

“A Detailed study on Debt ridden Punjab Maharashtra Co-operative Bank”

Pooja Sree Pombarla

MBA (Finance & HR), Bhavan's Vivekananda College, Sainikpuri, Secunderabad.

poojasree.p1802@gmail.com

Abstract

Co-operative Banks (Urban and Rural) in India have become an integral part for the success of the Indian Financial Inclusion. Since their inception, they have achieved many landmarks and have helped the Indian citizens to feel empowered and secured by offering banking services at ease. The journey of the Co-operative Banks has not been smooth and had to face woes and the procedural glitches at various levels. The present study attempts to analyze the current problem that Punjab Maharashtra co-operative bank is facing in the context of rapidly deteriorating financial position. This necessitated the Reserve Bank of India (RBI) and the Government of India to take immediate action to protect the interest of depositor and also to maintain trust and confidence in the Indian banking system. This Research paper covers multiple dimensions of PMC bank's journey.

Keywords: Deposits and Advances, Gross profit/loss, Operating profit/loss and Net profit/loss, CRAR, ROA and Gross NPA and Net NPA.

Date of Submission: 20-12-2020

Date of Acceptance: 03-01-2021

I. Introduction:

Punjab & Maharashtra Co-operative Bank Limited is a multi-state co-operative bank. It began its operations on 13th February, 1984. PMC bank began its operations as a cooperative bank, but it received the status of Schedule Bank by the Reserve Bank of India in 2000. It is one among youngest bank to achieve the 'Scheduled Bank' status. PMC bank stands among top 10 Co-operative banks of the country. Within a time span of 35 years, the bank has 1814 employees and a wide network of 137 branches spread across more than half a dozen of states. It operates in Maharashtra, Gujarat, Delhi, Goa, Karnataka, Madhya Pradesh and Andhra Pradesh. The customers of PMC bank comprises of small businesses, housing societies and institutions. PMC bank is registered under the Co-operative Societies Act and it is regulated by Reserve Bank of India.

Milestones:

- The bank was conferred with the 'Scheduled Bank' status in the year 2000.
- In 2004, PMC bank has received a 'Multi-State Status' by the Central Registrar and thus entered into the National platform.
- Reserve Bank of India has given Authorized Dealer Category I License in 2011 to enter into Forex business.

Awards and Achievements:

- In 2018, the bank has been awarded with 'Best Bank award in the category of Rs.2000 cr & above deposit by the Brihan Mumbai Nagari Sahakari Banks Association Ltd. for consecutively 2 times.
- PMC bank has been felicitated with various laurels to its credit.
- In 1999, 'All India Bank Depositors' Association' has felicitated the PMC bank for "work ethics oriented to depositors' service".
- PMC bank has been awarded with 'Padmabhushan Vasantdada Patil Award' for nine times as the 'Best Urban Co-operative Bank' by the Maharashtra State Co-operative Banks Association Ltd.
- For the lowest dispute ratio in Co-operative Banking sector and also for the lowest unscheduled down time the bank received a 'Special Jury Award' from NPCI in 2012.

Special mention:

- In the year 2008 and 2009, the Reserve Bank of India has advised other banks to adopt the PMC bank practices in the interest of better customer service.
- The bank always believes in women empowerment and thus the bank has 70% women employees.
- It charges 1% less ROI for education loan to girls/women.
- PMC bank offers a special saving account scheme for women.
- Women after attaining the age of 58 years are given the benefit of additional rate offered to that of senior citizens.

Need for the study:

The present study would investigate in detail the reasons behind the crisis that took place in ‘Punjab Maharashtra Co-operative bank’.

Objectives:

- To elucidate the reasons for downfall/ crisis that took place in PMC bank.
- To discuss the importance of supervision and control systems in Co-operative banks to mitigate loss.
- To examine the role of RBI as a regulating authority in PMC bank’s fiasco.
- To list out the reasons for assets becoming NPA and to study its impact on various stakeholders.

II. Research Methodology:

Data is collected from secondary source. Secondary sources comprises of Reports from RBI and PMC bank official site, Newspapers, Data mining (exploring through internet).

Limitations of the study:

- The study is based on the data of past five years i.e., from March, 2016 to March, 2020.
- The time period for the research is limited. Due to time constraint it is not possible to study all aspects relevant to the study.
- The data is collected from secondary source, which may not be inaccurate.

What went wrong with PMC bank?

In 2019, PMC account holders received a message on their phones that has blown them apart. The bank was directed by the RBI not to extend or provide any new loans and ceasing the withdrawal limit for not more than Rs. 1000 which was further extended to Rs.50,000 for the next six months. The reason behind such punitive action by the RBI and imposing regulatory restrictions was primarily due to the under-reporting of Non-performing Assets (NPAs) and underestimation of a debt.

This came into the existence when the higher management of the PMC bank gave huge loan to the Housing Development and Infrastructure Ltd (HDIL) and its group entities. According to the estimates PMC bank’s overall exposure to the HDIL group was around Rs.6,500 crore which is 73% of bank’s advances and all of this was not being reported. FIR was also filed where HDIL promoters allegedly involved with bank’s management for raising loans. Despite of non-payment of the loan amount the bank’s management didn’t classify as ‘Non-performing asset’ (NPA). Alarmingly, PMC Bank continued to work with this beleaguered company even when it was facing insolvency proceedings in the National Company Law Tribunal (NCLT). The alliance between PMC bank and the HDIL promoters had begun way back in 1986 as a depositor in PMC Bank and that relationship eventually turned into a lender-borrower thus breaching all lending norms and regulatory standards. One of the major reasons for granting such huge loan to HDIL is that the chairman of PMC bank S Waryam Singh held stake of 1.91% in HDIL.

Despite of HDIL continuous failure to repay its loan amount, the bank issued a personal loan to HDIL founder Sarang Wadhawan amounting 96.5 crore, whose company had already defaulted Rs 2,500 crore. The bank created 21,000 fictitious accounts of companies which borrowed small amount of money, and created fake reports to hide accumulated non-performing assets of HDIL from regulatory supervision. PMC bank’s managing director disclosed that the bank’s exposure to the bankrupt HDIL was Rs.6,500 crore, which represents 73% of the bank’s total assets. According to the banking regulation act the banks have a single entity exposure limit of 15% of their capital account, while group companies have a limit of 20%. But in the case of HDIL, exposure was at 73% four times than usual level. As the outstanding loans were huge and if they were listed as NPA, the bank’s profitability would have been impacted and RBI’s regulatory action would have been faced by the bank. However, it is clear that the bank presented false financial statements and reports to hide the bad loan and the alleged collusion with HDIL. It is a willful default where board members, top management, concurrent and statutory auditors, and the line management responsible for running day-to-day operations of PMC bank didn’t disclose the facts that were happening.

In a nutshell, we can say that the issue has taken place due to following inadequacies

- Inadequate and improper internal control and reporting systems.
- Undue relationship between top management of PMC bank and HDIL.
- Inadequacy in implementing whistle blower policy.
- Not following the single entity exposure limit set by banking regulation act for granting loans.
- Improper regulatory surveillance of corporate governance practices, its supervision and follow up.
- There should be no relationship between statutory auditors and bank’s audit committee. But here this was missing hence; we could see manipulations in financial statements and reports and misappropriation of funds.

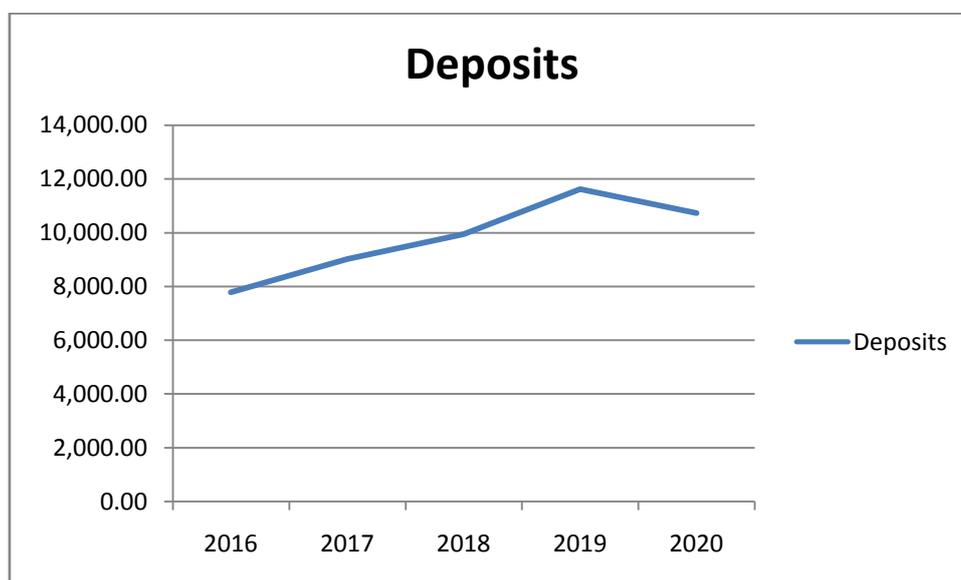
Impact of PMC co-operative bank crisis:

- The scandal which took place in PMC bank will reduce customer confidence in investing their money in Co-operative banks.
- This will in fact have a negative impact on economy, in lending and in rural development.
- PMC bank crisis can have a cascading effect, because nearly 130 smaller banks have deposits at PMC bank and if the lender (HDIL) doesn’t return the loan amount, then all these banks will have to mark their deposits as NPAs.
- Farmers who depend on co-operative banks for loans will now be forced to go to money lenders. This will hinder the co-operative movement and they will be exploited in the hands of money lenders.

Key performance indicators:

1. Deposits

Particulars	2016	2017	2018	2019	2020
Deposits	7,781.47	9,012.00	9,938.85	11,617.34	10,727.12



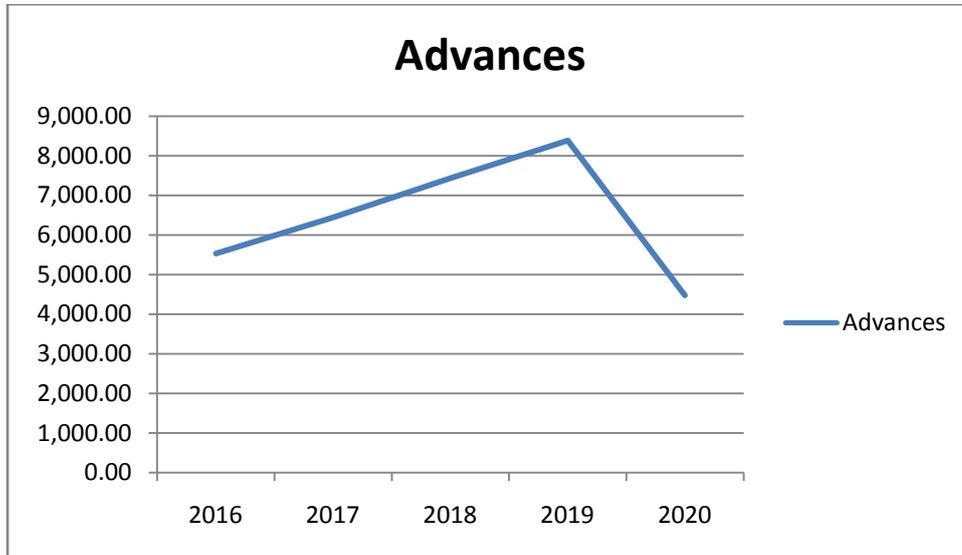
Findings:

- By looking into the above table and graph we see a steady increase in deposits of Rs.7,781.47 in 2016 to Rs.11,617.34 in 2019.
- The reason behind continuous increase in deposits is due to the initiatives taken by the bank to increase its customer base.
- PMC bank targets Schools, Colleges and Corporates.
- The bank promoted products like E- siksha and E- colony which has increased the bank’s visibility and it also led to increase in more number of branches.
- Various contests and customer meets were also organized by the bank at branch levels which helped them to increase its deposits.
- The successful culmination of various initiatives taken by the bank has reflected in impressive performance of the bank in deposit front till 2019.

- But in 2020, we can see decrease in deposits from Rs.11,617.34 to Rs.10,727.12. The reason for such decrease in deposits is due to the revelations made by the bank’s management to RBI regarding its misgovernance.

2. Advances

Particulars	2016	2017	2018	2019	2020
Advances	5,527.54	6,438.23	7,428.08	8,383.33	4472.78

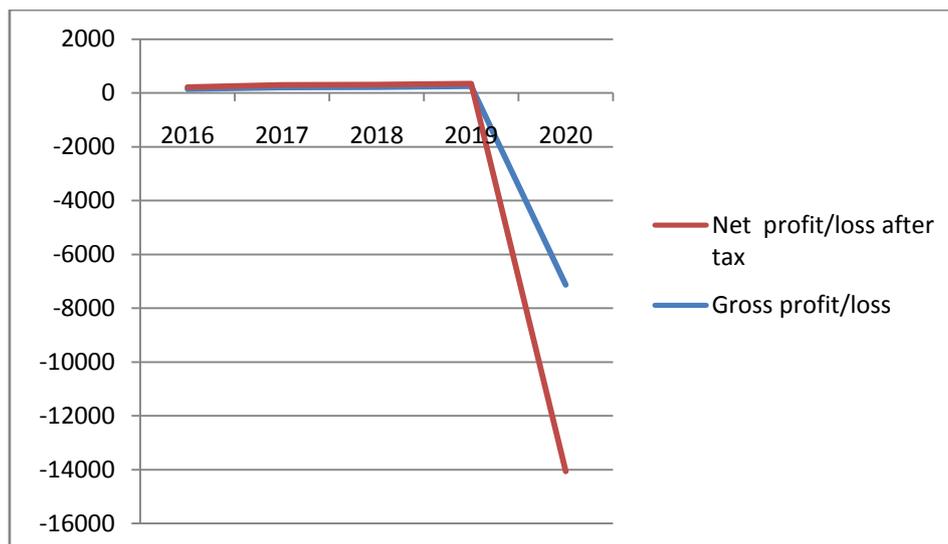


Findings:

- We could see from the above table and the graph that there is an increase in Advances from 2016 to 2019 which states that the bank has granted loans to many firms, individuals etc.
- To be in line in with regulatory requirements of RBI, the PMC bank has shifted its focus to priority sector lending i.e., MSME sector.
- To increase the priority sector portfolio, PMC bank has adopted different lending strategies.
- PMC bank shifted its focus from Corporate lending to retail lending to increase its customer base.
- PMC bank has a tie-up with National Housing Bank to provide Credit linked subsidy scheme to economically weaker sections and lower income groups to provide affordable housing to the lower and middle income society.
- Due to its misgovernance and under reporting of NPA’s, PMC bank was directed by the RBI not to lend or to provide new loans and that is the major reason for decrease in advances in the year 2020.

3. Gross Profit/loss and Net Profit/loss

Particulars	2016	2017	2018	2019	2020
Gross profit/loss	139.73	202.27	211.81	244.46	(7,127.68)
Net profit/loss after tax	78.48	96.94	100.90	99.69	(6,934.70)

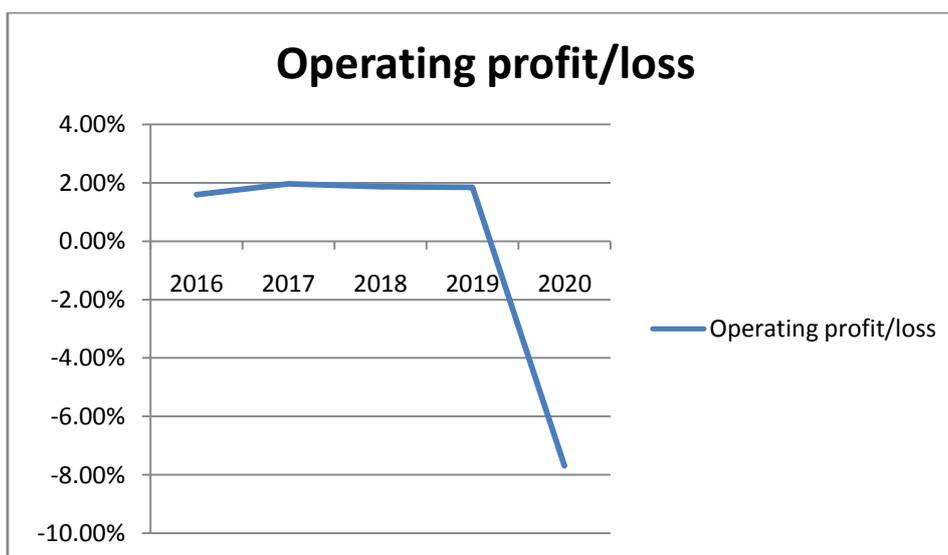


Findings:

- We know that the Gross profit assess the company’s efficiency and the PMC bank was performing efficiently from 2016 to 2019. There is a continuous increase in gross profit from Rs.139.73 to Rs.244.46 till 2019 i.e., until the scandal came into the picture.
- In 2020, there is a gross loss of amount Rs. (7,127.68) and this loss is due to NPAs.
- Net profit assesses the company’s financial health. There is an increasing trend in net profit from 2016 to 2018.
- In 2019, there is a fall in net profit of Rs.99.69.
- In 2020, the net profit is negative of Rs.(6,934.70) and it is due to NPAs.

4. Operating Profit/loss

Particulars	2016	2017	2018	2019	2020
Operating profit/loss	1.59%	1.96%	1.86%	1.84%	(7.69)%

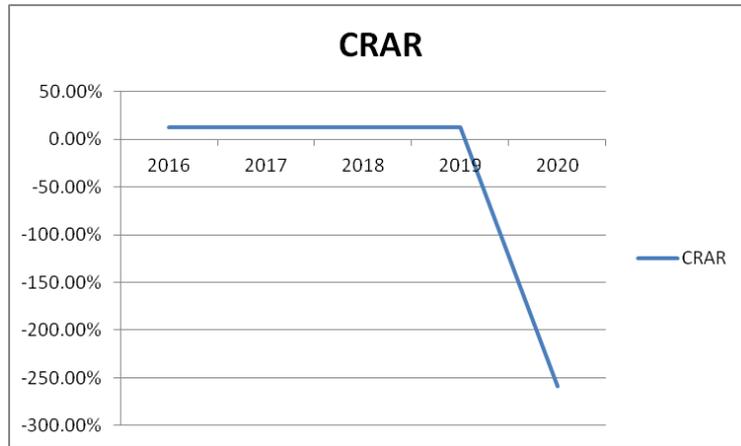


Findings:

- Operating profit is considered as highly accurate indicator of business and is used for measuring the potential profitability as it removes all extraneous factors from calculation. From the above table and the graph we could see an increasing trend in operating profit of 1.59% in 2016 to 1.96% in 2017.
- From 2018 we could see a decreasing trend.
- There is an operating loss of (7.69%) in 2020 and the reason being the same i.e., NPAs and misgovernance.

5. CRAR(Capital to Risk Asset Ratio)

Particulars	2016	2017	2018	2019	2020
CRAR	12.20%	12.32%	12.29%	12.62%	(258.66)%

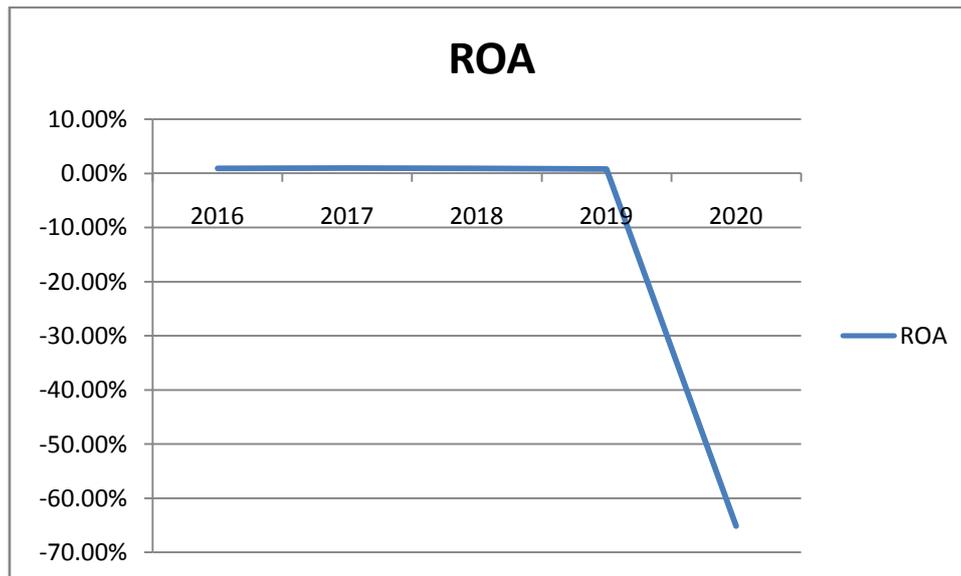


Findings:

- CRAR ensures that the banks have enough amount of capital to absorb a reasonable amount of losses before they become insolvent. As per RBI, PMC bank is required to maintain this ratio above 12% and the bank was successful in maintaining this ratio above 12% from 2016 to 2019.
- But in 2020, we could see a steep fall in this ratio to (258.66%) which states that the bank is not in a position to meet its financial obligations by absorbing losses.

6. ROA (Return on Assets)

Particulars	2016	2017	2018	2019	2020
ROA	0.95%	0.98%	0.93%	0.82%	(65.11)%



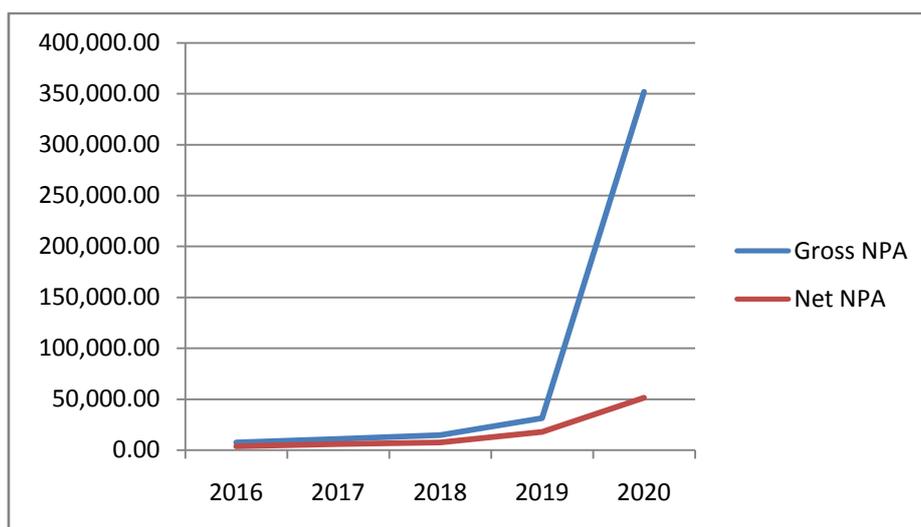
Findings:

- ROA indicates how well the bank is utilizing its assets in generating revenue. In 2017, the ROA is higher which states that the bank is utilizing its assets efficiently in terms of generating revenue.
- In 2016, 2018 and 2019 the ROA is lower when compared to that of 2017.
- In 2020, the ROA is negative (65.11%) which states that the bank’s assets are yielding negative returns and it is not a good sign.

7. Gross and Net NPA:

Particulars	2016	2017	2018	2019	2020
-------------	------	------	------	------	------

Gross NPA	7,652.33	11,185.58	14,800.26	31,524.24	351,888.71
Net NPA	3,842.15	6,125.40	7,715.08	18,059.24	51,406.70



Findings:

- A nonperforming asset (NPA) refers to a classification of loans or advances that have been defaulted by the borrower over a period of time. Gross NPA represents the quality of loans granted by the banks and are in danger of not being paid, whereas Net NPA includes the amount after deducting provisions for unpaid debts from Gross NPA.
- By looking into the above table and graph, we can say that the Gross and Net NPA are increasing at a skyrocket speed which is not a good indicator.
- In 2020, both the Gross and Net NPA are booked at a record high level which states that the PMC bank’s asset quality is in very poor shape.

Actions taken against PMC bank Scandal:

- FIR was registered by Mumbai Police’s Economic Offences Wing (EOW) against PMC bank and HDIL accused people for financial irregularities.
- EOW of Mumbai Police arrested the PMC bank Director Joy Thomas, chairperson Waryam Singh, HDIL executive chairman Rakesh Wadhwan and his son Sarang Wadhwan on the charges for their involvement in PMC bank scandal.
- Raid was carried out by the Enforcement Directorate (ED) to gather evidence in money-laundering case against PMC bank and HDIL. On October 4, 2019 raid was carried in 6 locations in Mumbai. It was also looking for 18 companies that have a link-up with HDIL. Few among the 18 companies Wadhawan Livestock Pvt Ltd, HR Infracity Pvt Ltd, Privilege Industries Ltd, Heritage Housing Development (India) Pvt Ltd, UM Architecture and Contractors Ltd etc
- HDIL properties of Rs. 3,500 crore of both commercial and residential were also attached as a part of EOW action.
- ED has seized 12 high end cars of HDIL chairman Rakesh Wadhawan and his son Sarang Wadhawan.
- Several financial institutions has filed petition against HDIL according to sec 7 of the Insolvency and Bankruptcy Code (IBC).
- RBI superseded its board members and imposed strict restrictions after the fraud was detected.

Actions taken by the Government to protect the interest of depositors of PMC bank:

- Nirmala Sitharaman financial minister of India has promised to bring legislative changes for securing the depositors’ interests.
- Deposit Insurance & Credit Guarantee Corporation (DICGC) came up with a proposal to insure each depositor of the bank upto to a maximum amount of Rs.1 lakh for both principal and interest.
- Finance minister Nirmala Sitharaman has requested RBI Governor to release Rs.1 lakh deposit guarantee instantaneously for the benefit of the customers.
- Apart from seizing the assets, plans are also being made to recover the remaining loan amount.

Recent modifications in PMC bank:

The RBI and PMC bank are exploring for various alternatives for resolution of bank such as massive losses incurred by the bank resulting in net worth getting wiped out, steep erosion in deposits, etc continue to pose serious threat in finding a suitable plan for revival/reconstruction of the bank. In spite of the COVID-19 pandemic and the imposed legal complexities the PMC bank has been making efforts to recover NPA's. The RBI and PMC bank to protect the interest of the depositors are continuously in touch with the stakeholders to explore the possibility of finding a viable solution for the resolution of the bank.

- New administrator A.K.Dixit has been appointed by the bank on September 23, 2020.
- Surinderpal Ram Singh has been appointed as new Chief Executive Officer on September 11,2020.
- Depositor can withdraw up-to Rs.1,00,000 on hardship grounds (educationa/medical/livehood/marriage) and withdrawals which are mentioned on the earlier directives.
- If the depositor has withdrawn Rs.50,000 as per earlier mentioned permissible limits and another Rs.50,000 under hardship grounds then in such case he cannot withdraw any amount on the medical grounds for serious ailments for which the prescribed limit is Rs.5,00,000.
- Overall withdrawals for the depositor should not exceed Rs.5,00,000. The said limit Rs.5,00,000 is inclusive of all withdrawals made since imposition of aid.

Measures taken by RBI:

Revised Exposure norms:

- RBI said that it would change the exposure norms for urban co-operative banks for single and interconnected borrowers. By changing the norms, PMC bank like crisis will likely come down.
- According the provisions set by RBI, the Scheduled Commercial banks cannot grant loans to individual groups/sectors beyond certain limit as per prudential norms.

Heightened supervision:

- For all the scheduled commercial banks and for certain non-financial banking firms, RBI keeps an eye through Central Repository of Information on Large Credits (CRILC). Similarly, the RBI said that it would implement a same framework for Urban Co-operative banks with assets of more than or equal to Rs. 500 crore.
- This move enables RBI for early detection of signs of stress in large accounts in UCBs and helps them to avert large scale defaults.
- The RBI has also decided to recommend a comprehensive framework for cyber security for all UCBs.

Duality of Control:

- An ordinance was passed in both the houses of parliament to bring the Co-operative banks under supervision of RBI in order to protect the interest of stakeholders, especially depositors. This move will strengthen cooperative banks by improving governance, ensuring sound banking and enabling access to capital etc.
- At present there is a dual regulation on Co-operative banks. They are regulated both by the RBI and Registrar of Co-operatives society.

Reconstruction Scheme

- The crisis ridden PMC bank has received 4 proposals of Expression of Interest (EOI) for reconstruction in equity participation on 15th Dec, 2020.
- The main objective to invite EOI is to find a suitable equity investor or group of investors to take over control on management, to revive bank and to commence day to day operations.
- The participants of EOI could be financial institutions including banks and Non-banking financial institutions or societies, trust, companies, group of individuals or any such firms having an adequate net worth. They should bring required capital to enable the bank to achieve a CRAR ratio of 9%.
- It at the discretion of the investors to convert the PMC bank into 'Small finance bank' for its commencement of day to day operations. But this could be done only after making an application to the RBI and it is subject to the guidelines of RBI on 'Voluntary Transition of Primary Co-operative banks' into 'Small Finance Banks'.
- PMC bank said that it would look into the feasibility and viability with respect to EOI received for reconstruction taking into the best interest of the depositors.
- Under Sec 45 of Banking Regulation act, 1945 the viable proposal will be forwarded to the RBI for its consideration and for preparing the draft scheme of reconstruction and other consequential action.
- The shortlisted investors has to conduct due diligence and at the same time they need to submit their bidding offer.

- The restrictions placed on PMC bank regarding withdrawals will further be extended till March 31, 2020.

Suggestions:

- In order to retain public confidence in Co-operative banks, RBI should adopt more professionalism.
- Appropriate statute has to be adopted by RBI, where there should be accountability for erroneous audit along with penal action.
- The State government will also have to conduct forensic audit of the loan portfolios.
- There is dire need to set up an independent regulator for Urban Cooperative Banks.
- RBI should be authorized to implement resolution techniques such as winding-up and liquidating banks, without involving other regulators under the cooperative societies’ laws.
- At the time of crisis, RBI should be given an absolute authority to wind up or to liquidate banks.
- Co-operative banks have been suffering from dual regulation of RBI and under banking regulation Act applicable to Co-operative society. Hence, the Co-operative banks should come under the complete radar of RBI and duality of control has to be removed.

III. Conclusion:

From the above research it is clear that the ‘Punjab Maharashtra Co-operative bank’ is struggling due to internal weakness in administration, decline in interest incomes, slowdown in profitability and huge increase in non-performing assets. RBI states that there are few challenges that are being faced by PMC any other co-operative banks. They are

- Increasing competition from scheduled commercial banks, small finance banks and payment banks
- Increasing vulnerability stemming from internal weaknesses including the inability to prevent frauds.
- Political interference and so on.

Failure of any bank or Co-operate banks is considered as a breakdown for the Indian economy. PMC bank crisis is not exactly new or unique and its problems with mounting bad loans reflect the underlying woes in the financial sector. There are several such instances in past where, RBI had to impose moratorium on withdrawals. In 2001, there was restriction imposed on based Madhavpura Mercantile Cooperative Bank for their involvement in massive corruption and it froze depositor’s accounts and those who had deposits upto Rs 2,00,000 got their money back in 2018. In 2017, similar restrictions were imposed on the Indian Mercantile Co-operative Bank and on the Kopal Co-operative Bank. The PMC bank being the latest one which came into the lime light in 2019 for its manipulation of accounts and so on. Hence, there is a need to strengthen the financial stability of banks by undertaking and upgrading various reforms with respect to corporate governance and finances, etc. By looking into the above moves we can surely say that ‘Punjab Maharashtra Co-operative bank’ will definitely perform better in coming years by regaining the market capitalization and at the same time gaining the confidence of investors/customers. Even in this pandemic situation ‘Punjab Maharashtra Co-operative bank’ is trying to recover from losses. In a nutshell, I would like to conclude by saying that the government of India and RBI will never let ‘Punjab Maharashtra Co-operative bank’ to go down, it will always try to protect the interest of stakeholders (public and investors) in general.

References:

- [1]. <https://www.pmcbank.com/english/Home.aspx>
- [2]. <https://www.investopedia.com/>
- [3]. <https://www.moneycontrol.com/>
- [4]. <https://www.business-standard.com/>
- [5]. <https://economictimes.indiatimes.com/>