as more prominent.

12. LIMITATIONS

- The study is compiled of only secondary data obtained from the annual reports of SIDBI. Hence the study carries the defects of the analysis of financial statements.
- It deals with the credit risk for non –payment only.
- Also the study has considered the NPAs during the period of 12 years from 2000=2001 to 2011-12 only.

13. SCOPE FOR FURTHER RESEARCH

The financial institutions are not only facing the credit risk for non- payment but also facing multi—dimensional multivariate risks in the form of portfolio risk, interest rate risk, exchange risk, liquidity risk, capital risk etc. Hence further research can be done on these risks of the Bank.

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