

A STUDY ON CREDIT RISK MANAGEMENT AT CANARA BANK*Dr.subramanyam¹,Karuvanga Shivakumar²**Dr Danda Uday Shekar³ Dr Subramanyam⁴**Guide¹, Student², HoD³, Corresponding Author⁴**DEPARTMENT OF BUSINESS ADMINISTRATION**JB INSTITUTE OF ENGINEERING & TECHNOLOGY**Moinabad(M), Rangareddy(D)**HYDERABAD – 500 075.***INTRODUCTION**

Credit risk is defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms, or in other words it is defined as the risk that a firm's customer and the parties to which it has lent money will fail to make promised payments is known as credit risk. The exposure to the credit risks large in case of financial institutions, such commercial banks when firms borrow money they in turn expose lenders to credit risk, the risk that the firm will default on its promised payments. As a consequence, borrowing exposes the firm owners to the risk that firm will be unable to pay its debt and thus be forced to bankruptcy. Credit Risk is the largest element of risk that exists in the books of most banks. It has been witnessed a number of times in the past credit risk management not only weakens the individual banks but also contributes to financial instability on the whole. For better credit risk management, banks should consider the relationship between the credit risk and other risk. The primary objectives of the credit risk management should be the maximization of bank's risk adjusted rate of returns by maintaining it in the acceptable parameters. Credit risk management has emerged as one of essential components in risk management and gradually lots of new tools and practices are emerging to control the credit risk.

NEED OF THE STUDY

The purpose of this study is to understand the risks that bank managers in the region. Credit risk management is one of the key areas of financial decision-making. It is significant because, the management must see that an excessive investment in current assets should protect the company from the problems of stock-out.

Current assets will also determine the liquidity position of the firm. The goal of Credit risk management is to manage the firm current assets and current liabilities in such a way that a satisfactory level of working capital is maintained. If the firm cannot maintain a satisfactory level working capital, it is likely to become insolvent and may be even forced into bankruptcy.

If the borrower presents an acceptable level of default risk, the analyst can recommend the approval of the credit application at the agreed terms. The outcome of the credit risk analysis determines the risk rating that the borrower will be assigned and their ability to access credit.

PROBLEM STATEMENT

Credit risk continuous to be the leading source of problem in CANARA BANK LIMITED. The exposure to the credit dangers massive in case of economic establishments such industrial banks, while firms borrow cash, they in flip reveal lenders to credit score risk. As a result borrowing exposes the firm owners to the danger that firm may be unable to pay its debt and as a result be forced to Bankruptcy Banks Should have a eager consciousness of the want to become aware of, measure and manage credit score danger as well as to determine that they keep ok capital against these risks and that they're competently compensated for dangers incurred.

OBJECTIVES OF THE STUDY

- To study the credit risk management in different banks.
- To make a comparative study on credit recovery management of CANARA AND HDFC, SBI, banks.
- To analyze the sanctions of loans to different sectors by different public and private banks.
- To know the RBI Guidelines regarding credit rating and risk analysis.
- To provide suggestions for the improvement of Credit Risk Management Policy of the Bank.

SCOPE OF THE STUDY

The study is carried out for 5 years (2018-2022). Credit risk is the risk arising from the uncertainty of an obligor's ability to perform its contractual obligations. Credit risk could stem from both on- and off-balance sheet transactions. An institution is also exposed to credit risk from diverse financial instruments such as trade finance products and acceptances, foreign exchange, financial futures, swaps, bonds, options, commitments and guarantees. Consider the cause and effect' and scope of the risk and state as clearly as possible to avoid misunderstanding and misinterpretation.

PROPOSED OUT COME

The scenario analysis was conducted assuming credit period to be 80 days and 100 days. The result should that while credit period is 100 days the company is getting profits. When the credit period is 80 days the company is getting losses.

- Based on the report it is concluded that credit policies are decided by zonal manager so, powers are centralized.
- Credit standards are determined based on economic conditions.
- Credit risk analysis determines a borrower's ability to meet their debt obligations and the lender's aim when advancing credit.

- Implementing policies to limit connected-party lending and large exposures to related parties can reduce credit risk. Asset classification and subsequent provisioning against possible losses affect the value of the loan portfolio as well as the underlying value of a bank's capital.

RESEARCH METHODOLOGY

Type of the study:

A Research methodology defines the purpose of the research, how it proceeds, how to measure progress and what constitute success with respect to the objectives determined for carrying out the research study. The appropriate research design formulated is detailed below.

Period of the study: The time Duration of the study is 45 Days.

DATA COLLECTION METHOD:

The data needed for this project is collected from the following sources:

The data is adopted purely from secondary sources. The financial data and information is gathered from annual reports of the company. To fulfill the objectives of my study; I have taken in primary & secondary data into considerations viz.

Primary data

Data that has been generated by the researcher himself/herself, surveys, interviews, experiments, specially designed for understanding and solving the research problem at hand.

Secondary data is data that has been collected for another purpose. When we use statistical method with primary data from another purpose for our purpose, we refer to it as secondary data. It means that one purpose's primary data is another purpose's secondary data.

The data is collected from the Magazines, Annual reports, Internet, Textbooks. The various sources that were used for the collection of secondary data are internal files & materials.

Tools & Techniques

- DTR (Debtor's turnover ratio)
- ACP (Average Collection Period)
- NPA(Non performing Asset)

TECHNIQUES OF DATA ANALYSIS

- DTR (Debtor's turnover ratio) = $\frac{\text{Credit sales (or) sales}}{\text{Debtors}}$
- ACP (Average Collection Period) = $\frac{365}{\text{Receivables turnover}}$

$$\bullet \text{ NPA (Nonperforming asset)} = \frac{\text{Net non performing asset}}{\text{total loan of the year}} \times 100$$

REVIEW OF LITERATURE

P. J. Edwards, P.A. Bowen The literature on construction and project risk management published during the period from 1960 to 1997 is reviewed and analyzed to identify trends and practice. This analysis is used to identify gaps and inconsistencies in the knowledge and treatment of construction and project risk. The findings suggested that political, economic, financial and cultural categories of construction risk deserve greater research attention, as do those associated with quality assurance, and occupational health and safety.

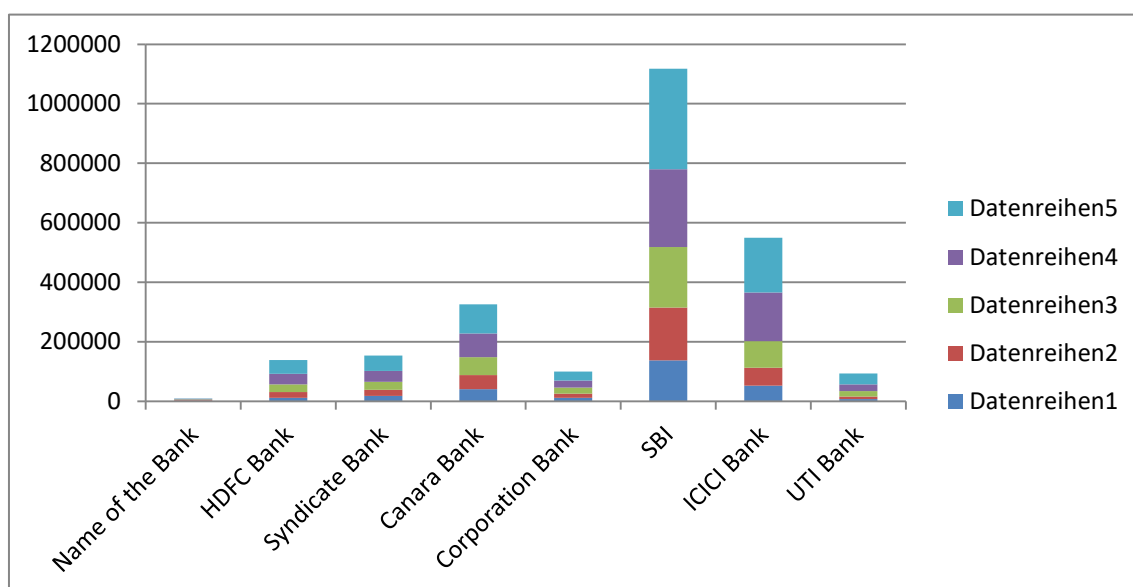
Jean-Paul- Laurent, Year: (2021) Credit scoring models play a fundamental role in the risk management practice at most banks. They are used to quantify credit risk at counterparty or transaction level in the different phases of the credit cycle. The credit score empowers users to make quick decisions or even to automate decisions and this is extremely desirable when banks are dealing with large volumes of clients and relatively small margin of profits at individual transaction level. In this article, we analyze the history and new developments related to credit scoring models. We conclude that banks that are going to implement the most advanced approach to calculate their capital requirements under Basel II will need to increase their attention and consideration of credit scoring models in the near future.

DATA ANALYSIS&TABULATION

COMPARISON OF LOANS & ADVANCES

Name of the Bank	2018	2019	2020	2021	2022
CANARA Bank	11954.9	19744.5	25566.3	35061.3	46944.8
Syndicate Bank	18305.4	20646.9	26729.2	36466.2	51870.4
Canara Bank	40471.6	47638.6	60421.4	79425.7	98505.7
Corporation Bank	12029.2	13889.7	20546.4	23962.4	29949.7
SBI	137758	177934	202374	261842	337336
ICICI Bank	52474.5	60757.4	88991.8	163030	184484
UTI Bank	7199.92	9362.95	17602.9	22316.2	36876.5

Table 6

**Figure 6****Interpretation:**

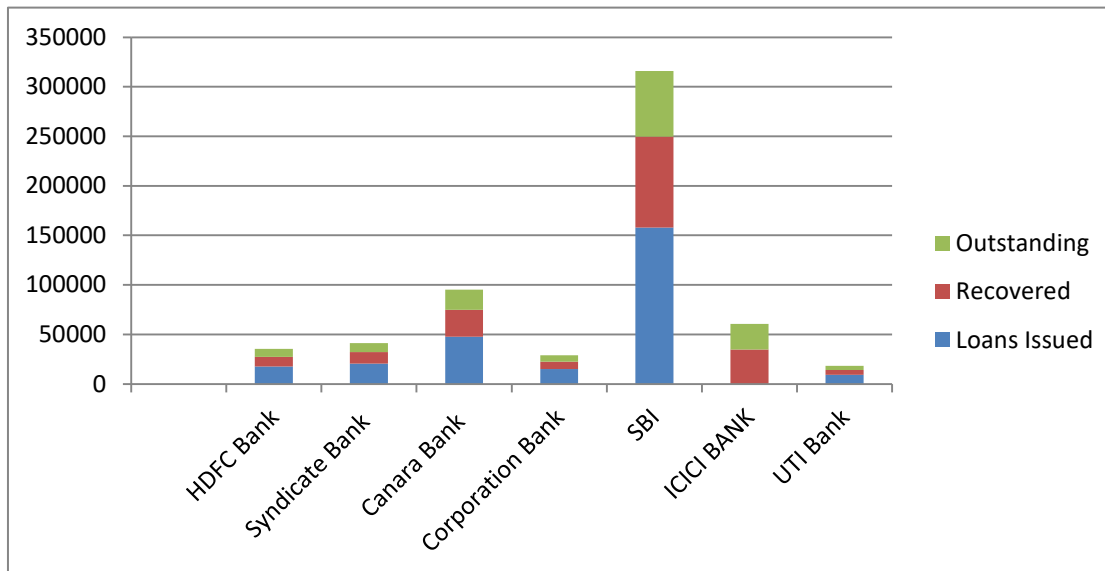
Considering the above data, we can say that year on year the amount of advances lent by CANARA has increased which indicates that the bank's business is really commendable and the Credit Policy it has maintained is absolutely good. Whereas other banks do not have such good business SBI is ahead in terms of its business when compared to both Public Sector and Private Sector banks, this implies that SBI has incorporated sound business policies in its bank.

COMPARISON STUDY ON CREDIT RECOVERY MANAGEMENT

For the year 2017:

Name Of The Banks	Loans Issued	Recovered	Outstanding
CANARA Bank	19744.51	9670.75	8073.76
Syndicate Bank	20646.62	11762.11	9084.5
Canara Bank	47638.62	27058.74	20579.88
Corporation Bank	16889.72	7500	6389.72
SBI	177933.54	91801.4	66332.09
ICICI Bank	60757.36	34631.70	26125.66
UTI Bank	9362.92	4617.55	4447.40

Table 7

**Figure 7**

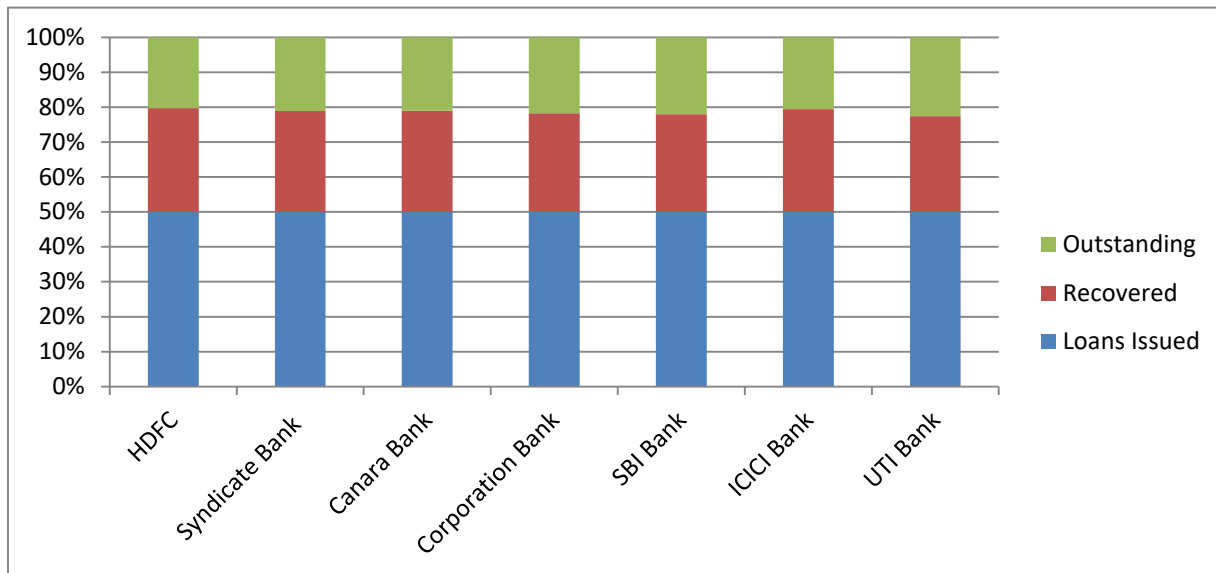
Interpretation: Above graph shows the recovery management of banks against the issued loans for the year 2018 in which SBI recovered 91801.4 with outstanding amount of 66332.09 following by CANARA Bank recovered 34631.70 with outstanding of 26125.66, Canara Bank recovered 27058.74 with outstanding of 20579.88, Syndicate bank recovered 11762.11 with outstanding of 9084.5, corporation bank recovered 7500 with outstanding of 6389.72, CANARA Bank recovered 9670.75 with outstanding of 8073.76 and UTI recovered 4617.55 with outstanding of 4447.40. SBI recovered highest amount compared to its peers.

COMPARISON STUDY ON CREDIT RECOVERY MANAGEMENT

For the year 2020:

Name Of The Banks	Loans Issued	Recovered	Outstanding
CANARA	202374.46	120210.43	82184.03
Syndicate Bank	26729.21	17422.75	11306.46
Canara Bank	60421.40	35044.42	25376.96
Corporation Bank	20546.36	10478.70	8067.67
SBI Bank	25566.30	16291.56	11274.74
ICICI Bank	88991.75	52327.17	36664.60
UTI Bank	17602.92	8550.40	7052.52

Table 8

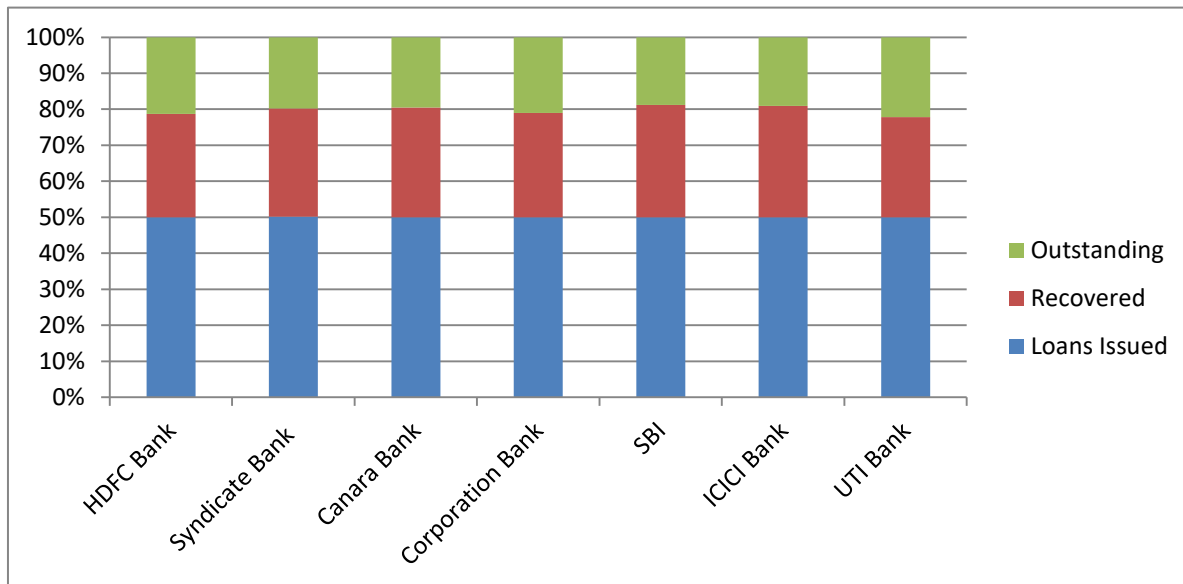
**Figure 8****Interpretation:**

Above graph shows the recovery management of banks against the issued loans for the year 2019 in which SBI recovered 120210.43 with outstanding amount of 82184.03 following by CANARA Bank recovered 52327.17 with outstanding of 36664.60, Canara Bank recovered 35044.42 with outstanding of 25376.96, Syndicate bank recovered 17422.75 with outstanding of 11306.46, corporation bank recovered 10478.70 with outstanding of 8067.67, CANARA Bank recovered 25566.30 with outstanding of 11274.74 and UTI recovered 8550.40 with outstanding of 7052.52. So in the year 2019 SBI recovered highest amount compared to its peers

COMPARISON STUDY ON CREDIT RECOVERY MANAGEMENT**For the year 2021:**

Name Of The Banks	Loans Issued	Recovered	Outstanding
CANARA Bank	35061.26	20175.61	16936.10
Syndicate Bank	36466.24	22079.74	16386.50
Canara Bank	79425.69	48446.67	30976.02
Corporation Bank	23962.43	13898.21	10064.22
SBI	261841.54	183264.32	98377.22
ICICI Bank	163029.89	88392.47	54637.46
UTI Bank	22316.24	12429.03	9885.20

Table 6

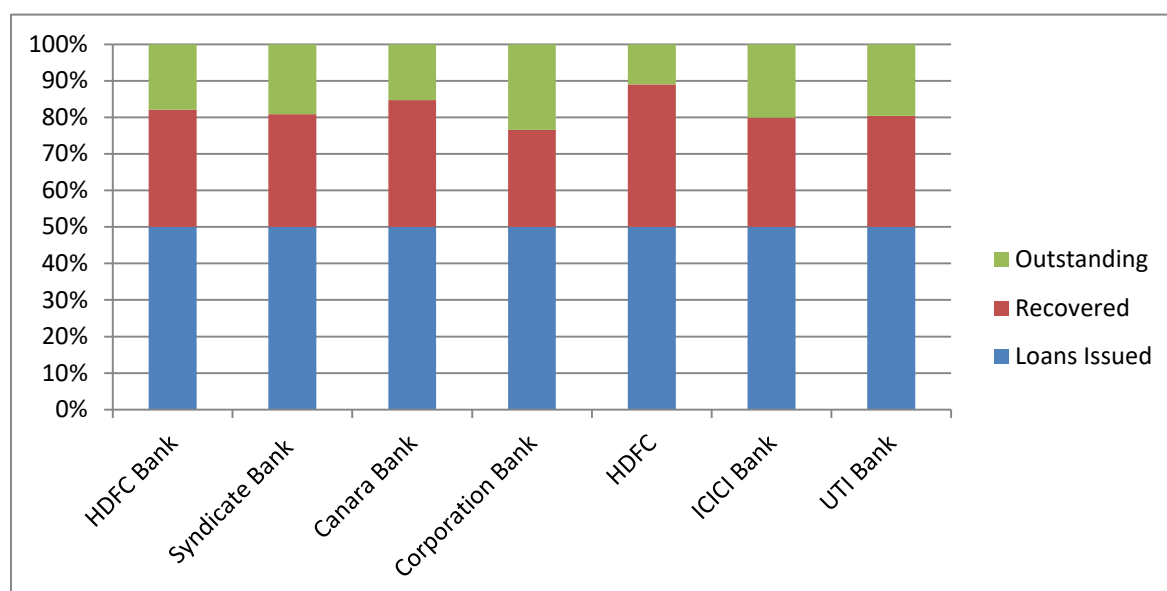
**Figure 9****Interpretation:**

Above graph shows the recovery management of banks against the issued loans for the year 2020 in which SBI recovered 183264.32 with outstanding amount of 98377.22 following by CANARA Bank recovered 88392.47 with outstanding of 54637.46, Canara Bank recovered 48446.67 with outstanding of 30976.02, Syndicate bank recovered 22079.74 with outstanding of 16386.50, corporation bank recovered 13898.21 with outstanding of 10064.22, CANARA Bank recovered 20175.61 with outstanding of 16936.10 and UTI recovered 12429.03 with outstanding of 9885.20. So in the year 2020 SBI recovered highest amount compared to its peers.

COMPARISON STUDY ON CREDIT RECOVERY MANAGEMENT For the year 2022:**For the year 2022:**

Name Of The Banks	Loans Issued	Recovered	Outstanding
CANARA Bank	46944.78	30125.18	18819.62
Syndicate Bank	51870.44	32079.74	19790.7
Canara Bank	98505.69	68449.67	30056.02
Corporation Bank	29949.65	17898.21	16051.44
CANARA	337336.49	263264.32	74072.19
ICICI Bank	184484.38	98392.47	66091.91
UTI Bank	36876.48	22429.03	16447.45

Table 7

**Figure 10**

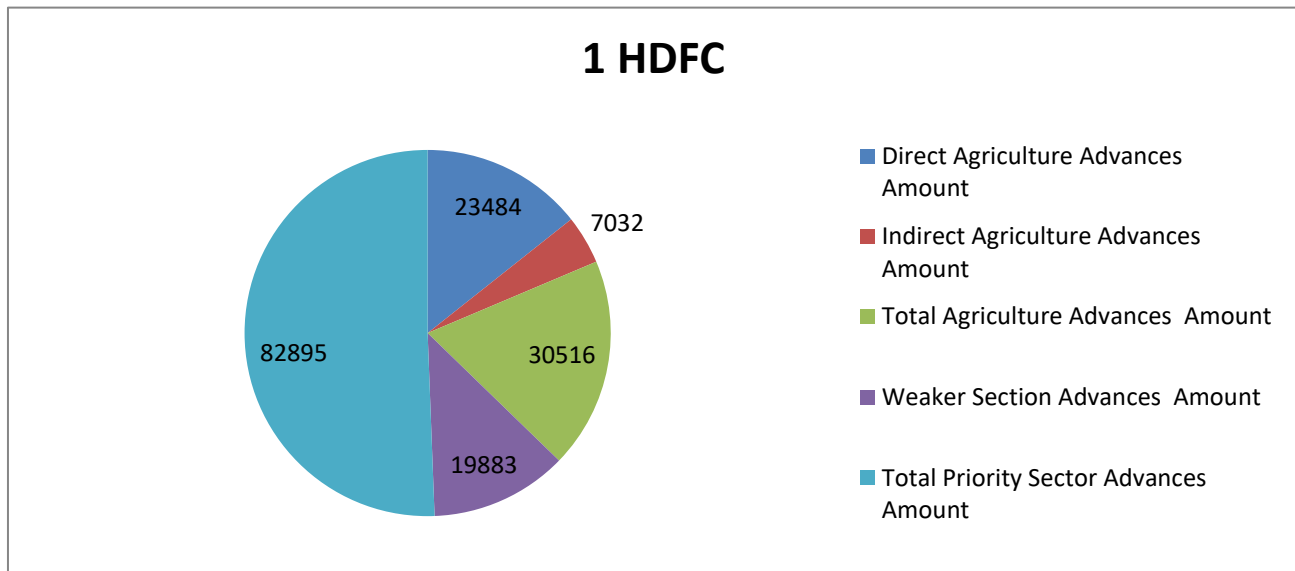
Interpretation: Above graph shows the recovery management of banks against the issued loans for the year 2021 in which SBI recovered 263264.32 with outstanding amount of 74072.19 following by CANARA Bank recovered 98392.47 with outstanding of 66091.91, Canara Bank recovered 68449.67 with outstanding of 30056.02, Syndicate bank recovered 32079.74 with outstanding of 19790.7, corporation bank recovered 17898.21 with outstanding of 16051.44, CANARA Bank recovered 30125.18 with outstanding of 18819.62 and UTI recovered 22429.03 with outstanding of 16447.45. So in the year 2021 SBI recovered highest amount compared to its peers.

PRIORITY SECTOR ADVANCES OF BANKS

COMPARISON WITH OTHER PUBLIC SETOR BANKS

S.No	Name of the Bank	Direct Agriculture Advances	Indirect Agriculture Advances	Total Agriculture Advances	Weaker Section Advances	Total Priority Sector Advances
		Amount	Amount	Amount	Amount	Amount
1	CANARA	23484	7032	30518	19883	82895
2	SYNDICATE BANK	4406.33	1664.64	5870.94	3267.71	16626.62
3	CANARA BANK	8348	3684	12032	4423	30937
4	CORPORATION BANK	963.58	971.22	1934.80	665.32	9043.74

Table 8

**Figure 11****Interpretation:**

- CANARA Issued loans for Direct Agriculture is 23484, Indirect Agriculture is 7032, a weaker section is 19883 and a total priority sector advance is 82895.
- SYNDICATE BANK Issued loans for Direct Agriculture is 4406.33, Indirect Agriculture is 1664.64, a weaker section is 3267.71 and a total priority sector advance is 16626.62.
- CANARA BANK Issued loans for Direct Agriculture is 8348, Indirect Agriculture is 3684, a weaker section is 4423 and a total priority sector advance is 30937

PRIORITY SECTOR ADVANCES OF PUBLIC SECTOR BANKS IN PERCENTAGES ARE AS FOLLOWS:

S.No	Name of the Bank	Direct Agriculture Advances	Indirect Agriculture Advances	Total Agriculture Advances	Weaker Section Advances	Total Priority Sector Advances
		% Net Banks Credit	% Net Banks Credit	% Net Banks Credit	% Net Banks Credit	% Net Banks Credit
1	CANARA	10.5	3.1	13.6	8.9	37.0
2	SYNDICATE BANK	13.5	4.5	20.0	10.0	44.9
3	CANARA BANK	11.2	4.9	17.7	5.9	41.4
4	CORPORATION BANK	4.5	4.5	9.0	3.1	41.9

Table 9

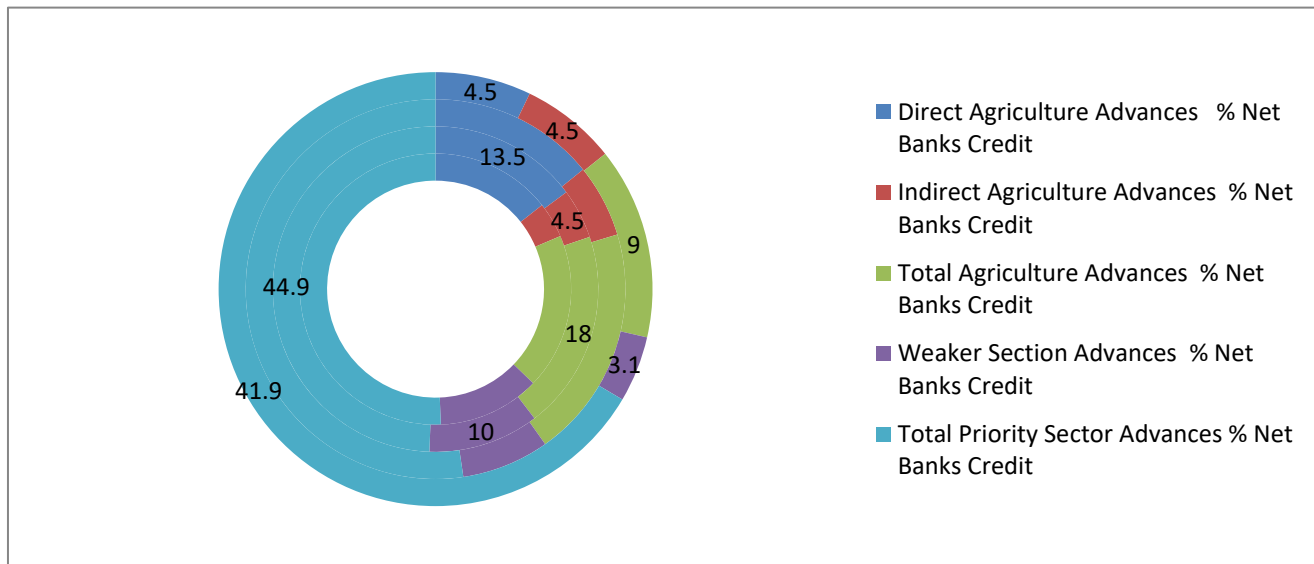


Figure 12

Interpretation:

- CANARA's direct agriculture advances as compared to other banks is 10.5% of the Net Bank's Credit, which shows that Bank has not lent enough credit to direct agriculture sector.
- In case of indirect agriculture advances, CANARA is granting 3.1% of Net Banks Credit, which is less as compared to Canara Bank, Syndicate Bank and Corporation Bank. CANARA has to entertain indirect sectors of agriculture so that it can have more number of borrowers for the Bank.
- CANARA has advanced 13.6% of Net Banks Credit to total agriculture and 8.9% to weaker section and 37% to priority sector, which is less as compared with other Bank.

FINDINGS

1. Project findings reveal that SBI is sanctioning less Credit to agriculture, as compared with its key competitor's viz., Canara Bank, Corporation Bank, Syndicate Bank
2. **Recovery of Credit:** SBI recovery of Credit during the year 2018 is 62.4% Compared to other Banks SBI 's recovery policy is very good; hence this reduces NPA.
3. CANARA Issued loans for Direct Agriculture is 10.5%, Indirect Agriculture is 3.1%, a weaker section is 8.9% and a total priority sector advance is 37.0%.
4. SYNDICATE BANK Issued loans for Direct Agriculture is 13.5%, Indirect Agriculture is 4.5%, a weaker section is 10.0% and a total priority sector advance is 44.9%
5. CANARA BANK Issued loans for Direct Agriculture is 11.2%, Indirect Agriculture is 4.9%, a weaker section is 5.9% and a total priority sector advance is 41.4%.
6. CORPORATION BANK Issued loans for Direct Agriculture is 4.5%, Indirect Agriculture is 4.5%, a weaker section is 3.1% and a total priority sector advance is 41.9%.

7. Canara Bank Issued Highest percentage of loans for Indirect Agriculture i.e., 4.9% out of total loans and lowest by SBI i.e., 3.1%.

SUGGESTIONS

- The Bank should keep on revising its Credit Policy which will help Bank's effort to correct the course of the policies.
- The Chairman and Managing Director/Executive Director should make modifications to the procedural guidelines required for implementation of the Credit Policy as they may become necessary from time to time on account of organizational needs.
- Banks has to grant the loans for the establishment of business at a moderate rate of interest. Because of this, the people can repay the loan amount to bank regularly and promptly.
- Bank should not issue entire amount of loan to agriculture sector at a time, it should release the loan in installments. If the climatic conditions are good, then they have to release remaining amount.
- SBI has to reduce the Interest Rate.
- SBI has to entertain indirect sectors of agriculture so that it can have more number of borrowers for the Bank.

CONCLUSIONS

The project undertaken has helped a lot in gaining knowledge of the "Credit Policy and Credit Risk Management" in Nationalized Bank with special reference to CANARA. Credit Policy and Credit Risk Policy of the Bank has become very vital in the smooth operation of the banking activities. Credit Policy of the Bank provides the framework to determine (a) whether or not to extend credit to a customer and (b) how much credit to extend. The Project work has certainly enriched the knowledge about the effective management of "Credit Policy" and "Credit Risk Management" in banking sector.

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- M.Y. Khan and P.K. Jain (2016) Financial Management (Fourth Edition), Tata McGraw Hill, Noida.
- D.M. Mittal (2012) Money, Banking, International Trade and Public Finance (Eleventh Edition) Himalaya Publishing House, Mumbai.

NEWS PAPERS

Economic Times

BANKS INTERNAL RECOREDS:

- Annual Reports of CANARA (2016-2020)
- State bank Of India Manuals
- Circulars sent to all Branches, Regional Offices and all the Departments of Corporate Offices.

WEB SITES

1.www.CANARA.com

2.www.rbi.org

3.www.indiainfoonline.com

4.www.financeindia.com