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CREDIT, TOOL TO ASSESS INDUSTRIES – CREDIT APPRAISAL SYSTEM

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Abstract

The Credit Appraisal is designed to understand the entire lending process in the bank and provide credit portfolio managers with tools and assist them in decision. Financial institutions offer different ways of credit facilities to the borrowers. To borrow the credit, many procedures and guidelines controls are laid. Credit appraisal, sanctions, Monitoring and Asset Recovery Management comprise the entire gamut of activities in lending process

Keywords: *Credit, Credit Appraisal and Industries.*

INTRODUCTION

Business occupied a predominant role in the Indian economy, is growing at a faster rate thanks to liberalisation, globalisation and privatisation. Every entrepreneur is competing with each other in order to acquire the maximum market share. In the process of competition, when every competitive weapon gets exhausted, they use credit facilities as a means to boost up the business. The entrepreneurs, thus, needs more finance to meet their various needs. Economic development is the development of economic wealth of countries or regions for the well-being of their inhabitants. From a policy perspective, economic development can be defined as efforts that seek to improve the economic well-being and quality of life for a community by creating or retaining jobs and supporting else growing incomes and the tax base.

IMPORTANCE OF THE STUDY

- To discover the difference in the perception and approach of the bank while sanctioning loan to the corporate sector in general and industries.
- It is carried out to know what the industries on one side and how those needs are met by the financial institutions and the commercial banks on the other side.

OBJECTIVES OF THE STUDY

- To examine the credit appraisal system adopted in commercial banks.
- To analyse the credit appraisal system of Vijaya Bank to industries.
- To analyse and review the financing pattern of Vijaya Bank to industries.

LIMITATIONS OF THE STUDY

- The commercial banks in general and Vijaya Bank in particular. Hence, this does not have any impact on the overall performance of commercial banks and Vijaya Bank.
- The geographical area of the study is restricted to Karnataka. Hence, the study does not reveal the overall credit appraisal technique of all the states.

SCOPE OF THE STUDY

- The outcome of the study is based on the sample survey conducted. Since the sample size is too small compared to the population size, the outcome cannot be generalised.

RESEARCH GAP

Credit: A loan made either directly or indirectly. Thus, credit may be extended by a creditors to the debtors either through the transfer of cash with the promise of future repayment, or through the sale of goods to be paid for later in an agreed manner. The creditor may require interest payment over the period of loan. The widespread use of credit facilities has provided another revenue for the transfer of purchasing power from savers to investors and customers.

Credit Appraisal: Means a valuation of loan given to industries and assessment of loans whether the loan given to industries is sufficient or not.

Research Methodology: Descriptive research.

Appraisal Tools

- Sensitivity analysis and projections for working capital and term loans.
- Comparison of previous CMAs, industry and peer group comparisons, linkage to financial database of service providers such as CRISIL, CMIE and C-Online.
- Credit risk rating incorporation.
- Term loans – Interest workouts, moratoriums, repayment schedules, sensitivity computation of MPBF and facility-wise maximum limits.
- Proposal preparation.

Appraisal Methodology

- CMA based: Credit Monitoring Arrangement
- Cash Budgeting
- Turnover Method
- Term Loans
- Non Banking Financial Companies
- Infrastructure handling

Sources of Data: Primary data through questionnaire and survey method. Secondary data with help of websites, journals, bank bulletin, magazines and annual reports of RBI and Vijaya Bank.

Sampling Methodology: Survey method with the help of structured questionnaire, having bank account to procure loan to run industries of any scale as mentioned in the research.

Sampling Size: 100 industries of various nature of business.

Sample Unit: Sample respondents are drawn from the selected bank in the research who are running industries may be of tiny, small, medium or large scale.

Sampling Area: Randomly selected respondents are industries having bank account in the selected bank having loan in Karnataka State.

Method of Analysing the Data

Factors you consider while selecting your banker:

Factors	No. of Respondents	Percentage
Branch net work	8	8%
Location proximity	36	36%
Credit facility	56	56%
Total	100	100%

The analysis of the study of above table explains that majority of the industries in Karnataka and considers credit facilities as a main criteria for opening the bank account. 56 respondents out of the 100 sample size consider that the credit facility is the main factor.

When respondents were asked about their association with financial credit facilities with the bankers, their answer was having 100% tie-up with finance companies to run the industries.

Followed with the question on their satisfaction with the credit services of their bankers and the response was 61% said yes, they are happy and rest 39% express not happy.

Nature of Credit Facilities

Credit Facilities	Number of Respondents	Percentage
Overdraft	83	83%
Cash Credit	01	01%
Bank Guarantee	14	14%
Hypothecation	02	02%
Total	**100**	**100%**

The furnished information states that among the various types of credit facilities offered by the bank, most of the respondents that is industries which are selected in the research study have availed overdraft facilities in Karnataka. This is followed by the bank guarantee. This shows that overdraft is the common nature of credit availed by all then industries.

79% of the respondents are of the view that the banker takes more than 60 days to process a loan application. However, only few respondents around 21 per cent of the sample size states that the time taken is less than 60 days. From this, it is clear that the banker takes more time to process the loan application in Karnataka. Practically speaking, this a longer duration for any industries to resist.

FINDINGS

- Large- and medium-scale industries enjoy traditional credit facilities as well as modern credit facilities whereas small and cottage industries could not enjoy the modern credit facilities due to its limited operations, lack of economies of scale, lack of wide market, limited skills, technology and technical know-how.

- It is found that many of the industries have tie-ups either with the commercial banks or financial institutions to borrow funds whenever needed for them.
- The terms and conditions for loan sanctioning are very lengthy.

SUGGESTIONS

- Customers are happy and satisfied with credit appraisal procedure followed by the bank. Therefore, bank maintains and tries to improve the facilities to attract more customers.
- To face the challenges of existing trend, bank may offer credit facilities at less rate of interest. This will not only help in retaining the existing customers, but also attracts the new customers.

CONCLUSION

The last two decades have been rocked by periodic financial crises. These bouts of financial instability within individual countries and across countries have compelled policymakers to pay attention to the problem of predicting, preventing and managing financial crises. As part of the crisis prevention initiatives, the Financial Stability Forum was set up in 1999, which has since become a nodal agency for setting up standards and codes. Detailed standards and codes for 12 core areas have been developed and are being continuously supplemented by the respective standard-setting bodies. As the Indian banking industry continues its rapid growth along with rise in financial services penetration in the Indian economy, the industry's profit is likely to simultaneously surge ahead. According to a report by Boston Consultancy Group, the profit pool of the Indian banking industry is estimated to increase from 4.8 billion in 2005 to 20 billion in 2010 and further to 40 billion by 2015.

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