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A Study on the Connection Between Corporate, Competition and Rent Seeking in India

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Abstract

A general feeling exists that there are strong relationships and presumed connection and correlation between corporate, competition and rent seeking in India. The assessment required explanation and amplification through research study. This paper examines mainly literature available. Hence qualitative analytical study was conducted. Data was collected through web sites articles. Collected data was interpreted and analysed. However, large quantitative and empirical data was not available. Care was taken to see that the subject was studied in different angles and divergent manner. Hypothesis was constructed in careful manner. Based on the findings, we concluded that there are strong connections between corporate, competition and rent seeking. It is important to note that it is a satisfactory finding but disappointing blows to know the truth. However, further research can be done due to insurmountable facts and evidence persists on the subject. It can be done with a different yardstick and perspectives. Future studies are needed to have better understanding and to conclude more emphatically.

Keywords: *Rent Seeking, Corporate, Corporate World, Scams, Donations, CSR, Predatory Pricing, Quid Pro Relationship.*

The Connection between Corporate, Competition and Rent Seeking in India

"Financial institutions, the corporate world and civil society - all must uphold high standards of probity in their working. Only a genuine partnership between the Government and its people can bring about positive change to create a just society." Pratibha Patil

Source: (n.d.). Retrieved February 19, 2020, from https://www.brainyquote

Introduction

First let us have greater understanding of the terms corporate, competition and rent seeking in order to understand the objectives of this research paper with clarity and conviction since these terms play vital roles to come to conclusion.

Corporate - It means a large company and a business group which operates as a single legal entity or unit irrespective of its capital and economic activity.

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Examples:

- Tata Motors
- Reliance Industries Ltd
- Infosys
- Nestle India Limited
- State Bank of India
- Oil and Natural Gas Corporation Ltd
- Hindustan Petroleum Ltd

Corporate is a place where performance counts more than any other considerations along with professional attitude at all levels of the organization. It has no relations with politics - internal or external but it does not happen in the real world. More so, it has to work with team effort and not as a one man show. Corporate as a word should not be confused with capitalism, socialism, communism, free market or mixed economy since none of these terms has any connection with the performance and professional attitude of the corporate. Corporate world should also have vision and mission, creativity, innovations, determination, defined objectives, ambition and healthy competitive culture. However, the reality is that corporate may have above traits but also have other virtues of earning income with many other means and ways to improve its bottom line which are not conducive habits. Hence, the question of rent seeking arises which are to be examined.

Competition - in general is a contest where as in business it has wider connotations.

In business it is rivalry between companies selling similar products or rendering similar services. Each company in that group competes to have a greater market share so that they can improve upon their gross revenues, net profit after taxation, generous dividends to the shareholders, healthy shareholder funds and increased goodwill of the customers/clients so that they can have a greater say and stake in the market.

Types of Competition in a Free Market System:

- Perfect competition - coca cola and Pepsi
- Monopoly - Indian Railways, HAL, Coal India, Rajesh exports
- Monopolistic competition - Airways like Indigo, Spice jet, Air India, Air Asia
- Oligopoly - Apple Inc, Samsung, Amazon

Competition is welcome in the business if it improves the quality of the product or services, having lower prices, efficient after sale services. It should be fair, equitable, healthy, ethical, principled and lively based on the rules of level playing fields. It should not be bordering unhealthy and unfair practices, predatory pricing, greedy and unethical abuse of powers or quid pro relations. Are competitions robust and candid in India? The answer is big "NO" since rent seeking considerations plays a vital role in conducting business. The whole ecosystem of the business world is disturbed and disrupted.

Rent Seeking

The term Rent Seeking is becoming a buzzword in economics, though many people still do not understand its exact nuances and connotations. In very simple terms, it means earning or accumulating or deriving more wealth without working for its creation. It benefits the receiver which can be an individual, bureaucrat, institutions, companies or corporations but it does not benefit the society, nation and the world since no contribution arises from the receiver. It is dividing the existing wealth created by somebody and distributing it to the receiver who does not deserve it. The term is very simple but equally powerful to give an insight into what is happening in the economic world. The meaning should not be confined to the domain of economics since any such practices elsewhere also comes under its concepts. It reduces competition and innovations. It makes the rich richer and poor poorer due to inequality of income. It incapacitates the economic growth in India and the world. It exits since there are equal rent givers to the rent seekers which is the enigma to be understood. The term was coined and popularized by Anne Krueger in 1971, a world renowned economist, former chief economist of the World Bank and former director of international monetary fund. Though originally it was evolved by Adam Smith and indirectly introduced by Gordon Tullock in 1967 in his article. Now India has officially become one of the leading rents seeking society in all spheres and joined the elite club of rent seeking world. Rent seeking has become pandemic in India and the world.

Examples - Bribery, frauds, corruptions, political lobbying, freebies from the government, subsidies, kick backs, scams, telecom spectrums, tax concessions, tariffs, import licenses, reservations and quota based on caste, creed and religion etc.

The Difference Between Profit Seeker and Rent Seeker Especially in the Corporate World.

A profit seeker is one who seeks profit legitimately in the business by engaging in ethical beneficial economic transactions. A rent seeker is one who is unscrupulous and acquires wealth for himself or herself without working for it in any way or accumulating the wealth through manipulation. When it comes to rent seeking in the corporate and corporate world, perhaps it has great influence not only in India but in the whole world. The rent seeking actively was practiced in British India through East India Company way back from 1660 as per reports available. The common report is that rent seeking is witnessing colossal surge in India in the corporate world. More so the Indian banks are in collusion with the corporate for rent seeking. Indian banks and corporations are both rent seekers and rent givers. They have disturbed the very ecosystem of India. This narrative which is prevalent naturally has to be further analysed in a suitable manner with appropriate data collection before coming to any broader conclusion. This research paper shall investigate and discuss various issues of rent seeking viz with corporate and corporate world to the extent possible.

Literature Review

"A new UNCTAD report shows that hyper globalization has fuelled a significant rise in restrictive business practices and that the rents such practices generate have led to rising inequality in a winner -takes-most worlds"

- Development, U. n. (2017, September 14). Corpoarterent- seeking and restrictive business

An Evaluation and Analysis of the Risk/Return Profile of Selected Indian Banks

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Abstract

Banks perform a critical role in the economy because they ensure circulation of funds by mobilising deposits from saving clients and availing them to credit-requiring clients who are able to use these funds to grow businesses and expand the economy as they repay the loans.In the process, banks make some profit, while depositors get an incentive or interest from their deposits. Since borrowers constitute a risk to banks and shareholders expect a return to their investment in the bank, a positive or high risk/return profile is the dream of every bank. A risk/return evaluation and analysis form a good basis for banks, their customers, and other stakeholders to judge on whether or not the banks present a risk to depositors' funds. It is critical to attempt an assessment and evaluation of the risk/return profile of banks for the purpose of establishing their positions in the continuum of risks and returns. Lack of balance between the level of funds to hold on behalf of depositing customers and the amount of funds to loan out to borrowers, some of whom may be risky, leads to the collapse of banks with customers' hard-earned funds. The objective of this study was to establish the level of risk that banks in India are exposed to and the level of return that these banks enjoy. Financial figures of the operations of five leading banks in India were sourced from the banks themselves after obtaining their permission. These five banks are ICICI Bank, Axis Bank, State Bank of India, Punjab National Bank, and HDFC Bank. The data were used to assess the banks and to compare each bank with its rivals. Additionally, some interviews were conducted with the managers of the banks to shed light on the non-performing assets. Interviews were guided by comprehensive and well-structured interview schedules which were designed/ compiled by the researcher. All banks across the board have very good and robust systems to vet their loan clients; and they need to continue being used consistently and without relaxation of rules for the purpose of ensuring consistent giving of loans only to deserving corporate and local clients. Withdrawal of government interest in banks in India has a negative effect on their risk/return profile. The banks clearly do not have a mechanism for sharing information on defaulting clients, whether individual or corporate, and thus these defaulters continue to borrow and default from bank to bank

Keywords: *Banking, India, Risk/Return Profile, Credit Rating, Evaluation, Analysis.*

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Introduction

Banks exist to offer a very important service to the citizens of a country. By taking deposits from customers who want to save their money while simultaneously giving loans to those who need them most (from the pool of money at their disposal), banks are in fact an important agent of development because they enable citizens to save money for future use through deposits taken and enable those citizens who wish to undertake capital investments to take loans to use these investments which can then be paid back slowly. On deposits, banks have different arrangements whereby depending on the amount of money deposited and the amount of time it stays in the account without being withdrawn.There is a level of interest that can be earned by the depositors, thus giving them a reason to deposit the money with the banks. Money borrowers, on the other hand, are enticed by good repayment terms such as a grace period of three months by some banks, small repayment instalments, and reasonable interest charged on the loans (Stankeviciene & Petroniene, 2019).

From the deposit point of view, one of the major functions of banks in any country, India included, is to keep funds on behalf of the customers and to provide a return for the held funds. The return, which is paid in form of interest, is generated from giving credit/loans, advances, overdrafts, and sometimes investments.The income generated is split in three ways: interest to depositors, earnings for other stakeholders of the bank, and dividends given to the shareholders of the bank. The borrowers of loans from a bank constitute a major risk in banking circles. For a confluence of reasons, banks continue to have swollen portfolios of bad debts. This is due to lack of proper evaluation of borrowers who end up defaulting on paying up the said loans. Banks, therefore, need to employ all the tools that they can, including intelligent or knowledge-based systems, to thoroughly evaluate their customers before they can advance them with loans. When the debts become severe, coupled with mismanagement,they lead to the collapse of banks, together with the deposits of innocent customers (Onyiriuba, 2016). Loans that are not paid back are in the long run treated as bad advances/debts or non-performing assets of the bank which end up being written off the banks' records when it appears impossible to recover them. This is where the idea of evaluation of risk/return of banks comes into play. Indian banks, like other banks in developing countries worldwide, are divided into private banks, which are more professionally run, and public banks, which are sometimes run on political considerations (Sharma, Chaudhary & Singh, 2019). It is, therefore, critical to conduct an evaluation of the risk/ return of these Indian banks in order to establish their level with regard to their risk/return profiles.

Need for the Study

It is critical for every country to establish the risk/return profile of banks within the banking sector as a first step to establishing the stability or instability of the banking sector in the given country. A risk/return evaluation and analysis form a good basis for banks, their customers, and other stakeholders to judge on whether or not the banks present a risk to depositors' funds. There have been many cases in the past when the collapse of banks has led to untold suffering of customers: some of them have even taken their lives because a bank had gone down with their deposits. This situation could, perhaps, have been avoided had the culprit banks undertaken an evaluation and analysis of their risk/return profile.

For this reason, therefore, it is critical to attempt an assessment and evaluation of the risk/return profile of banks for the purpose of establishing their positions in the continuum of risks and returns. Such a profile would be helpful particularly to customers and investors in shares, who would gravitate towards banks with a low risk and high return. In case of banks that receive a low rating, such a risk/return profile would help them to continuously and consciously work hard to improve their ranking and, hence, gain the favour and trust of customers. This study is, therefore, important in establishing the status of banks in India in regard to the borrowing risk level and return to depositors' funds. The studyselected five banks which are taken to be fairly representative of all the banks in India; and for this purpose, the findings herein reflect the situation in the banking industry in the country.

Research Problem

Lack of balance between the level of funds to hold on behalf of depositing customers and the amount of funds to loan out to borrowers, some of whom may be risky, leads to the collapse of banks with customers' hard-earned funds. Banks are important to circulation of money in the economy. This is because they are points which allow funds can be collected (through customer deposits) and borrowed by those who need it, hence causing a flow of money or cash in the economy. In credit risk and return, the two main issues at play are for banks to (a) provide credit to trustworthy or viable lenders who will use the credit to establish and expand their businesses and pay back with interest and (b) use earned income or interests to use their expenses, pay dividends to their shareholders as well as interests to depositors. The state of the economy is mirrored by the state of the banks. When there is low circulation of money, the economy is bad, and therefore the state of banks is also poor because they are not able to attract deposits and disburse loans as required. On the other hand, a good economy means good and high level of business for the banks in terms of receiving deposits form customers and giving loans, advances,and overdrafts to those who need them. When banks are actively receiving and giving, they can be said to be doing good business,and this translates into a healthy economy (Maji & De, 2015).

However, in an attempt to achieve many business transactions, banks may experience increased credit risks and, therefore, lower returns. The balance between the amount of funds received from customers and those funds that are disbursed to them is what makes banks perform. A good bank needs to be realistic about how much it can lend as a fraction of the deposits that it has. A buffer should always be in place to ensure that in case the advances or loans turn into bad debts, the bank does not sink. Such a bank should also have a robust system to monitor loans to know which ones are turning into bad debts. The ideal and healthy bank is the one that has a low level of non-performing assets and high income from loans and advances. This formed the basis of this study.

Objective of the Study

The objective of this study was to establish the level of risk that banks in India are exposed to and the level of return that these banks enjoy.

Methodology of the Study

Financial figures of the operations of five leading banks in India were sourced from the banks themselves after obtaining permission from the banks. These five banks are ICICI Bank, Axis

Bank, State Bank of India, Punjab National Bank, and HDFC Bank. The data were used to assess the banks individually and to compare each bank to its rivals.

Additionally, some interviews were conducted with the managers of the banks to shed light on the non-performing assets. Interviews were guided by comprehensive and well-structured interview schedules which were designed / compiled by the researcher. The banks were ranked after the collation and analysis of the data and the interviews. For the purpose of this research, data from the year 2015 were used.

Analysis of Data

The following tables outline the data that were obtained from the banks:

State Bank of India

Criterion	*Data*
Rank of bank in size	1
Stock exchanges listed (number)	4
Share price as at 31st July, 2015	Rs. 266.10
Revenue (as at 2015)	Rs. 174,972.96
Profits as at 31stMarch, 2015	Rs. 13,101.89
Total assets	Rs. 17,902,234.60
Total equity	$32 billion
Ownership	Government of India
Number of employees	223,033
Total advances	Rs. 1,209,828.72
Value of non-performing assets	Rs. 56,725.34.
Capital adequacy ratio	12%

Punjab National Bank

Criterion	*Data*
Rank of bank in size	2
Stock exchanges listed (number)	3
Share price as at 31st July, 2015	Rs. 139.20
Revenue (as at 2015)	Rs. 52,206.09
Profits as at 31stMarch, 2015	Rs. 3,061.58
Total assets	Rs. 601,946.05
Total equity	Rs. 82,93,970
Ownership	Government of India

Criterion	Data
Number of employees	72,000
Total advances	Not indicated
Value of non-performing assets	Rs. 25,694.86
Capital adequacy ratio	12.89%

Axis Bank

Criterion	Data
Rank of bank in size	Unknown
Stock exchanges listed (number)	2
Share price as at 31st July, 2015	Rs. 580.45
Revenue (as at 2015)	Rs. 43, 843.65
Profits as at 31st March, 2015	Not indicated
Total assets	Rs. 3,83,244.89
Total equity	Rs. 38,220.49
Ownership	Unknown
Number of employees	37,901
Total advances	Not indicated
Value of non-performing assets	Rs. 4,110
Capital adequacy ratio	15.09%

ICICI Bank

Criterion	Data
Rank of bank in size	Unknown
Stock exchanges listed (number)	5
Share price as at 31st July, 2015	Rs.301.40
Revenue (as at 2015)	\$9.8 billion
Profits as at 31st March, 2015	\$1.8 billion
Total assets	103.4 billion
Total equity	\$12.9 billion
Ownership	Unknown
Number of employees	67,950
Total advances	Not indicated
Value of non-performing assets	Rs.6,325
Capital adequacy ratio	17.02%

HFDC Bank

Criterion	*Data*
Rank of bank in size	Unknown
Stock exchanges listed (number)	5
Share price as at 31st July, 2015	Rs. 1,106.60
Revenue (as at 2015)	Rs. 10,215.92
Profits as at 31st March, 2015	Rs. 2,326.52
Total assets	$92. 42 billion
Total equity	Rs 501,29,90
Ownership	Unknown
Number of employees	37,901
Total advances	Not indicated
Value of non-performing assets	Rs. 3,652.23
Capital adequacy ratio	16.79%

From the above data, several trends have been established.

It is evident that the two largest banks, which are also government-owned, i.e. the State Bank of India and Punjab National Bank, have very high credit exposures. Additionally, the buffer for the non-performing assets is eating into their revenues. ICICI, Axis, and HDFC show better performance, though they are smaller and privately owned. One can attribute this to the government's pressure on the two big banks to lend to non-productive sectors, together with potential political interference in the operations of the two banks (Sekhar, 2014). The three smaller banks, being free of such interference, are less affected by government influence.

The capital adequacy ratio together with the non-performing assets are key in determining the level of exposure of banks. In this case, all the banks in the Indian banking industry that were studied were found to have an exposure of at least three times the internationally accepted value. It is also noted that the banks have all exceeded the limits that have been set by the reserve bank of India of 15% by using an addition of 5% of the capital funds that they hold.

Upon examining the credit side of the banks, it was established that industries take up much of the funds from the banks. It was also discovered as a matter of concern that the highest source of non-performing assets for the banks is advances made to state corporations (Edirisuriya, Gunasekarage&Perera, 2019).

The profits posted by four of the banks, except the Punjab National Bank, had risen for the particular reporting period. It was also noted that the effect of risk impacted the operational, credit, and market risks. The evaluation revealed that the performance and credit risks had no effect on the credit and the returns risks in the banks. Banks have increased their exposure to risk in their attempt to raise market share in the modern Indian banking market to the extent of breaking the governing regulations. The banks also showed different links between risk and capital advances, with efficiency also varying across the board. This accounts for their different performances even as they operate under the same regulations governing the banking industry.

Findings

Findings on Creditworthiness Checking Systems of the Selected Banks

It was noted that the banks have got good systems for checking the creditworthiness of their borrowing customers. However, these systems are not strictly used, and sometimes, they are ignored; Thus, customers who may not be creditworthy end up being given credit. It was noted that some corporate clients had non-performing loans across all the five banks. From this perspective, it is evident that all the five banks have not worked on stopping lending to defaulting customers. On the other hand, it appears that the banks have made an effort to maximise the recovery of loans from individual defaulters in order to reduce the deficit.

Credit Rating

The entity that is in charge of credit ratings for financial institutions, Moody, made upward ratings for the two largest banks of India, i.e. the State Bank of India and the Punjab National Bank. However, the same body downgraded the rating of the other three banks: ICICI, Axis, and HDFC banks. This was mainly because of the decreased level of participation by government in these banks. Credit ratings usually have an effect on the market, credit, and operational risks of banks. For this reason, even though the other three banks have high share prices, they will receive less interest and support from investors, stemming from the belief that these banks will now be more prone to giving credit advances to undeserving customers, leading to a higher burden of non-performing assets.

Performance Comparison of Three Banks

Taking HSBC as the neutral bank in terms of performance, the performance comparison of Axis, HDFC, and Punjab National banks are captured in the following table:

Table 1: Comparative Analysis of Four Banks

Particulars	*AXIS*	*HDFC*	*PNB*	*HSBC*
Deposits	117,374.11	142,811.58	209,760.50	49,970.27
Advances	81,556.77	98,883.05	154,702.99	27,558.68
Share capital	359.01	425.38	315.30	4,499.16
Net worth	10,214.08	15,052.73	14,653.63	11,214.30
Book value	284.03	344.44	416.74	-
Interest earned	10,835.49	16,332.26	19,326.16	6,326.90
Interest expenditure	7,149.27	8,911.10	12,295.30	2,661
Net profit	1,815.36	2,244.94	3,090.80	1,291.20
Net NPAs	0.35%	1.49%	0.17%	1.42%
Total assets	147,722.06	183,270.78	246,918.62	94,620.30
Return on assets	1.44%	1.10%	1.15%	1.51%

From the table above, looking at the non-performing assets, only Punjab bank has managed to keep its non-performing assets sufficiently low at 0.17%, while the higher values by the other three companies, i.e. 0.35% for Axis, 1.49% for HDFC, and 1.42% for HSBC, lower investors' confidence in those banks. Credit risks, therefore, are the main cause for the investor confidence crisis in the three banks. It was also discovered that relaxation of credit appraisal procedures is done not according to the creditworthiness of clients (individual or corporate), but because of favouritism or corruption, even when the client is a serial notorious defaulter (Baker &Filbeck, 2015). It was additionally noted that none of the five banks was successful in recovering large loans given to corporate entities. This has been a major drawback in the offering of services by these banks, which has affected the banks' books.

Comparison of Net Performance of Downgraded Banks

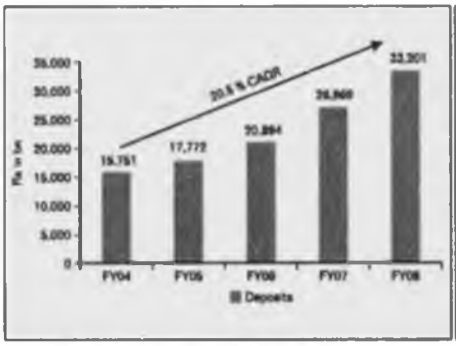
The second table below shows the comparison in terms of net performance of the three banks that were downgraded, i.e. ICICI, HDFC, and Axis Banks, and may give some information that led to them being downgraded in April 2015.

Table 2: Comparison of Credit Risk Levels of Axis, ICICI, and HDFC Banks

Particulars	*Axis Bank*	*HDFC Bank*	*ICICI Bank*
Net profits	Rs. 4218 Cr	Rs. 5247 Cr	Rs 7643 Cr
Current account and savings account (CASA) ratio	42%	48.4%	43.5%
Net non-performing assets	0.25%	0.20%	0.61%
Capital adequacy ratio (CAR)	13.66%	16.5%	18.52%
Provision coverage ratio (PCR)	80.91%	82.4%	80.4%

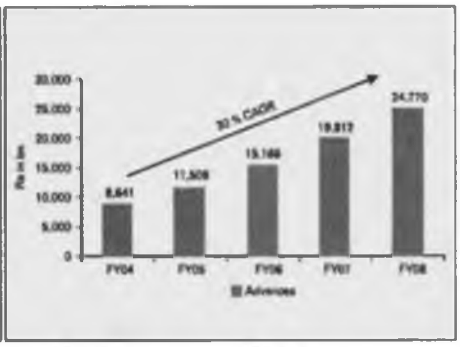
In the illustration below, the advances that the State Bank of India made have been captured to explain why their level of advances are reasonable given the high volume of the bank's operations. Their capital adequacy ratio (CAR) is 12%.

Growth in Deposits



Source: Reserve Bank of India, D&B Research

Growth in Advances



Source: Reserve Bank of India, D&B Research

Key Performance Indicators of the Punjab National Bank

Table 3 shows the key performance indicators for the Punjab National Bank.

Table 3: Key Performance Indicators for the Punjab National Bank

Quarter	March 2015	March 2014	Difference (%)
Revenue	11,650.52	11,101.33	4.95%
NII	3,792	4,002	-5.3%
Net profit	306.56	806.35	-61.9%
EPS	6.77	17.82	-62%
Gross NPA	6.55%	5.25%	-
Net NPA	4.06%	2.85%	-
Major statistics			
Book value	198.28	P/BV	0.74
EPS (TTM)	19.20	P/E ratio	7.63

Major Findings of the Study

The following are the major findings of this study:

- Indian banks seem to be ready to flout the rules about performing due diligence on their credit clients before they give loans to them. It was noted with concern that because of competition, nepotism, political and corruption issues, the banks relax the vetting process of clients and give advances or credits even to serial defaulters. This is particularly bad for the banks as they fail to recover funds given to corporate defaulters and increasingly harass helpless individual defaulters to try and cover up their fund deficits. This has a direct effect on the risk/return profile of these banks.
- All banks across the board have very good and robust systems to vet their loan clients; and they need to continue being used consistently and without relaxation of rules for the purpose of ensuring consistent giving of loans only to deserving corporate and local clients. The government or the Reserve Bank of India, therefore, needs to move with due speed to ensure that these systems, which are expensive for banks to acquire and install, are well utilised so that they present value for money invested (Asif & Akhter, 2019).
- Withdrawal of government interest in banks in India has a negative effect on their risk/return profile. This is evident in the falling ratings of three companies by Moody when the Government of India withdrew its stake. There is, therefore, a need to find a credible alternate supervisor of banks where the government has withdrawn its stake so that these banks do not suffer a degrading of their rating, hence losing investors' confidence in them.
- The banks clearly do not have a mechanism for sharing information on defaulting clients, whether individual or corporate, and thus, these defaulters continue to borrow and default from bank to bank. This researcher was able to determine that a certain corporate defaulter managed to borrow and default on loans from all the five banks. This is a concerning show of impunity on the part of repeat notorious loan defaulters.

Conclusion

In conclusion, this paper has discussed the risk/return profile of the top five banks in India, which are fairly representative of the banking industry in the country. Two of these banks are government-owned and, therefore, enjoy a lot of goodwill amongst the citizens. Their sustained upward ratings given by Moody continue to facilitate their business. The other three banks have had a downturn in their fortunes after the government withdrew its interest in them, with their rating being lowered. The perception is that government stake in a bank means that depositors' funds are secure due to stricter lending to customers requiring loans. However, one common characteristic of all the banks that were studied here reveals that rules are often relaxed or bent for the purpose of favouring certain loan clients, both individual and corporate. The corporate loan clients are particularly notorious in refusing to pay their loans, and in the process, the non-performing assets of the banks fail. Some non-paying clients have been found to borrow from all the five listed banks and fail to pay, and this is particularly disturbing as it fosters a culture of impunity on the part of the borrowing clients. There is, therefore, a need to put in place a mechanism for sharing information on loan defaulters, so that once there is a default, the same person or corporation cannot be allowed to borrow from another bank.

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