A STUDY ON CREDIT RISK MANAGEMENT AT HDFC BANK

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Abstract

The present study is about credit risk management in selected banks viz HDFC, SBI, ICICI, Canara, Syndicate, Union, Axis Banks. The study focuses on credit risk management strategies followed by different banks. The study also covers the comparative analysis of credit recovery management in selected banks. The study also lays emphasis on loans sanctioned to different sectors by different private and public banks. The study reveals that SBI outperformed in loansand advances while Syndicate bank outperformed in recovering the loans.

1.1 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.

1.2 NEED OF THE STUDY

1. The purpose of this study is to understand the risks that bank manages in the region.
2. 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.
3. Credit risk management is very crucial for all the businesses that lend money.
4. In sectors like banking, effective risk management plays a vital role in reducing risks.
5. If banks and financial institutions follows or implement risk management framework, they can improve efficiency, ensure compliance, and sustain confidence in industry.

1.3 OBJECTIVES OF THE STUDY

1. To study the credit risk management in different banks.
2. To make a comparative study on credit recovery management of HDFC, SBI, ICICI, Union Bank, Axis Bank, Canara Banks.
3. To analyze the sanctions of loans to different sectors by different public and private banks.
4. To provide suggestions for the improvement of Credit Risk Management Policy of the Bank.

1.4 SCOPE OF THE STUDY

This study is limited with function of credit operation system and credit risk assessment of HDFC. Most of the data used in the reporting of the study are from secondary sources. The scope of the study is limited to HDFC, Syndicate, Canara, Union, SBI, ICICI And Axis Bank. The study is carried out for 5 years (2019-2023). 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.

1.5 RESEARCH METHODOLOGY

The study is purely based on secondary data, the secondary data is collected from magazines, annual reports, internet, textbooks.

1.6 LIMITATIONS

- The period of study was 2018-2023 financial years only.
- This study is limited with function of credit operation system and credit risk assessment of HDFC Bank Limited with function of Syndicate, Canara, Corporate, SBI, ICICI and Axis Bank.
- The study covers only comparison of loans, advances, and credit recovery management of selected banks, HDFC, Syndicate, Canara, Corporate, State Bank of India, ICICI and Axis Bank.

REVIEW OFLITERATURE

Kuldeep Solanki, Harshil Soni, Prof. Sonakshi Sharma (2023): The study has tried to highlight the key risks that are present in banks and the banking industry. To assess the position of the Indian banking sector about risk involvement, it also plans to measure the risks and prepare the sector's risk profile.

RICHARD GRINOLD (2023): Grinold provides a general frame work for the description of various aspects of a risk management using a set of factors. The work is cousin to the well – worn topic of performance analysis and attribution, and in that sense, is fairly represented as being old wine in new bottles the scope is much more general, however. Grinold first provides a theoretical structure with a model that describes various aspects of

PHILIPPE JORION (2022): According to a study by PHILIPPE JORION, Financial risk management builds on the work of pioneers in financial theory. Spurred by the rapid expansion of derivatives markets, new risk-management tools were developed in response to the need to manage financial risks better. This led to the development of position-based risk measures such as Value at Risk (VAR), which are now widely used. Later, these methods were extended to other types of risk such as credit and operational risk. Even so, risk management has now become an essential function for financial institutions.

MARKUS RUDOLF, MICHAEL FRENKEL (2021): According to their study, Basel II has not only changed the risk-management standards in the banking system dramatically, it has also affected the competitive positions of different banking systems.

GABRIELE SABATO (2019): According to a study byGABRIELESABATO, 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.

P.J. EDWARDS, P.A. BOWEN (2018): They are 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.

Arzu Tektas (2017): According to a study by ArzuTektas, an efficient Credit risk management requires maximizing bank’s profit as well as controlling and lowering various risks. This multi-objective decision problem aims to reach goals such as maximization of liquidity, revenue, capital adequacy, and market share subject to financial, legal requirements and institutional policies. This paper models Credit risk management (ALM) in order to show how different managerial strategies affect the financial wellbeing of banks during crisis.

Rossano Giandomenica (2016): According to a study byRossano Giandomenica, the model by using a contingent claim approach, determines the fair value of the bank’s liabilities accounting for the protection and the surrender possibility. Furthermore, it determines the implied duration of banks liabilities so to show that the surrender possibility will reduce the effective duration of banks liabilities. Implications for the immunization are also treated.

Danjuman, Ibrahim, Kola, Ibrahim Abdullateef, Magaji, Badiya Yusuf, Kumshe&HauwaModu (2016) they were explained the credit risk management and purchaser pride. It suggests the nice relationship among credit score threat control and consumer satisfaction and there is no want for banks control to be aware of other elements that contributes closer to the patron delight apart from granting of credit. Bank desires to consciousness on its credit score coverage in an effort to make greater earnings.

P. Madhu Sudan Rao (2015); In his study, inbanking institutions, Credit risk management is the practice of managing various risks that arise due to mismatches between the Credit risk management (loans and advances) of the bank.Banks face several risks such as the risks associatedwith assets,interest,currency exchange risks. Credit risk management at tool to manage interest rate risks and liquidity risk faced by various banks,other financial servicescompanies.

DATA ANALYSIS & INTERPRETATION

COMPARISON OF LOANS & ADVANCES OF HDFC WITH OTHER PUBLIC AND PRIVATE SECTOR BANKS FOR THE YEAR 2019

Table 4.1

Name Of the Banks	Amt of advances (in Lakh)
HDFC Bank	11954.86
Syndicate Bank	18305.35
Canara Bank	40471.6
Union Bank	12029.19
SBI BANK	137758.46
ICICI Bank	52474.48
AXIS Bank	7199.92

Figure 4.1

Column chart showing Comparison of Loans & Advances of HDFC With Other Public and Private Sector Banks

Interpretation:

The above table shows the loans and advances issued by HDFC and various peers in which SBI Bank has issued amount i.e., 137758.46 and followed by HDFC Bank with 11954.86, Canara Bank with 40471.6, Syndicate Bank with 18305.35, Union Bank with 12029.19, ICICI Bank with 52474.48 and UTI with 7199.92. So, in the year 2019 SBI BANK issued highest amount than its peers.

COMPARISON OF LOANS & ADVANCES OF HDFC WITH OTHER PUBLIC AND PRIVATE SECTOR BANKS FOR THE YEAR 2020:

Table 4.2

Name Of the Banks	Amt of advances
HDFC Bank	19744.51
Syndicate Bank	20646.93
Canara Bank	47638.62
Union Bank	13889.72

SBI BANK	177933.54
ICICI Bank	60757.36
AXIS Bank	9362.95

Figure 4.2

Column chart showing Comparison of Comparison of Loans & Advances of HDFC With Other Public and Private Sector Banks

Interpretation:

The above table shows the loans and advances issued by SBI BANK and various peers in which SBI Bank has issued amount i.e., 177933.54 and followed by ICICI Bank with 60757.36, Canara Bank with 47638.62, Syndicate Bank with 20646.93, Union Bank with 13889.72, HDFC Bank with 19744.51and UTI with 9362.95. So, in the year 2020 SBI BANK issued highest amount than its peers.

COMPARISON OF LOANS & ADVANCES OF HDFC WITH OTHER PUBLIC AND PRIVATE SECTOR BANKS FOR THE YEAR 2021:

Table 4.3

Name Of the Banks	Amt of advances
HDFC Bank	25566.3
Syndicate Bank	26729.21
Canara Bank	60421.4
Union Bank	20546.37
SBI BANK	202374.46
ICICI Bank	88991.75
AXIS Bank	17602.92

Figure 4.3

Column chart showing Comparison of Comparison of Loans & Advances of HDFC With Other Public and Private Sector Banks

Interpretation:

The above table shows the loans and advances issued by SBI BANK and various peers in which SBI Bank has issued amount i.e., 202374.46 and followed by ICICI Bank with 88991.75, Canara Bank with 60421.40, Syndicate Bank with 26729.21, Union Bank with

20546.37, HDFC Bank with 25566.30 and UTI with 17602.92. So, in the year 2021 SBI BANK issued highest amount than its peers.

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

Table 4.15

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**
HDFC Bank	10.5	3.1	13.6	8.9	37.0
SYNDICATE Bank	13.5	4.5	20.0	10.0	44.9
CANARA Bank	11.2	4.9	17.7	5.9	41.4
UNION Bank	4.5	4.5	9.0	3.1	41.9

Interpretation:

- HDFC 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%.
- 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%
- 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%.

FINDINGS

1. Project findings reveal that SBI is sanctioning less credit to agriculture, as compared with its key competitor's viz., Canara Bank, Union Bank, Syndicate Bank
2. It is observed that SBI Bank were performing better in Loans and Advances in the year 2019 followed by ICICI, Canara, Syndicate, Corporate, HDFC. AXIS Bank performed lowest compared to other Banks

3. In the year 2020 also, SBI occupies first position in Loans and Advances followed by ICICI, Canara, Syndicate, HDFC, Corporate. AXIS Bank underperformed among other banks.
4. It is clear from the tables that SBI Bank was performing better in Loans and Advances in the year 2021 followed by ICICI, Canara, Syndicate, HDFC, Corporate. AXIS Bank performed lowest compared to other Banks.

SUGGESTIONS

1. Consider various factors like credit history, income, and outstanding debts before lending money.
2. Riskier borrowers should be charged higher interest rates to compensate for the increased risk. Continuous monitoring of borrowers' credit profiles
3. Assess borrowers' repayment capacity to ensure that the loan terms suit the borrower's financial situation.

CONCLUSION

Credit risk management is critical for banks and financial institutions, maximize losses, protect trust of customers, and ensure adherence with relevant regulations. The key strategies to be followed by banks and financial Institutions to effectively manage credit risks are

- Develop a comprehensive credit risk management policy.
- Conduct regular credit risk assessments.
- Implement robust credit risk mitigation mechanisms.
- Provide regular employee training.
- Develop a comprehensive credit risk response plan.
- Conduct regular credit risk reviews.
- Ensure compliance with regulations and standards.

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