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Credit Risk Management on State Bank of India and Canara Bank

Mr. B. Gunasekaran[1], Aakash P B[2]

[1]M.COM, M.Phil, MFM, MBA (Ph.D). Assistant professor, Department of Commerce, Sri Krishna Adithya College of Arts and Science Coimbatore
B.COM, Sri Krishna Adithya College of Arts and Science Coimbatore

ABSTRACT

This abstract provides a brief overview of the credit risk management practices of State Bank of India (SBI) and Canara Bank. Both banks have implemented comprehensive credit risk management frameworks, including risk-based approaches to credit assessment, monitoring and management of non-performing assets (NPAs), and the use of technology-driven solutions. These practices demonstrate a strong commitment to effective credit risk management, positioning the banks for long- term sustainability.

INTRODUCTION

Credit risk management involves examining a series of steps to ensure the amounts are lent to reliable hands. The lenders are expected to evaluate the loan applications from borrowers thoroughly. In addition, they must ensure that borrowers can make monthly payments in the future.The lenders must examine their current financial situations and their credit history and score. It builds trust towards the borrowers, who understand whether they can be trusted with the money. Once the borrowers are found creditworthy, the loan application gets approved. On the other hand, if the applicants are found untrustworthy, the loan application gets disapproved.The lenders should have an eye for detail to guess it right. Proper evaluation is a must. They have to be particular about the current financial status of the loan seekers, along with being ready for the warning signs that their past credit records indicate to them. The evaluation is normally done concerning the five Cs of credit – character, capacity, capital, conditions, and collateral.

SCOPE:

- This study helps to know the bank's credit ability and performance of allowing credit to its customers.
- It also helps in knowing the better credit performance between SBI and Canara bank, by analyzing each of their transactions of credit
- The study implies the credit performance of banks which plays a major role for every financial institution
- It also states that successful performance of banking activities result in managing the risk of credit towards the banker.

STATEMENT OF PROBLEM:

- Limited Group-Wide Riskmodeling Infrastructure
- Inefficient Data Management
- Lacking Risk Tools
- Less-than-intuitive Reporting and Visualization

OBJECTIVES:

- 1.To analyze and interpret the various loans provided by State Bank of India And Canara Bank
- 2. To compare the credit policies of State Bank of India and Canara Bank

RESEARCH METHODOLOGY:

Research methodology is a way of explaining how a researcher intends to carry out their research. It's a logical, systematic plan to resolve a research problem. A methodology details a researcher's approach to the research to ensure reliable, valid results that address their aims and objectives. It encompasses what data they're going to collect and where from, as well as how it's being collected and analyzed.

RESEARCH DESIGN:

This study is entirely based on secondary data. Research design is the framework of research methods and techniques chosen by a researcher to conduct a study. The design allows researchers to sharpen the research methods suitable for the subject matter and set up their studies for success. creating a research topic explains the type of research (experimental, survey research, correlational, semi- experimental, review) and its sub-type (experimental design, research problem, descriptive case-study).

There are three main types of designs for research:

- Data collection
- Measurement
- Data Analysis

The research problem an organization faces will determine the design, not vice-versa. The design phase of a study determines which tools to use and how they are used.

PRIMARY DATA

Primary research is data which is obtained first- hand. This means that the researcher conducts the research themselves or commissions the data to be collected on their behalf. Primary research means going directly to the source, rather than relying on pre-existing data samples. Primary research can also help to position a person or company as an authoritative figure in the field. The research may then be quoted by other authors, who reference the original researcher as the source, further increasing their position. However, the researcher retains full control over the data, as the data owner.

SECONDARY DATA:

Secondary data is research data that has previously been gathered and can be accessed by researchers. The term contrasts with primary data, which is data collected directly from its source.

Secondary data is used to increase the sampling size of research studies and is also chosen for the efficiency and speed that comes with using an already existing resource. Secondary data facilitates large research projects, in which many research groups working in tandem collect secondary data. The main researcher is then allowed to focus on primary research or particular areas of interest. This division of labor helps researchers learn more in less time.

PERIOD OF STUDY

This study covers a period of 5 years (2018 - 2022) on credit risk management

TOOLS FOR ANALYSIS:

The data collected were analyzed with the help of following statistical tools such as,

- Finding NPA Ratio
- Loan analysis

LIMITATIONS:

- This study is only restricted to the State Bank of India & Canara Bank. The result of the study may not be applicable to any other banks.
- The time constraint was a limiting factor, as more in depth analysis could not be carried.
- Some of the information is confidential in nature that could not be divulged for the study.

REVIEW OF LITERATURE:

Reserve bank of India (2010) The Communicated information has been seen on NPA in various papers which have benefited the including a rented resource, then its get in to be not used resource whenit doesn't produce the actual income for the bank.

Charan Singh, Gaurav Sharda, Namrata Swamy, (2014) Their investigation which looks at the effect of international Banking on the Indian economy. In Future, it talks about the different segments towards the international banking operations in the home country regarding the creation of NPAs in the host countries, where India is a suitable case for it.

ANALYSIS & INTERPRETATION

The loans amount for 31.3.22 in State Bank of India

Particulars (loans)	**Amount (in cr)**
Home loan	5,61,651
Vehicle loan	79,148
Personal loan	3,61,504
Advances	27,33,967
Total	**37,36,270**

Source: Secondary Data

Total loan amount of the year = Total amount of liabilities - Total loan & advances

= 49,87,597 - 37,36,270

= 12,51,327

$$\text{NPA RATIO} = \frac{NET\ NON\ PERFORMING\ ASSET}{\text{TOTAL LOAN OF THE YEAR}} \times 100$$

= 27,96712,51,327 × 100

= 0.02234 × 100 = 2.234 %

As per the calculation, the NPA ratio of current financial year is 2.234 %, So the credit risk management of State Bank of India is well maintained

The loans amount for 31.3.22 in canara bank

Particulars (loans)	**Amount (in cr)**
Home loan	73,828
Vehicle loan	14,105
Personal loan	25,369
Advances	7,03,602
Total	**8,16,904**

Source: Secondary Data

Total loan amount of the year = Total amount ofthe year - Total loan & advances of the year

= 12,26,980 - 8,16,904 = 4,10,076

$$\text{NPA RATIO} = \frac{NET\ NON\ PERFORMING\ ASSET}{\text{TOTAL LOAN OF THE YEAR}} \times 100$$

= 18,6684,10,076 × 100

= 0.04552 × 100

= 4.552 %

As per the calculation, the NPA ratio of the current financial year is 4.552 %, So the credit risk management of Canara Bank is well maintained. As per the study Canara bank is well maintained than State Bank of India. Because as per NPA Ratio, the Non-Performing Assets in Canara Bank are lower than the State Bank of India.

FINDINGS

- Canara Bank has NPA ratio during the year 2022 is 4.5% and compared to State Bank of India has 2.2% NPA ratio
- State Bank of India has less (2.2%) NPA ratio as compared to Canara Bank (4.5 %)
- As compared, the total advances of both bank State Bank of India and Canara Bank have increased year by year.
- Project findings reveals that both Canara Bank and State Bank of India is sanctioning less credit to agriculture as compared to other loans
- Project findings reveal that Canara Bank is ending more credit or sanctioning more loans as compared to SBI
- Credit risk management process of Canara bank is very effective as compared with SBI.

SUGGESTIONS:

- Banks should properly choose the borrower and should keep good administration which is favorable to the borrowers.
- Banks need to take precautions regarding the credit assessment's, and should take measures in pre and post sanction of the loans to avoid slippages and standard assets of NPA.
- Recognition of NPA in the starting stage is very important and certain steps have to be taken up to recover the loans and to minimize the NPA of the bank.
- The bank needs to take some measures and action to recover the loans against the borrowers for the fast recovery.
- The bank should highlight the potential NPAs under the special category
- Banks should keep monitoring and should take immediate actions and remedies if they find missed usage.
- It has to reduce the Interest Rate It has to entertain indirect sectors of agriculture so that it can have more number of borrowers for the Bank

CONCLUSION:

The Project of the Credit risk management has certainly enriched the knowledge about the effective management of Credit Policy in the Banking Industry

"Credit Policy" and "Credit Risk Management" is a vast subject and it is very difficult to cover all the aspects within a short period. However, every effort has been made to cover most of the important aspects, which have a direct bearing on improving the financial performance of the Banking Industry.

A successful performance of banking activities results in managing the risk of credit. The efforts put by the management to achieve the remarkable progress in all parameters are considered high risk in monitoring credit policy towards the banking sector.

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