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A Study on Credit Management & Recovery in Private Sector Banks

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ABSTRACT: Credit management means providing the loan to the worthy people who need loan for their financial situation. The important duty of the banker is to provide the debt to the needy and recover back the money at the particular time. The purpose of providing credit is to earn income in form of interest. Collecting the interest is income for the banks. The study credit management & recovery talks about the practices that banks follow to measure their return on their loans provided to customers, formulas are used to measure their income and financial performance. In this study ratios play an important role to measure financial performance & credit analysis. 5 years balance sheet profit or loss statement, income statement is used as data for this study. Formulas & balance sheet are used to analyse the credit risk of the customers and earning capacity of the bank. Results of the study shows the effectiveness of the credit practices followed in Canara bank.

KEYWORDS: Interest, Banks, Loans

I. INTRODUCTION

Credit risk is the oldest form of risk that is faced by the bankers across the globe. It is the risk of default on loans. Credit risk is the biggest risk the bank face by the virtue of nature of business, inherits. If credit can be defined as "nothing but the expectation of a sum of money within some limited time" then credit risk is the possibility that this expectation will not be fulfilled. Credit risk is old as lending. Banks are financial institutions which play a role of financial intermediation between people in excess of funds and those in need of finances. This role is essentially performed by accepting different types of deposits, e.g., money at call, fixed deposits, saving, etc. for further lending to the numerous customers by way of loan and advances.

In recent decades credit risk has become pervasive. Companies borrow to make acquisitions and to grow, small business borrow to expand their capacity and individuals use credit for other purpose. It is only after determining the risk represented by each individual borrower and by each individual credit service that one can begin to manage the loan portfolio as a whole.

II. NEED FOR THE STUDY

1. Effective credit management helps to ensure the flow of cash, monitoring the bad debts are properly collected and reduce the risk of late payments.
2. By assessing the credit worthiness of the borrowers, bank can reduce the risk of lending the money to the high-risk borrowers.
3. By knowing the accurate information of the credit worthiness of the customers bank can take better decision on lending the money to the borrowers.

III. OBJECTIVES OF THE STUDY

1. To study the credit management practices of bank.
2. To study the recovery management procedures of banks
3. To study the profitability and financial performance of banks

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IV. SCOPE OF THE STUDY

1. By developing the credit policy, the bank can frame the terms and conditions to credit limit to the customers.
2. By analysing the credit worthiness of the customer, the bank can determine the level of credit risk.
3. Credit analysis help to detect the fraudulent activity of the customers.

V. REVIEW OF LITERATURE

Rwibasira Rodrigue and Rurangwa Aime (2022), This study examines the effect of credit management on the financial performance of commercial banks in Rwanda. The authors find that credit risk management, credit appraisal, and credit recovery significantly impact the financial performance of commercial banks.

Eric Kofi Boadi, Mavis Adwoa Amo-Mensah, and Stephen Fianu (2021), This study investigates the relationship between credit risk management and profitability of commercial banks in Ghana. The authors find that effective credit risk management significantly improves the profitability of commercial banks.

Muturi W. Wachira, Samuel K. Mbugua, and Paul K. Kamau (2020),This study identifies the factors that influence credit recovery performance in Kenyan commercial banks. The authors find that effective credit appraisal, monitoring, and recovery strategies significantly impact credit recovery performance.

VI. RESEARCH METHODOLOGY

RESEARCH DESIGN

A quantitative research design is appropriate for this study, as it allows the researcher to analyse the numerical data and make statistical inferences. This research is based on descriptive research design which identifies the financial performance of the firm based on ratios.

DESCRIPTIVE RESEARCH DESIGN

Descriptive research design refers to a type of research methodology that aims to describe or depict a situation or phenomenon. This type of research is primarily concerned with providing a detailed account of a particular situation or a group. Descriptive research design is often used in the field of sociology, psychology, marketing and education, where researcher seek to understand the characteristics of a population, group, or phenomenon.

RATIO ANALYSIS

Ratio analysis involves calculating various financial ratios from a company's financial statements, which are then used to evaluate the company's financial health. Common ratios used for financial performance analysis include profitability ratios.

CREDIT APPROVING AUTHORITY

Banks can create a multi-tier credit approving system where officers review the loan before sanctioning it. It can help reduce the chances of any new credit risk. To maximize this benefit, banks can create a grid of officers, and they can operate on multiple levels of the organization i.e., regional offices, zonal offices, head offices, etc.

Additionally, the grid/committee could oversee the sanction of high-value loans by carefully assessing borrower creditworthiness. To ensure the best quality of credit decisions, banks must review them periodically.

Banks can also use new-age Lending CRMs like Lead Squared to conduct pre-screening checks and analyse credit profiles while onboarding prospective borrowers. Not only will this accelerate the screening process but will also maintain borrower credibility.

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VII. DATA ANALYSIS AND INTERPRETATION

Gross profit margin = sales revenue - cost of goods service.

Particulars	**Mar-23**	**Mar-22**	**Mar-21**	**Mar-20**	**Mar-19**
Interest Income	61,356.58	49,862.11	50,405.00	36,075.88	34,319.28
Interest Expense	52,989.49	43,026.26	45,177.62	35,811.08	32,332.22
GP Margin	**8,367.09**	**6,835.85**	**5,227.38**	**264.80**	**1,987.06**
Margin %	13.64%	13.71%	10.37%	0.73%	5.79%

INTERPRETATION

From the above table, the gross profit ratio for the year (2019 is 5.79%) indicating an increasing model, current ratio drops to (0.73% at 2020), and started to increase at (2021-10.37%) on the year (2022-13.71%) gradually increases, and slightly fall at (2023-13.64%).

EBITDA= earnings before interest & tax= depreciation=amortization)/ total revenue.

	Mar-23	**Mar-22**	**Mar-21**	**Mar-20**	**Mar-19**
EBIT	80,705.50	66,115.23	65,186.90	45,170.91	42,923.09
Depreciation	992.96	815.58	820.17	432.16	416.84
	81,698.46	66,930.81	66,007.07	45,603.07	43,339.93
Total Revenue	1,03,186.98	85,907.14	84,525.08	56,748.14	53,385.30
EBITDA Margin	**79.18%**	**77.91%**	**78.09%**	**80.36%**	**81.18%**

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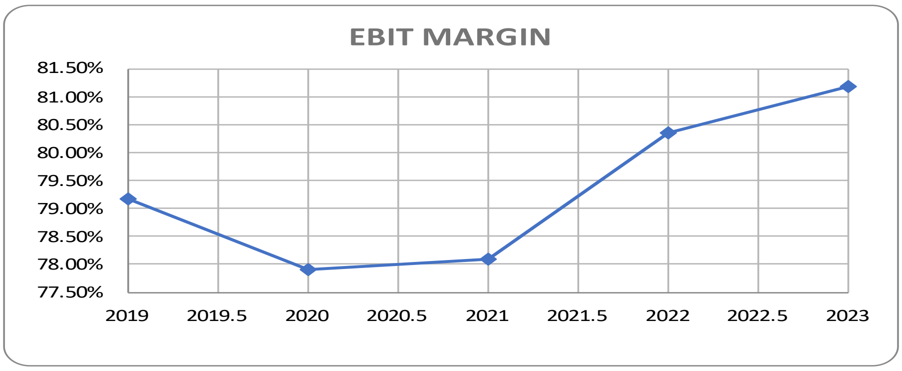


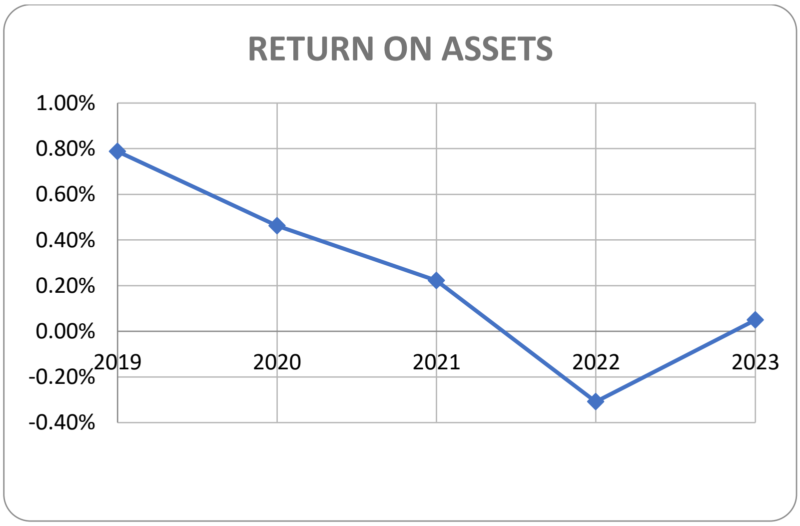
INTERPRETATION

From the above table EBITDA ratio for year 2019 is81.18% and on year 2020 the EBITDA ratio is 80.36% a slight drop in the EBITDA and it constantly decreasing in year 2021 is 78.09% and it decreased to 77.91% in 2022, EBITDA started to raise in 2023-79.18%

VIII. RETURN ON ASSETS

Return on assets=net income/ average assets.

	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
Net Income	10,603.76	5,678.41	2,557.58	-2,235.72	347.02
Total Assets	13,45,732.25	12,26,979.67	11,53,675.03	7,23,874.75	6,94,766.69
	0.79%	**0.46%**	**0.22%**	**-0.31%**	**0.05%**



INTERPRETATION

From the above table return on assets value is 0.05%in 2019, and it decreased to -0.31% in 2020, on 2021 return on assets value is increased as 0.22% and it is constantly increased to 0.46% on 2022, on year 2023 the return on assets value is 0.79%.

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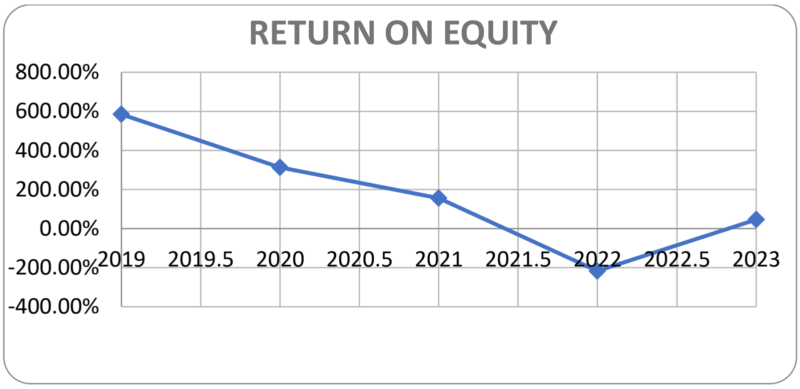
IX. RETURN ON EQUITY

Return on equity=net income/ shareholders' equity

	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
Net Income	10603.76	5678.41	2557.58	-2235.72	347.02
Shareholder's Equity	1,814.13	1,814.13	1,646.74	1,030.23	753.24
	584.51%	**313.01%**	**155.31%**	**-217.01%**	**46.07%**



INTERPRETATION

From the above table return on equity value in 2019 is 46.07% and it has decreased from 217.01% in 2020 on year 2021 return on equity value is increased in 155.31%, and it has increased in year 2022 313.01%, on 2023 return on equity value is 584.51%

X. FINDINGS

1. 0.79%: This implies that the company's net income represents 0.79% of its total assets. It indicates a relatively low profitability in relation to the size of its asset base.
2. 0.46%: Similar to the previous percentage, this suggests that the company's net income represents 0.46% of its total assets. It is slightly lower than the first percentage, indicating a slightly lower level of profitability.
3. 0.22%: This implies that the company's net income represents only 0.22% of its total assets. It indicates a relatively lower profitability in relation to the size of its asset base.
4. 79.18%: This implies that 79.18% of the company's net sales are retained as EBITDA after deducting operating expenses, excluding interest, taxes, depreciation, and amortization. It indicates a high level of profitability and efficiency in generating operating income.
5. 77.91%: Similar to the first margin, this suggests that 77.91% of the net sales contribute to EBITDA. It is slightly lower than the previous margin, but still indicates a strong profitability and efficiency in generating operating income.

XI. SUGGESTIONS

1. Improve gross profit ratio: Since the gross profit ratio has been increasing, it indicates that the company's profitability from its core operations is improving. However, it is important to continue monitoring and optimizing the cost of goods sold to ensure sustainable growth.
2. Address the drop in current ratio: The drop in the current ratio in 2020 indicates a potential liquidity issue. It is essential to closely manage the company's working capital, including inventory, accounts receivable, and accounts

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payable. Explore strategies to improve cash flow, such as negotiating favourable credit terms with suppliers or optimizing inventory levels.
3. Focus on EBITDA and operating profit: Although there have been slight fluctuations in EBITDA and operating profit ratios, it is crucial to strive for consistent improvement. Analyse the factors contributing to these changes and implement measures to enhance operational efficiency, control costs, and increase revenue.
4. Enhance return on assets (ROA) and return on equity (ROE): The positive trend in ROA and ROE indicates that the company is effectively utilizing its assets and generating returns for shareholders. Continue focusing on strategies that increase profitability, optimize asset utilization, and reduce financial risks.
5. Manage debt levels: The increasing debt-to-assets and debt-to-equity ratios suggest a higher reliance on debt financing. It is important to carefully manage the debt structure and ensure that the company's debt obligations remain manageable. Explore opportunities to refinance debt at lower interest rates or consider equity financing options to reduce the debt burden.

XII. CONCLUSION

In conclusion, credit management and recovery are crucial aspects of the banking industry. Effective credit management practices help banks mitigate risks, maintain a healthy loan portfolio, and ensure the overall stability of their operations. By implementing robust credit assessment and monitoring procedures, banks can minimize the likelihood of default and non-performing loans.

In the event of delinquencies or defaults, banks need to have efficient recovery mechanisms in place. Timely and proactive debt recovery strategies are essential for maximizing the chances of retrieving outstanding loans and minimizing losses. These strategies may involve negotiation, restructuring, or legal actions, depending on the specific circumstances.

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