A STUDY ON CREDIT RISK MANAGEMENT WITH SPECIAL REFERENCE TO NON PERFORMING ASSETS IN INDIAN OVERSEAS BANK, CHENNAI

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Abstract: Bank is the backbone of every economy. The banks does the important business of collecting the surplus money of the public and issuing the same as loans to the people who need money, but the banks face an uphill task of collecting the money which is issued as loan. It becomes a difficult task for collecting interest as well as collecting the amount, which is issued as loan. So this study is basically aimed at finding the extent of amount, which is outstanding on the various types of loans and the extent of NPA on the various types of loans extended. The primary objective of the study is to find out the extent of NPA's arising out of the various loans provided by the company. Every Bank issues loan and income derived from the loan issued is their primary income so the bank has to find out whether the borrower is capable enough not only to repay the money borrowed from the bank but also to pay the periodical interest. This study is very much the need of the hour for the company as the bank feels the defaulting borrowers can be found out and the necessary steps may be taken to improve the collections and the procedure for issuing the loans can also be altered if the existing system has any lapses.

Keywords: Credit, Default, Non-performing Asset, Bank, Borrower, Term Loan

INTRODUCTION

Bank is the backbone of every economy. The banks does the important business of collecting the surplus money of the public and issuing the same as loans to the people who need money, but the banks face an uphill task of collecting the money which is issued as loan. It becomes a difficult task for collecting interest as well as collecting the amount, which is issued as loan. So this study is basically aimed at finding the extent of amount, which is outstanding on the various types of loans and the extent of NPA on the various types of loans extended.

In any country banks are the major contributors for their economic development. They function as the chief institution for granting of loans and advances in order to keep the wheels of the progress moving, since they occupy a key role in the financial sector, they need to be regulated and controlled by a proper authority that is why, every country will have a Central bank of its own which act as the bankers' bank. The Reserve Bank of India acts a

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centralized body monitoring any discrepancies and shortcoming in the system. The word bank is derived from a Greek word "Bankus" which means table, where money was placed in ancient days.

The Indian banking can be broadly categorized into nationalized (government owned), private banks and specialized banking institutions. Since the nationalization of banks in 1969, the public sector banks or the nationalized banks have acquired a place of prominence and has since then seen tremendous progress.

The need to become highly customer focused has forced the slow-moving public sector banks to adopt a fast track approach. The unleashing of products and services through the net has galvanized players at all levels of the banking and financial institutions market grid to look anew at their existing portfolio offering. Conservative banking practices allowed Indian banks to be insulated partially from the Asian currency crisis.

Indian banks are now quoting at higher valuation when compared to banks in other Asian countries (viz. Hong Kong, Singapore, Philippines etc.) that have major problems linked to huge Non Performing Assets (NPAs) and payment defaults. Co-operative banks are nimble footed in approach and armed with efficient branch networks focus primarily on the 'high revenue' niche retail segments.

The Indian banking has come from a long way from being a sleepy business institution to a highly proactive and dynamic entity. This transformation has been largely brought about by the large dose of liberalization and economic reforms that allowed banks to explore new business opportunities rather than generating revenues from conventional streams (i.e. borrowing and lending).

The banking system in India is highly fragmented with 30 banking units contributing to almost 50% of deposits and 60% of advances. Indian nationalized banks (banks owned by the government) continue to be the major lenders in the economy due to their sheer size and penetrative networks which assures them high deposit mobilization.

The Reserve Bank of India acts as a centralized body monitoring any discrepancies and shortcoming in the system. It is the foremost monitoring body in the Indian financial sector. The nationalized banks (i.e. government-owned banks) continue to dominate the Indian banking arena. Industry estimates indicate that out of 274 commercial banks operating in India, 223 banks are in the public sector and 51 are in the private sector. The private sector bank grid also includes 24 foreign banks that have started their operations here. Under the ambit of the nationalized banks come the specialized banking institutions. These co-operatives, rural banks focus on areas of agriculture, rural development etc.,

NEED FOR THE STUDY

Every Bank issues loan and income derived from the loan issued is their primary income so the bank has to find out whether the borrower is capable enough not only to repay the money borrowed from the bank but also to pay the periodical interest. This branch needs to

find out the percentage of defaulters and the amount of default, so that they can take necessary actions on not only the defaulters but also see that in future the loan is issued to a person who is capable of repaying the loan borrowed. Hence, the study is aimed at getting a thorough idea about the significance of risk management in banks.

SCOPE AND SIGNIFICANCE

- The study finds out the operational efficiency of the loans issued by IOB.
- The amount of loan that is outstanding and the extent of NPA (Non Performing Assets) of IOB for the three years of the study.
- These techniques reveal the measures that can adopt to improve the existing trend of collection and reducing the NPA's

RESEARCH METHODOLOGY

INTRODUCTION ABOUT RESEARCH

RESEARCH DESIGN

Analytical Research

Analytical research, as a style of qualitative inquiry, draws from the disciplines of philosophy (the meaning of concepts), history, and biography. It is non interactive document research. "Analytical research describes and interprets the past or recent past from selected sources. The sources may be documents preserved in collections, and/or participants' oral testimonies (oral histories).

DATA COLLECTION METHOD

There are two types of collecting data (i.e.) primary data and secondary data. This research study includes collection of secondary data.

Secondary Data

The data are collected from the annual reports, mainly balance sheet, income and expenditure and other brochures of the company. The data for the analysis are collected and gathered from the printed reports like annual reports, official files, records and other available related materials of the companies chosen for this study

TOOLS USED FOR ANALYSIS

- Ratio Analysis
- Growth Analysis
- Trend Analysis

Ratio Analysis

Ratios are mathematical aids for appraisal and comparison of financial statements. They are used to supplement Rupees amount inspection, to examine inter-item relationships and to compare a specific company's performance against its industry standard.

Ratio analysis is a process of comparison of one figure against another, which make a ratio, and the appraisal of the ratios to make proper analysis about the strengths and weaknesses of the company's operations.

Ratio analysis is extremely helpful in providing valuable insight into a company's financial picture.

Uses of Ratios

The use of ratios reduces the influence of rupees size on analysis since these comparisons are expressed as a percentage, fraction, decimal or rates of turnover. Only the combinations that could be made of the items appearing in both schedules limit the number of ratios that can be developed from the balance sheet and income statement. The type of operation represented by the account and the nature of the risk has an important bearing on what ratios are to be computed and studied

Growth Analysis

The growth analysis is used in finding the rate of increase from the base year as a result of which the comparisons between the years can be done.

$$\text{Rate of Growth} = \frac{Increase\ from\ the\ base\ year}{Value\ of\ the\ base\ year} \times 100$$

Trend Analysis

Trend analysis is used to analyze the relations for the past five years & to make projections for the future. Method of least squares is used to fit the straight-line trend

$$YC = a + bx$$

To determine the values of the constants a & b the following two normal equations are to be solved.

$$\Sigma Y = Na \text{ where } a = \Sigma Y/N$$
$$\Sigma XY = by \Sigma2 \text{ where } b = \Sigma xy / \Sigma x2$$

PERIOD OF STUDY

The study has been made for a period of three financial years from 2008-2010.

DATA ANALYSIS AND INTERPRETATION

RATIO ANALYSIS

Table 1
Table Exhibiting the Amount of Loans Extended By the Branch

Particulars	2008		2009		2010	
	Number	Amount	Number	Amount	Number	Amount
Jewel Loan	1187	31855350	902	30705950	678	24615750
Festival Advance	23	519400	29	696800	25	649700
Demand Loan against LIC	3	95600	2	62800	3	142700
Demand Loan against Deposit	102	4616900	75	5762486	94	12365300
Term Loan SSI	10	16242000	4	9750000	5	8840200
Demand Loan Share	1	270000	2	300000	1	250000
Term Loan Others	17	3548900	30	6292800	44	61456725
NSC Public	13	550700	8	313250	10	636500
Term Loan to Study (Edu)	31	1910525	36	3646705	42	6876419
Home Loan others	16	13062000	17	16599000	5	6929000
Staff Vehicle Loan	4	525000	2	256000	0	0
Small Loan NOCGC	41	1022000	48	2632500	23	1825495
Staff Housing Bank	0	0	3	400000	14	1842426
Personal Loan	10	321320	4	124900	0	0
Demand loan personal	51	1730000	72	2907900	72	2981000
TOTAL	1509	76269695	1234	80451091	1016	129411215

Table 2
Table Exhibiting the Average Amount of Loan Borrowed from the Bank for Each type of Loan

Loan Type	2008	2009	2010
Jewel Loan	26836.86	34042.07	36306.416
Festival Advance	22582.61	24027.59	25988
Demand Loan against LIC	31866.67	31400	47566.667
Demand Loan against Deposit	45263.73	76833.15	131545.74
Term Loan SSI	1624200	2437500	1768040
Demand Loan Share	270000	150000	250000
Term Loan Others	208758.8	209760	1396743.8
NSC Public	42361.54	39156.25	63650
Term Loan to Study (Edu)	61629.84	101297.4	163724.27
Home Loan others	816375	976411.8	1385800
Staff Vehicle Loan	131250	128000	0
Small Loan NOCGC	24926.83	54843.75	79369.348
Staff Housing Bank	0	133333.3	131601.86
Personal Loan	32132	31225	0
Demand loan personal	33921.57	40387.5	41402.778
TOTAL	50543.2	65195.37	127373.24

Table 3
Table Exhibiting the Total Amount of Non Performing Asset on Each Type of Loan Borrowed

Particulars	2008		2009		2010	
	Number	Amount	Number	Amount	Number	Amount
Jewel Loan	25	6052517	23	5220011.5	15	4430835
Festival Advance	2	25970	5	20904	3	25988
Demand Loan against Deposit	2	92338	2	115249.72	3	247306
Term Loan SSI	1	16242	2	9750	1	7956.18
Term Loan to Study (Edu)	1	40885.24	1	87520.92	2	151281.22
Small Loan NOCGC	2	1022	3	5265	1	4198.64
Demand loan personal	4	16089	4	27625.05	3	27514.63
Home loan others	1	21421.68	1	30542.16	1	8966.13
TOTAL	38	6266484.38	41	5516868.35	29	4912001.981

Table 4
Ratio of Npa Over The Loan Issued – Jewel Loan

Year	Number of Borrowers	Number of Defaulters	NPA	Amount of Loan issued	Percentage of Defaulters	Ratio of NPA over Amount of Loan Issued
2008	1187	25	6052516.5	31855350	2.11%	19%
2009	902	23	5220011.5	30705950	2.55%	17%
2010	678	15	4430835	24615750	2.21%	18%

Table 5
Ratio of NPA Over Demand Loans Against Deposit

Year	Number of Borrowers	Number of Defaulters	NPA	Amount of Loan issued	Percentage of Defaulters	Ratio of NPA over Amount of Loan Issued
2008	102	2	92338	4616900	1.96%	2.00%
2009	75	2	115249.72	5762486	2.67%	2.00%
2010	94	3	247306	12365300	3.19%	2.00%

Table 6
Ratio of NPA Over The Term Loan Ssi

Year	Number of Borrowers	Number of Defaulters	NPA	Amount of Loan issued	Percentage of Defaulters	Ratio of NPA over Amount of Loan Issued
2008	10	1	16242	16242000	10%	0.10%
2009	4	2	9750	9750000	50%	0.1%
2010	5	1	7956.18	8840200	20%	0.09%

Table 7
Ratio of NPA Over the Term Loan to Study (Edu)

Year	Number of Borrowers	Number of Defaulters	NPA	Amount of Loan issued	Percentage of Defaulters	Ratio of NPA over Amount of Loan Issued
2008	31	1	40885.23	1910525	3.23%	2.14%
2009	36	1	87520.92	3646705	2.78%	2.40%
2010	42	2	151281.22	6876419.19	4.76%	2.20%

Table 8
Ratio of NPA Over Home Loan Others

Year	Number of Borrowers	Number of Defaulters	NPA	Amount of Loan issued	Percentage of Defaulters	Ratio of NPA over Amount of Loan Issued
2008	16	1	21421.68	13062000	6.25%	0.16%
2009	17	1	30542.16	16599000	5.88%	0.18%
2010	5	1	8966.13	6929000	20.00%	0.13%

Table 9
Ratio of NPA Over Small Loan Nocgc

Year	Number of Borrowers	Number of Defaulters	NPA	Amount of Loan issued	Percentage of Defaulters	Ratio of NPA over Amount of Loan Issued
2008	41	2	1022	1022000	4.88%	0.10%
2009	48	3	5265	2632500	6.25%	0.20%
2010	23	1	4198.64	1825495	4.35%	0.23%

Table 10
Ratio of NPA Over Personal Loan

Year	Number of Borrowers	Number of Defaulters	NPA	Amount of Loan issued	Percentage of Defaulters	Ratio of NPA over Amount of Loan Issued
2008	10	1	3277.46	321320	10.00%	1.02%
2009	4	0	0	124900	0.00%	0.00%
2010	0	0	0	0	0.00%	0.00%

Table 11
Ratio of NPA Over Demand Personal Loan

Year	Number of Borrowers	Number of Defaulters	NPA	Amount of Loan issued	Percentage of Defaulters	Ratio of NPA over Amount of Loan Issued
2008	51	4	16089	1730000	7.84%	0.93%
2009	72	4	27625.05	2907900	5.56%	0.95%
2010	72	3	27514.63	2981000	4.17%	0.92%

Table 12
Ratio of NPA Over Term Loan Others

Year	Number of Borrowers	Number of Defaulters	NPA	Amount of Loan issued	Percentage of Defaulters	Ratio of NPA over Amount of Loan Issued
2008	17	1	4258.68	3548900	5.88%	0.12%
2009	30	4	22024.8	6292800	13.33%	0.35%
2010	44	11	36874.03	61456725	25%	0.06%

GROWTH ANALYSIS

Table 13
Growth Analysis of Loans Issued by the Bank

Loan Type	2009	2010
Jewel Loan	-3.61%	-22.73%
Festival Advance	34.15%	25.09%
Demand Loan against LIC	-34.31%	49.27%
Demand Loan against Deposit	24.81%	167.83%
Term Loan SSI	-39.97%	-45.57%
Demand Loan Share	11.11%	-7.41%
Term Loan Others	77.32%	1631.71%
NSC Public	-43.12%	15.58%
Term Loan to Study (Edu)	90.87%	259.92%
Home Loan others	27.08%	-46.95%
Staff Vehicle Loan	-51.24%	-100.00%
Small Loan NOCGC	157.58%	78.62%
Staff Housing Bank	-	-
Personal Loan	-61.13%	-100.00%
Demand loan personal	68.09%	72.31%

Table 14
Growth Analysis of Number of Borrowers of Loans Issued By the Bank

Loan Type	2009	2010
Jewel Loan	-24.01%	-42.88%
Festival Advance	26.09%	8.70%
Demand Loan against LIC	-33.33%	0.00%
Demand Loan against Deposit	-26.47%	-7.84%
Term Loan SSI	-60.00%	-50.00%
Demand Loan Share	100.00%	0.00%
Term Loan Others	76.47%	158.82%
NSC Public	-38.46%	-23.08%
Term Loan to Study (Edu)	16.13%	35.48%
Home Loan others	6.25%	-68.75%
Staff Vehicle Loan	-50.00%	-100.00%
Small Loan NOCGC	17.07%	-43.90%
Staff Housing Bank	-	-
Personal Loan	-60.00%	-100.00%
Demand loan personal	41.18%	41.18%

TREND ANALYSIS

Table 15
Table Exhibiting the Trend Values of the Various Borrowings

Loan Type	Borrowings			Trend Values	
	2008	*2009*	*2010*	*2011*	*2012*
Jewel Loan	26836.86	34042.07	36306.416	41864.67	46599.45
Festival Advance	22582.61	24027.59	25988	27604.79	29307.48
Demand Loan against LIC	31866.67	31400	47566.667	52644.44	60494.44
Demand Loan against Deposit	45263.73	76833.15	131545.74	170829.55	213970.56
Term Loan SSI	1624200	2437500	1768040	2087086.67	2159006.67
Demand Loan Share	270000	150000	250000	203333.33	193333.33
Term Loan Others	208758.8	209760	1396743.8	1793072.53	2387065.03
NSC Public	42361.54	39156.25	63650	69677.72	80321.95
Term Loan to Study (Edu)	61629.84	101297.4	163724.27	210978.27	262025.48
Home Loan others	816375	976411.8	1385800	1628953.93	1913666.43
Staff Vehicle Loan	131250	128000	0	-44833.33	-110458.33
Small Loan NOCGC	24926.83	54843.75	79369.348	107489.16	134710.42
Staff Housing Bank	0	133333.3	131601.86	219913.58	285714.51
Personal Loan	32132	31225	0	-11013.00	-27079.00
Demand loan personal	33921.57	40387.5	41402.778	46051.82	49792.43
TOTAL	50543.2	65195.37	127373.24	157867.31	196282.33

Table 16
Table Exhibiting the Trend Values of the Various Amount

Particulars	*2008*	*2009*	*2010*	Trend Values	
	Amount	*Amount*	*Amount*	*2011*	*2012*
Jewel Loan	6052517	5220012	4430835	3612772.5	2801931.5
Festival Advance	25970	20904	25988	24305.333	24314.333
Demand Loan against Deposit	92338	115250	247306	306599.24	384083.24
Term Loan SSI	16242	9750	0	-7578	-15699
Term Loan to Study (Edu)	40885.2	87520.9	151281	203625.11	258823.1
Small Loan NOCGC	1022	5265	4198.64	6671.8533	8260.1733
Demand loan personal	16089	27625.1	27514.6	35168.523	40881.338
TOTAL	6245063	5486326	4895080		

FINDINGS

- It is found that the disbursements of loans had always been on the increasing trend. It has also been found that the personal loan had considerably decreased and in the final year of the study that type of loan had not been issued at all. The company has issued jewel loan on a large extent.

- It is found that the Term Loan SSI had the highest average amount of loan issued per borrower; this followed by Term loan others at 1396743.8 per borrower. The least being Festival advance at Rs. 24027.59 per borrower.

- It is inferred that the majority of the NPA is due to jewel loan and the least is from Small Loan NOCGC at 4198.64.

- It is found that the percentage of NPA over the Jewel loan issued had been decreasing in the all the years of study by 1 percentage though the percentage of defaulters increased the percentage of NPA decreased.

- It is found that the percentage of NPA over the Demand Loans against Deposits issued had no fluctuation during all the three years of the study.

- It is found that the percentage of defaulters has been increasing at double the rate of the previous years during all the years under study.

- It is found that the percentage of defaulters during the last year of the study has increased to 4.76% in the year 2008 from 2.78% during the year 2007 but the ratio of NPA over the loan issued had decreased by 0.20% to 2.20% during the same period. This shows that the amount of default has reduced but the defaulters are on the increasing trend.

- It is found that the percentage of defaulters in Home loan to others has increased it is mainly because the number of borrowers has decreased but the defaulters remain the same. The ratio of NPA over the loan issued under this category has improved from 18% to 13% in the year 2008 this shows that the bank is able to collect the outstanding amount to improve this ratio.

- It is found that the percentage of defaulters in the small loan NOCGC has fluctuated in all the three years of the study and it has increased during the last year of the study and it is mainly because the number of borrowers has decreased though the defaulters had decreased. The ratio of NPA over the loan issued under this category has improved from increased during all the years of the study it had doubled during 2007 from 10% in the year 2006 to 20% during the year 2007 and the same had increased again during the year 2008 to 23%.

- It is found that the percentage of defaulters in the Personal Loan section had been completely removed and except the first year of the study and during the last two years of the study the personal defaulters as well as the amount of default was nil. This shows that the branch is able to see that the loan issued are being collected in time without any outstanding.

- It is found that the percentage of defaulters in the Demand Personal Loan section has been decreasing considerably every year and in the last year of the study it was at 4.17%. The ratio of NPA towards the loan issued had decreased during the last year of the study from 0.95% to 0.92%.

- It is found that the percentage of defaulters in the Term Loan Others section has decreased considerably during the last year of the study and stood at 0.06%. The ratio of NPA towards the loan issued staggers around 0.95% mark.

Growth Analysis

- It is found that Demand Loan against Deposit and Demand Loan Personal has been increasing consistently in the year 2007 and 2008. While all the other type of loans have either decreased or increased during 2007 and/or in 2008.
- It is found that Term Loan Others and Term Loan to Study has been increasing consistently in the year 2007 and 2008. Demand loan personal has been with the same growth rate of 41.18%. While all the other type of loans have either decreased or increased during 2007 and/or in 2008.

Trend Analysis

- It is found that the trend of Total Loans is on the increasing side. Term Loan SSI has the highest trend value of 2087086.67 for the year 2009 and Term Loan (Others) has the highest trend value of 2387065.03 for the year 2010. The Least of the trend value for both the years is Festival Advance with a value of 27604.79 for the year 2009 and 29307.48 for the year 2010.
- It is found that the trend percentage has been increasing for all the types of loans except that of Term Loan SSI which stood at -7578 for 2009 and -15699 for the year 2010. Jewel Loan had the highest trend value for the year 2009 and 2010, with a value of 3612772.5 and 2801931.5 respectively.

SUGGESTIONS

The researcher has presented the following recommendations based on the above findings:

- The bank must ensure proper screening is done before any loan is issued.
- The bank must bring in four level screening rather than the present three level screening systems.
- The bank must ensure that the borrowers are not floaters who are very lethargic in paying the installments correctly.
- The banks must ensure that they send reminders to the borrowers at the right time so that the borrowers pay the dues on time.
- The reminders can be through letters, mails, SMS etc.
- The bank must have a correct tracking system which will indicate the type of business loans which are not repaid correctly and the business which is repaying correctly.
- The bank must ensure that the deserving applicants for the loan alone can be deserving borrowers.
- The bank can sell its Non Performing Financial Assets to other banks without recourse basis. The selling bank should ensure that after the sale of the financial assets, the asset is taken off the books of the bank. After the sale, there should not be any known liability devolving on the selling bank.

- Each bank should make its own assessment of the value offered by the purchasing bank for the financial asset and decide whether to accept or reject the offer.
- Banks purchasing or selling non-performing financial assets should ensure that the purchase or sale is conducted in accordance with a policy approved by the board.
- While laying down the policy, the bank board shall satisfy itself that the bank has adequate skills to purchase non-performing financial assets and deal with them in an efficient manner, which will result in value addition to the bank.

CONCLUSION

The study has made an attempt in identifying the amount of NPA's exists in the firm. The extent to which, it has affected the business. The study is also helpful in understanding the type of loan that has the highest NPA. This study is very much the need of the hour for the company as the bank feels the defaulting borrowers can be found out and the necessary steps may be taken to improve the collections and the procedure for issuing the loans can also be altered if the existing system has any lapses.

The study is very much useful in understanding what is NPA, how the bank faces this problem and what they do reduce the NPA and improve the collections of the loans in a better manner as well.

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