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Study on Credit Evaluation of Loans and Advances at HNCB LTD

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ABSTRACT

This study examines the credit evaluation process for loans and advances at Hanumanthanagar Co-operative Bank. It explores the method used to assess borrower's creditworthiness, the factors influencing lending decision, and the effectiveness of risk management practices. The research aims to provide insights into improving loan approval processes and minimizing default risks within the co-operative bank's lending operations.

Keywords: Credit Risk, Loans, Advances, Financial Services, Creditworthiness

INTRODUCTION

Credit evaluation of loans and advances is a crucial process in the financial industry. It involves assessing the creditworthiness of individuals or businesses seeking loans. This assessment helps lenders determine the risk associated with lending money and the likelihood of the borrower repaying the loan. Factors such as income, debt levels, and collateral are considered during this evaluation to make informed lending decisions and mitigate potential financial risks.The importance of this registration is due to which it reveals the borrower's repayment plan. By carefully evaluating these aspects, lenders can manage risk and ensure that loans are extended to those who are likely to repay them, contributing to a healthier financial ecosystem.

Need of the Study:

Give details on the customer loan's credit risk. You must comprehend importance of credit risk management to capable of better comprehend the credit risk management practises of Hanumathanagar co-operative Bank**.**

LITERATURE REVIEW

Imran, S. M. (2016): A research on the method used by banks to determine whether to lend money, 6(2S), and 13-18.Imran argues that lending institutions should focus on assessing the borrowers' credit risk by analysing their credit history, current income,and various financial circumstances.

He claims that by doing this, it will be possible to guarantee that only creditworthy customers receive loans.

"Measuring the Credit Risk of Co-operative Banks: An Empirical Analysis" by **S. K. Singhania (2020):** This study examines the credit risk of co-operative banks in India, using a quantitative analysis approach.

The findings highlight the importance of factors such as borrower's credit history, loan purpose and repayment capacity while evaluating credit risk. The study suggests that co-operative banks should adopt a consistent and standardized approach to credit evaluation to reduce the hazard of bad loans.

"Credit Risk Assessment and Management in Co-operative Banks: A Literature Review" by **S. S. Gajre and V. V. Kulkarni (2019):** This paper provides a thorough literature review of various credit evaluation copies used through financial institution. Authors identify the key factors that should be considered while evaluating credit risk, including borrower's financial history, loan purpose, and collateral and repayment capacity. The research also looks at the role of credit committees in the credit appraisal process.

"Credit Appraisal Process of Co-operative Banks: Analyses of Indian Co-operative Banks" by **M. B. Patel and D. H. Kadiwala (2019**): This study examines the credit appraisal process of co-operative banks in India, focusing on the factors that determine credit risk. The authors conclude that co-operative banks should adopt a rigorous credit evaluation system that includes both quantitative and qualitative analysis.

The research also underlines the necessity aimed at effective credit reporting practises in sequence to lower the likelihood of default.

Brown (2017): examines the credit evaluation process in loan and advance lending. The study explores how banks assess the risk of lending money to borrowers. Emphasizes the prominence of credit evaluation in loan and advance lending. The author argues that lenders must think on all pertinent aspects, such as credit history, collateral, and income, when assessing a borrower's creditworthiness.

Cow Soviet Union (2011) This article discusses the credit risks of different banks assessed under the CAMEL model, which evaluates sufficiency of resources, asset value, organization, and incomes, and liquidness. Credit risk is the main risk to which banks are exposed. Basel III is designed to provide a comprehensive view of risk management and control, which may result in significant variations in risk management capabilities, risk-based measurement, capital allocation, and risk management and portfolio techniques.

KITHINJI (2010)

In this article, the effect of credit hazard management on Kenya's commercial banks' profitability is examined. Between 2006 and 2008, information on credit amount, loan amount, and earnings was gathered.

The findings demonstrate that the volume of credit and loans has little impact on most people of commercial banks' earnings. As a result, other elements like credit and loans.

Ahmed, Taked & Shawn (1998): Conferring to this evidence, adding a bad debt provision dramatically decreased the quantity of bad loans. However, as it rises credit risk and lowers loan quality, the rise in provisions for loan loss has a detrimental effect on the bank's performance.

Ahmed and Rahaman (2015) examined the credit evaluation and decision-making process for loan advances of commercial bank at Bangladesh. The research showed that banks use a variety of factors, including credit history, collateral, and income, to determine the threat of lending money to borrowers.

Al-Jafari (2017): Proposes a fuzzy logic-based approach for credit risk evaluation. The approach uses fuzzy logic to assess the risk of lending money to borrowers, including a number of elements, borrower's credit history, collateral, and income. The approach is designed to be more accurate and reliable than traditional credit scoring methods.

Objectives of the Study

- Analyses the loans that the bank has given to customers.
- To group different types of loans together based on risk.
- Provide a bank credit management approach to elevate the profitability of the entire process.

ANALYSISAND INTERPRETATION

Calculation of Comparative Growth Rate of Types of Loans Available in the Co-Operative Bank

Formula Used:

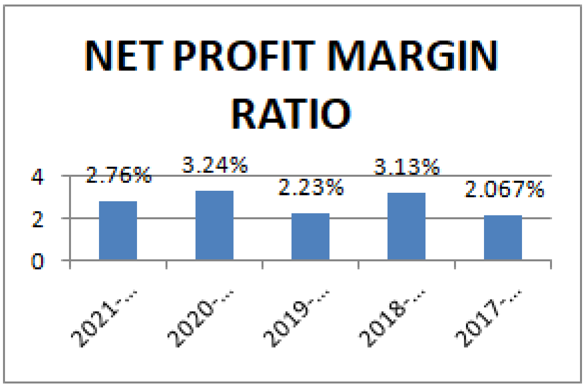
Current amount/total amount of the particular loan *100 It is observed that staff loan, Jewellery loan, Housing loan, Mortgage loan, overdraft loan has been increased during the years and the bank’s growth rate of these loan is increased compared to the other loans.

Ricketts and Sharma (2015): critically examined banking credit peril valuation tools. The study found that the models are generally effective in assessing credit risk, but they can be improved by incorporating more factors into the assessment process. Critically reviewed methods for assessing credit threat used in banking. They concluded that lenders should use a variability of models to evaluate credit risk, emphasizing the importance of using models that produce reliable results.

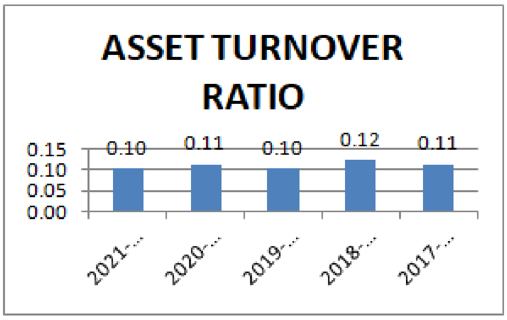
Goel and Kumar (2016): examined the credit appraisal system in a modern bank. The study found that the system is based on a number of factors, including the borrower's credit history, collateral, and income. The research also revealed that the system is designed to lessen the danger of lending money to borrowers who are unable to repay their loans

Deposit loans, surety loans, auto loans, and business loans have all dropped throughout the years, and the bank's growth a higher rate for these loans slowed down in comparison towards further loans

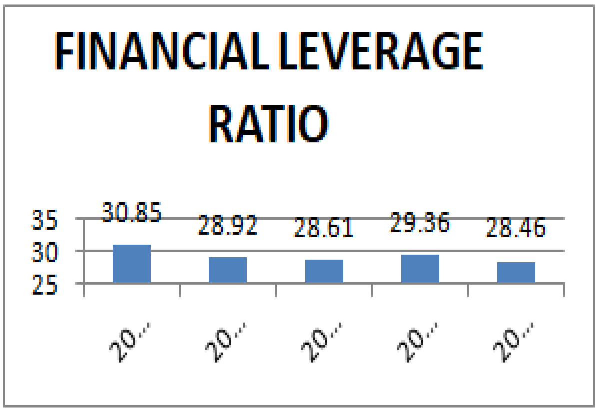
Dupont Analysis



The net profit margin ratio of Hanumanthanagar co-operative bank in 2018-2.067%, 2019-3.13%, 2020-2.23%, 2021-3.24%, 2022-2.76% here we can see one year increase &the net profit margin declining increase because of improved operational efficiency, diversification of revenue stream, lower loans provisions and reason for decrease is increased operating expenses, decline in interest income, economic downturn in the market.



The asset turnover ratio of Hanumanthanagar co-operative bank in 2022- 0.10%, 2021-0.11%, 2020-0.10%, 2019-0.12%, 2018-0.11%, Here, we can see that the asset turnover ratio will somewhat decline in 2020 and 2022 as a result of a rise in non-performing loans, a fall in loan demand, adjustments to the bank's business plan, and market and economic conditions.



The financial leverage ratio of Hanumanthanagar co-operative bank in 2022-30.85%, 2021-28.92%, 2020-28.61%, 2019-29.36%, 2018- 28.46%, here we can see the increase of financial leverage in the period 2022 comparing to previous years due to increase in debt, decrease in equity, change in accounting policies in the market.

NPA STATEMENT ANALYSIS

Advances or loans that debtors have not returned for a predetermined amount of time are known as NPAs and are seen as being at danger of default.

Gross NPA ratio: This metric measures the overall quality of a bank's loan portfolio by comparing gross non-performing assets (NPAs) to total gross advances. A higher correlation indicates that there are often more riskier assets.

Net NPA ratio: The net NPA ratio provides a more accurate depiction of the bank's asset quality after taking a reserve for potential loan losses into account.
It is computed as the relation of net NPAs (gross NPAs minus provisions) to net advances.

HYPOTHESES

A hypothesis is a well-informed assumption based on data. It serves to make predictions about the connection among two or more variables.

H0: “It means to assume there is no link between Net profit and Gross NPA”

H1:“It indicates that have a substantial relationship between Net profit and NPA”
Correlation

$$r = \frac{n(\sum xy)-(\sum x)(\sum y)}{\sqrt{[n\sum x^2-(\sum x)^2][n\sum y^2-(\sum y)^2]}}$$

Computed r value using the below formula is -0.2408.From the above analysis clearly, there is a connection between the NPA and net profit of HNRCB is -0.2408 which is NEGATIVE.

Correlation co-efficient R-value was calculated as -0.2408.The correlation between NET INCOME and GROSS NON-PERFORMING ASSET is thus clearly NEGATIVE.

A weakly a poor correlation exists between the 2 variables is indicated by a correlation score of -0.2408. When two variables have a negative correlation, it means that if one grows, the other tends to decrease and vice versa.

FINDINGS

- It is observed that bank provides 9 types of loan facility in Hanumanthanagar co-operative bank.
- Overall, It is observed that DUPONT ANALYSIS of all 5years from 2017-18 to 2021-2022 we can see increase in one year and decrease in one year and slightly decrease in 2022 may experience a decline in ROE if they face operational challenges or economic downturns, higher amounts of debt, more rivalry in the market or even a change in government policies.
- It is observed that Gross Non-Performing Assets (GNPA) % to Gross Advances may fluctuate every year due to economic conditions, changes in lending policies, and borrower defaults.
- It is observed that Net Non-Performing Assets (NNPA) % to Net Advances may fluctuate every year due to several factors, such as loan repayment performance, changes in lending policies, and economic conditions.
- Overall, it is observed that in CORRELATION ANALYSIS we are able to observe a connection between the NPA and net profit of HNRCB Is (-0.2408) which is highly negative.

SUGGESTIONS

- Before granting a loan, the bank must ascertain the customer's creditworthiness to avoid having to repay the loan.
- The borrower must be informed of the loan and loan collection procedures at the period of the loan. The borrower must also be aware that they must repay the borrowed money.
- Banks should focus on providing their current customers with services that go beyond traditional banking services.
- To keep track of the loan payments, there must be on-going communication with the customers.

- They should introduce new, creative ways to recover NPAs and should encourage customers to make on time payments.
- Regular updates must be made to the credit ratings of the business or its clients.

CONCLUSION

In conclusion, the project on credit evaluation methods to assess the risks associated with loans. The long term financial performance and growth of a bank are heavily influenced by loans. Banks should prioritize reducing the risks associated with loans. The lower the risk, the more profitable the bank will be. The danger level increases. The bank's profits decline.

For the purpose of managing financial risk involved with loans and loans, banks must employ primarily quantitative techniques like the ALTMAN-Z SCORE test. Assess the risks of making wise decisions first, and then identify the dangers**.** Banks use credit rating systems to assess the chance of lending money to businesses or individuals. The rate of interest is then adjusted based on the borrower's rating. Banks place a high value on credit risk assessment. They collect information from a variety of bank borrowers. The bank's main valuation variable is used as the predictor variable in this situation. It is difficult to make a definitive judgment. There are several approaches for anticipating defaults, because each strategy has unique benefits and drawbacks.

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