A STUDY ON CREDIT RISK AND NPA MANAGEMENT PRACTICES OF INDIAN BANK

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Abstract

Sound credit management is a prerequisite for a financial institution's stability and continuing profitability, while deteriorating credit quality is the most frequent cause of poor financial performance and condition. Banks are increasingly facing credit risk in various instruments other than loans, as credit risk encompasses both default risk and market risk. This study is an attempt to understand the various concepts of credit risk management policies of Indian Bank towards priority sector. It aims at highlighting the importance of credit risk management for banks especially towards priority sector. With increasing competition, credit risk management should be the thrust area for banks. Apart from setting acceptable levels for credit risks, a quality index for credit approvals should also be generated, since a sound credit policy will always be a competitive advantage to the banks. Therefore, credit risk policy should cover the entire gamut of an organization's operations whose ultimate 'loss factor' is quantifiable in terms of money.

Introduction

The risk arising due to failure on the part of counter party/ borrower to meet the obligations on agreed terms is known as credit risk. There is always scope for the borrower to default from his commitments for one or the other reason resulting in crystallization of credit risk to the bank. Credit risk is inherent to the business of lending funds to the operations linked closely to market risk variables. Thus credit risk is a combined outcome of Default Risk and Exposure Risk. Sound credit management is a prerequisite for a financial institution's stability and continuing profitability, while deteriorating credit quality is the most frequent cause of poor financial performance and condition. Banks are increasingly facing credit risk in lending advances to priority sector as they should lend 40% of their advances to the requirements of priority sectors than loans for non-priority sectors, as credit risk encompasses both default risk and market risk.

Need for Study

The bank has been issuing various types of loans to various groups of people for their upliftment. There are various deadlocks in various stages in order to recover back the loan amount from the borrower. The bank selects the right person for sanctioning the loan. But the bank fails to recover back the loan amount due to various reasons. The need for the study of the project is to know the advances that has been provided to the borrower especially to agriculture loans, as jewellery loan, educational loan and how much the bank have recovered the loan amount in various loans. And the risk involved in various loans that has been issued by the bank. The analysis has been done from the data of four years from the bank annual report as well as from the balance sheet.

Objectives of the Study

- To study the credit risk possibilities of Indian bank.
- To evaluate the trends in the loans and deposits of Indian Bank
- To analyze the NPA pattern of the bank.

Analysis & Interpretation

To understand about the various credit risk activities of Indian Bank and its NPA performance for the study period, the loan recovery of all priority sectors is taken into consideration.

Advances Provided By Indian Bank from 2009-2012

Advances are provided for the following sectors at the following interest rates:

PARTICULARS	RATE OF INTEREST
AGRICULTURAL LOAN	7%
JEWEL LOAN	14.25%
HOME LOAN	10.5% OR ABOVE
VEHICLE LOAN	11.5%
EDUCATIONAL LOAN	14.5% FOR GIRLS-14.0%

**Total Advances and Repayment of Agriculture Loan From 2009-2012**
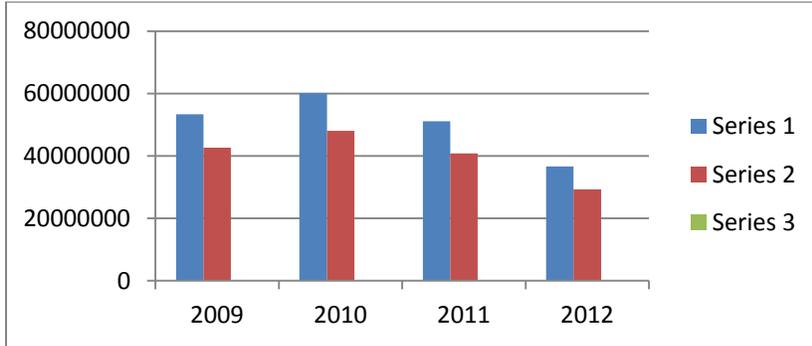
The above figure represents the scenario of recovery of Agricultural loan of 4 years. The recovery of Agricultural loan is 80%. In the year the bank has issued Rs.5,33,64,776 and had recovered Rs.4,26,91,821 and had growth over the years. Compared to the other loans the recovery of Agricultural loan is easier. And finally in the year 2012 the bank has issued Rs.3,66,08,762 and recovered Rs.2,92,87,009 this shows a apparent picture.

**Total Advances and Repayment of Jewel Loan From 09-12**
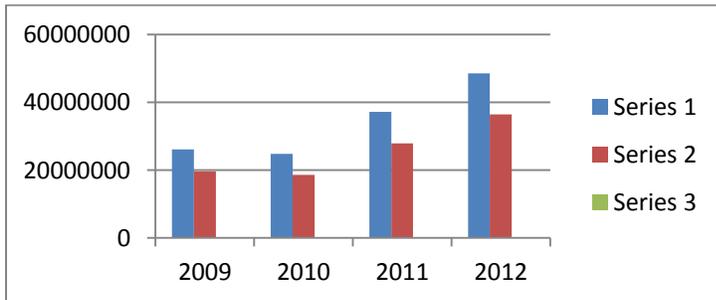
Interpretation: In the year 2009 the bank provided Rs.2,61,35,907 but the bank recovered only Rs.1,96,01,930. The bank could not recover back the remaining 25% of the jewel loan. But those jewels were remained in the bank itself. In the future the bank gone for auction sales but the bank couldn't recover back all those 25% fully.

**Total Advances and Repayment of Home Loan 09-12**
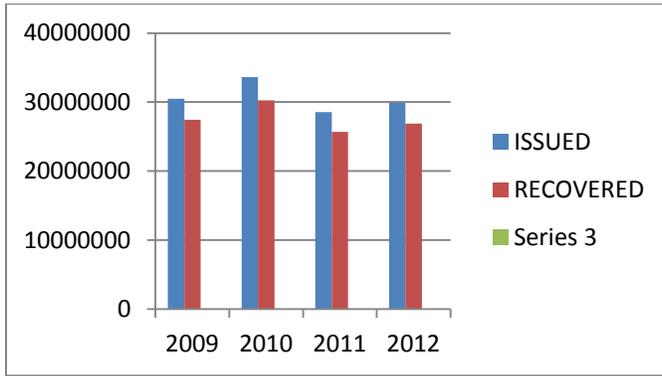
Interpretation: In 2009 the bank provided Rs.3,04,79,905 but the bank recovered 90% of the loan. In very next year the bank provided extra 20% of home loan when compared to the year 2009. In the year 2011 and 2012 the bank provided fewer amounts of home loans when compared to 2010. But still there are 10% of defaulters in repaying the loan in all the 4 years.

Total Advances and Repayment of Education Loan 09-12
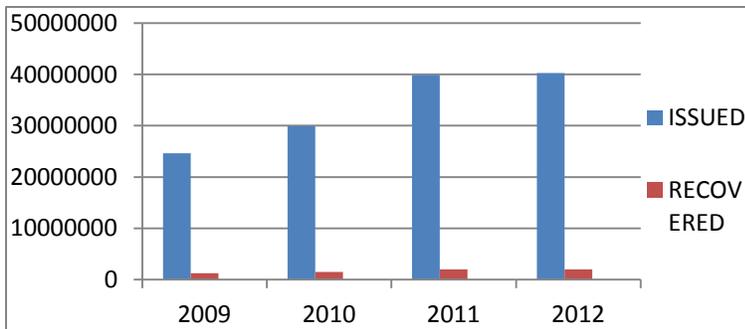
Interpretation: There is no prompt repayment in case of Educational loan because there will be more state and central government interference. The government is providing more subsidies in comparing to the other loans. In 2009 the bank provided Rs.2,46,54,799 but recovered only Rs.12,32,740 which is comparatively low.

**Total Advances and Repayment of Vehicle Loan 09-12**
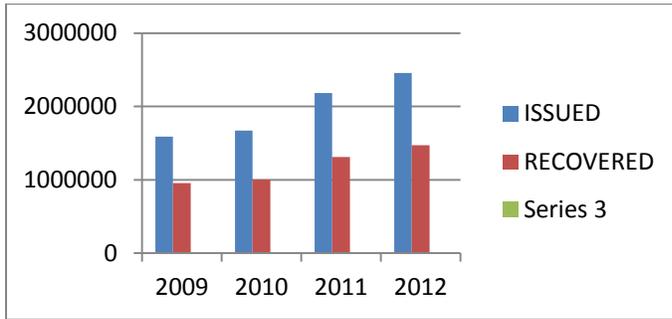
Interpretation: In the year 2009 the bank provided Rs.15,88,990 but recovered only Rs.9,53,394. Over the years the bank has provided more vehicle loans which purchasing power of the individual. In the year 2012 again provided Rs.24,54,501 and recovered Rs.14,72,700.

Non Performing Assets (NPA)

Year 2011-12 witnessed continued thrust on prudent asset management by Indian Bank.

The level of net non performing asset has been reduced to 0.76% in the year 2012 form 0.89% in 2009. The bank performed remarkably well during 2011 and have recovered 119 crores rupees. And about Rs.590.34 crore worth NPA were sold to asset recovery companies during the financial period 2011-2012.

NPA Analysis
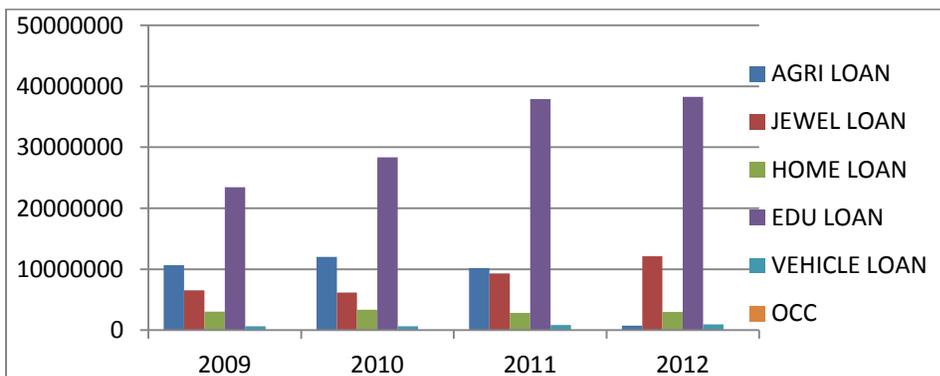
Interpretation: The Non-Performing Assets of the Agricultural Loan have faced several fluctuations over the years. In case of Jewel loan, the year 2009 the bank lost Rs.6533977 but in the year 2010 it was decreased to Rs.6199990. But there was a big pitfall over the years. In case

of Education loan the bank always faced more Non Performing Assets. It has increased rapidly over the years. Finally in the year 2012 it was Rs.38253459. The vehicle loan also faced more fluctuations. In the year 2009 it was Rs.635596 but within three years it had touched Rs.981801.

Conclusion

The aim of credit risk management is to reduce the Probability of loss from a credit transaction. Thus it is needed to meet the goals and objectives of the banks. It aims to strengthen and increase the efficacy of the organization, while maintaining consistency and transparency. Credit risk systems are currently experiencing one of the highest growth rates of any systems area in financial services. There is a direct correlation between market risk and credit risk and credit risk has an impact on the operational market.

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