

## A RESEARCH WORK ON CREDIT RISK MANAGEMENT

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### ABSTRACT

The focus of the study is the credit risk and business cycle relationship in banking sector in India. This is done by examining the relationship at the aggregate bank level and at individual bank level, taking a representative of one each from public sector and new private sector banks. The business cycle is measured as variations in output gap and the variables indicating procyclicality and credit riskiness of banks analyzed using ordinary least squares method to find the major influencing factors and the extent of lag effect. At bank specific level the two aspects of focus were the default levels, provisions rate and the flow of credit with respect to each bank. The extent of influence by various macroeconomic and bank related credit risk variables is established. The lag effect is also looked into and by comparing the regression analysis results of the two banks, it is evident that the variations are significantly different between the two banks. There is an increasing trend of defaults in both the banks and is affected by the output gap in the previous years. The lag effect of loans advanced in previous years on the provision differs for the two banks. Credit risk management by effective recovery mechanism is evident in the case of Syndicate Bank.

### I. INTRODUCTION

Credit risk management as "providing cash at the specified time". Finance refers to the management of money flows through a company. It's regarding the appliance of skills within the manipulation, use and management of cash.

The perspicacity monetary of economic} management during this context is each profit maximization and quality maximization and considerations the look and management of the company's financial resources. It's regarding finding totally different sources of fundraising for the corporate. The sources should be appropriate and

economical for the requirements of the corporate. The simplest doable use of such funds is additionally a part of monetary management.

### The main objectives of finance function are:-

1. Acquire adequate funds.
2. Best use of funds.  
Increase gain.

3. Increasing share owner price.

In the current business context, a monetary manager is anticipated to form and set up monetary forecasts. The finance manager should set up the funds required for the long run. How ever these funds are procured and used is a vital perform of a monetary manager. The sources of cash are stocks, bonds, monetary establishments, business banks, etc. The professionals and cons of various sources ought to be analyzed before a judicial decision is formed.

The acquisition prices and therefore the returns ought to be compared. For this purpose the capital budget technique is employed. The goal of increasing profits is achieved provided that the funds are used expeditiously and that they don't stay idle at any time. variety of mergers and consolidations are going down in today's extremely competitive industrial world. A monetary manager ought to assist the management in creating valuations then on. to the current finish, he ought to perceive varied strategies of valuing stocks and alternative assets to realize the correct values.

Cash is that the best supply for maintaining liquidity. There's a necessity to shop for in raw materials, use employed labour and cowl alternative prices, etc. A monetary manager has to determine the necessity for money then organize for it so there's no shortage of funds.

### OBJECTIVES OF THE STUDY:

The main objectives Of the study are:

- Perceptive the danger processes and strategies followed by the pool bank.
- Reviewing the position of capital for the danger coefficient of assets within the syndicate
- Assessment of quality in reference to distressed assets within the syndicate.
- List the gain of the syndicate bank through deposits and advance payments.

#### **NEED & IMPORTANCE OF THE STUDY:**

In today's market state of affairs, one in every of the key priorities is to safeguard the bank from bankruptcy. Underneath these circumstances, the credit and risk department plays a key role within the growth of banks. A delay within the realization of the assets would adversely have an effect on assets that successively affects the money management of a corporation. No business may be productive if excess fees aren't collected, monitored and punctiliously managed on time. Therefore, risk management is very important to keep up the bank and its growth

#### **SCOPE OF THE STUDY:**

The study was designed to capture the degree and extent of the default of SYNDICATE BANK restricted customers. the subsequent was worn out this direction.

The origins of the corporate, its bodies and its field of activity are studied and documented. It had been assumed that such Associate in Nursing investigation would reveal the weakness that emerged as a inheritance from the company cluster.

- The method related to loan disbursement was examined to spot the vulnerability, the fools concerned in paying out or coming up with the disbursement method. The seeds of the specification are built-in; so, a trial was created to look at the payout method for loans.
- It had been assumed that the elements of the profile are connected to the quality.
- The chance method itself may end up in some loans being unable to be repaid in order that probable causes may be known. The chance method was investigated and documented.
- Supported the profile and information of the defaulted loans, Associate in Nursing

analysis was created to spot the relationships between the default and alternative variables like the situation of the loan, the quantity of credit borrowed, gender, occupation, and soon.

#### **LIMITATIONS OF THE STUDY:**

- The study is restricted to the syndicate bank and its branches within the town of Hyderabad. The results that this study considers inapplicable for the entry of a syndicate bank.
- From a bank perspective, the patron perspective may be a read that doesn't take banks into consideration.
- The study was conducted for time reasons while not acquisition economic condition.

#### **II. RESEARCH METHODOLOGY:**

To fulfill the objectives of the study both primary and secondary data are used.

##### **Secondary Data:**

The secondary knowledge was collected from printed records, websites and reports by Syndicate Bank restricted. In essence, the bank's credit and risk management knowledge was sourced from the bank information through the manager. the information for this purpose was obtained from the bank over a amount of five years. supported the supply of the information, the analysis was conducted from totally different angles to assess the credit and risk management of Syndicate Bank restricted, Hyderabad.

**Primary Data:** The primary knowledge was collected by interviewing all managers and officers of Syndicate Bank, Hyderabad.

#### **III. DATA ANALYSIS AND INTERPRETATION**

##### **1) CAPITAL ADEQUACY RATIO**

Capital adequacy ratios (CAR) are a measure of the amount of a bank's core capital expressed as a percentage of its risk-weighted asset.

Capital adequacy ratio is the ratio which determines the bank's capacity to meet the time liabilities and other risks such as credit risk, operational risk, etc. In the most simple formulation, a bank's capital is the "cushion" for potential losses, and protects the bank's depositors and other lenders. Banking regulators in

most countries define and monitor CAR to protect depositors, thereby maintaining confidence in the banking system.

CAR can be viewed from two aspects:

- a) Total advancement to total assets
- b) Total investment to total assets

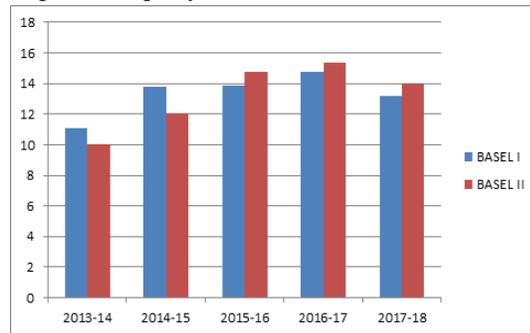
Capital Adequacy Ratio is defined as,

$$\text{CAR} = \frac{\text{Capital}}{\text{Risk Weighted Assets}}$$

Table No: 5.1 Capital Adequacy Ratio

YEAR	2013-14	2014-15	2015-16	2016-17	2017-18
BASEL I	11.08	13.8	13.89	14.73	13.17
BASEL II	10.01	12.03	14.76	15.39	14.01

Capital Adequacy Ratio



**Interpretation:** The CRAR has declined to 13.17 in FY 2015- 2016 which was 14.73 in 2016-17. Thus, it is showing slight inefficient management of credit risk as per Basel norms.

## 2) ASSET QUALITY

Asset quality is related to the left-hand side of the bank balance sheet. Bank managers are concerned with the quality of their loans since that provides earnings for the bank. Loan quality and asset quality are two terms with basically the same meaning. Government bonds and T-bills are considered as good quality loans whereas junk bonds, corporate credits to low credit score firms etc. are bad quality loans. A bad quality loan has a higher probability of becoming a non-performing loan with no return.

This can be calculated using two ratios:

- a) Net NPA's to total assets, and

- b) Net NP's to total advances.

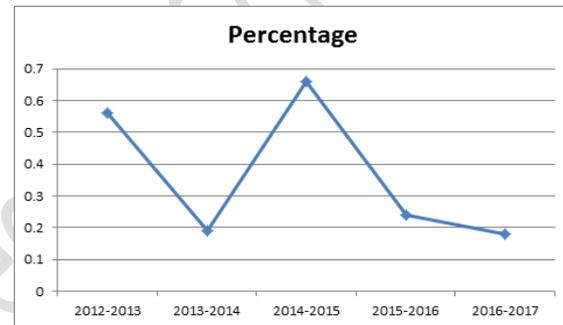
### a) Net NPA's to Total Assets

This ratio helps in identifying the quality of the asset of the bank. It can be calculated by dividing Net NPA by Total assets. Lesser the ratio shows the good quality of the asset.

Table No: 5.4: Net NPA's to Total Assets()

Year	Net NPA	Total Assets	Percentage
2012-2013	77.81	13,633	0.56
2013-2014	33.97	17,090	0.19
2014-2015	134.31	20,379	0.66
2015-2016	61.57	25,534	0.24
2016-2017	60.02	32,820	0.18

Net NPA's to Total Assets



**Interpretation:** The percentage of Net NPA to Total assets has decreased to 0.18% during 2014-15. This indicates a sound asset quality.

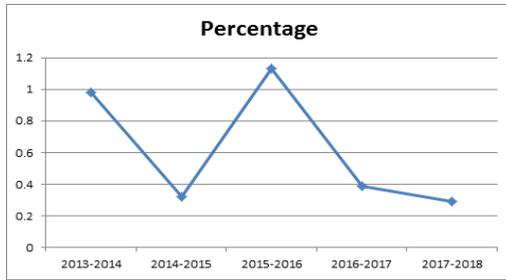
### b) Net NPA's to Total Advances

Net NPA shows the level of net NPA on net advances given by the bank. It can be calculated by dividing net NPA by net advances. Higher the ratio more will be the alarming situation for the bank and vice-versa.

Table No: 5.5: Net NPA's to Total Advances (Crore)

Year	Net NPA	Advances	Percentage
2013-2014	77.81	7,919	0.98
2014-2015	33.97	10,454	0.32
2015-2016	134.31	11,848	1.13
2016-2017	61.57	15,823	0.39
2017-2018	60.02	20,489	0.29

Net NPA's to Total Advances



**Interpretation:** The percentage is showing an decreasing trend from the period 2013-2014 to 2017-18, 0.29% due to good management.

### 3) EARNING PER NON PERFORMING ASSETS

An NPA is defined as a loan asset, which has ceased to generate any income for a bank whether in the form of interest or principal repayment.

#### Exposure to Credit Risk

- The bank can quantify the credit risk on the basis of the level of NPA's. The following expression quantifies the credit risk of the bank.

Earning per Non Performing Asset ( ENPA) can be calculated using the following formulae:

$$ENPA = (EBT/TA) / (NPA's/ TA)$$

ENPA- Earning per Non Performing Assets

NPA – Non Performing Assets

TA- Total Assets

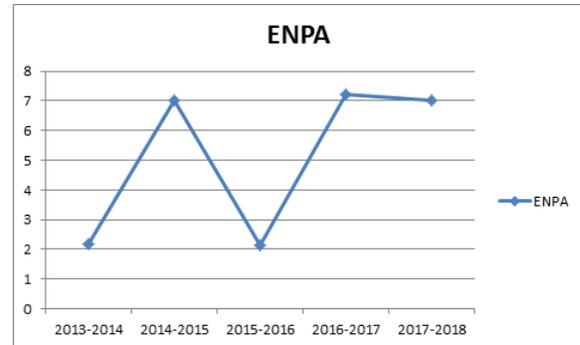
EBT– Earnings before tax

#### Credit Risk ratio of Syndicate Bank

**Table No: 5.6:** Earning per Non Performing Assets (Crore)

Year	EBT	TA	NPA	ENPA
2013-2014	160.33	13,653	77.81	2.2
2014-2015	246.95	17,090	33.97	7
2015-2016	303.23	20,379	134.31	2.14
2016-2017	381.32	25,534	61.57	7.2
2017-2018	467.05	32,820	60.02	7

Earning per Non Performing Assets



**Interpretation:** increases 7 ENPA in 2014-2015 decreases in 2015-16 and at same increases at FY2016-17 ENPA7.2

### IV. FINDINGS

- The CRAR fell to thirteen.17 in 2015-16 and to fourteen.73 in 2016-17. This shows a rather inefficient credit risk management consistent with the Basle customary.
- The speed shows Associate in Nursing increasing trend at zero.62 in 2016-17, which suggests Associate in Nursing acceptable balance between advances and assets.
- The speed tends to extend from 2013-14 to 2014-15 and declines from 2015-16. It shows unskillfulness within the maintenance of investments and assets
- The share of internet terrorist group in total assets bated to zero.18% in 2016-17. This means a solid quality.
- The proportion shows a decreasing trend from 2014-2015 to 2016-17, 0.29% because of smart management.
- ENPA in 2016-17 has born from seven.2 to 7
- Deposits have multiplied over the years, resulting in a rise in advances.

### SUGGESTIONS

- The bank ought to came upon a system that may determine downside loans before time once additional choices is also offered for remedial action.
- Banks ought to disclose info concerning the amount of risk and risk management to the general public.

- The Bank ought to take measures to boost the standard of its assets in order that credit risk is decreased.
- The bank should create most efforts to draw in the time deposits and that considerably improve the profit of banks.
- The bank ought to retain an honest share of its deposits and advances.

#### **V. CONCLUSION**

The Syndicate Bank with new brand and image continues march. With offices throughout India and a shopper base round the world, the bank is taken into account one in every of the foremost active banks in India with a knowledgeable, tech-savvy team of core service professionals. In 2015-16, despite the difficult economic situation during which the bank operates, Syndicate Bank performed well, outperforming market expectations. Syndicate Bank and that focuses on delivering technology and services, has forever developed innovative banking merchandise to fulfil the growing desires of its customers.

SB's profitable, efficient, and progressive network is essentially targeted on the suburbs of the southern Indian states. The Bank's deposit business includes a distinct segment NRI shopper base and that contributes terrorist organization of the deposits and offers a major price advantage over many of its competitors. At identical time, the bank is that the least expensive among the competitors.

While the banking sector round the world has been littered with the recession because of the worldwide economic condition, significantly the North American country banking industry, Syndicate Bank has incontestable its experience not solely in terms of hyperbolic profits, however conjointly in providing limitless client service expose.

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