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STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESES

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

CONCLUSIONS

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APPENDIX/ANNEXURE

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CREDIT ANALYSIS IN INDIAN BANKS: AN EMPIRICAL STUDY

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ABSTRACT

The banks not only accept the deposits of the people but also provide them credit facility for their development. Indian banking sector has contributed immensely in developing the business and service sectors. Commonly banks are facing the problem of credit risk in an acute manner around the world. It is found that many general people and business people borrow due to some genuine or non genuine reasons are not able to repay in time the amount owed to the banks. The amount not returned/ repaid to the banks is known as bad debts or the non performing assets. In present study we have analyzed the positive impact of effective analysis of income & repayment history of applicants in accessing credit worthiness of applicant borrower. This analysis is done through questionnaires and that is tested with the help of statistical tool F test.

KEYWORDS

finance, credit analysis, banks.

INTRODUCTION

The Indian banking sector came into the developing nature mostly after the 1991 government policy. The banking sector has really helped the Indian people to utilize the single money in the best manner as they want. People now have started investing their money in the banks and banks also provide good returns on the deposited amount. The people now have at the most understood that banks provide them good security to their deposits and so excess amounts are invested in the banks. Thus, banks have helped the people to achieve their socio economic objectives.

The banks not only accept the deposits of the people but also provide them credit facility for their development. Indian banking sector has contributed immensely in developing the business and service sectors. Commonly banks are facing the problem of credit risk in an acute manner around the world. It is found that many general people and business people borrow due to some genuine or non genuine reasons are not able to repay in time the amount owed to the banks. The amount not returned/ repaid to the banks is known as bad debts or the non performing assets. Lending which was the primary function of banking has gained lot of importance as it determines the profitability of the bank. A bank can lend successfully only when a borrower's credit worthiness is accurately assessed. This method of analysis required varies from borrower to borrower. It also varies in function of the type of lending being considered. The lending can differ in the way credit given to retail customers or corporate customers, secured or unsecured, long term or short term etc.

For financing a project, bank would look at the funds generated by the future cash flows to repay the loan, for asset secured lending, bank would look at the assets and for an overdraft facility, it would look at the way the account has been run over the past few years.

When, borrowers are applied for loan from bank. The banker passes the loan on the basis of his credit analysis (credibility and capacity to repay). The capacity to repay loaned amount and interest is highly depend on future cash inflow i.e. future income. A borrower became defaulter due to two reasons: shown income to bank is not realistic and lower cash flow than expected. So, the banker can reduce rate of defaulter by scientifically analysis the expected cash inflow of applicant borrowers.

In this paper we found the impact of two independent variables i.e. income & repayment history of borrower and one dependent variable i.e. effectiveness of credit analysis. We collected primary data by survey through structured and non-disguise questionnaire from the employees of four banks.

FORMATION OF HYPOTHESIS

In order to investigate the effect of Future Income of applicant and repayment history of applicant on determine creditworthiness of applicant by credit analysis; which factor have strong effect on creditworthiness of applicant? Also the set of related hypothesis have been formulated to link these factors on creditworthiness in credit analysis.

HYPOTHESIS 1

$H_0 =$ Income of the applicants is a significance factor for credit analysis.

$H_a =$ Income of the applicants is a not significance factor for credit analysis.

HYPOTHESIS 2

$H_0 =$ Repayment history of the applicants is a significance factor for credit analysis.

$H_a =$ Repayment history of the applicants is a not significance factor for credit analysis.

RESEARCH DESIGN

The research design tells about the mode with which the entire project is prepared. My research design is as follows:

Research Type	Descriptive Research
Data Type	Primary data
Sampling Units	Bank Employees
Target Population	Bank Employees in India
Sample Size	40
Sampling Method	Convenient Sampling
Research Tools	Questionnaire
Data Presentation	Pie & Bar Diagrams
Statistical Test	Correlation with 95% degree of confidence

DATA COLLECTION

The data is collected primary sources by using multiple choice questionnaires. It consisted questions that cover bank employee's (credit/ loan department) views about credit analysis of applicant borrowers. Sample unit of survey is Bank Employees (Credit / Loan Department) of SBI, PNB, HDFC, ICICI. Size of the sample is 40 bank employees Method of sampling is convenient sampling.

HYPOTHESIS TESTING**Hypothesis 1**

H_0 = Income of the applicants is a significance factor for credit analysis.

H_a = Income of the applicants is a not significance factor for credit analysis.

TABLE-1 CALCULATION OF GRAND MEAN

	SBI	PNB	HDFC	ICICI
S. No.	X_1	X_2	X_3	X_4
1	4	5	5	5
2	5	5	5	5
3	5	5	4	5
4	5	5	5	5
5	5	5	5	5
6	3	5	5	5
7	5	5	5	5
8	5	5	5	3
9	4	5	4	5
10	4	5	5	4
Total	45	50	48	47
Mean	4.5	5	4.8	4.7

$$\text{Grand Mean} = (4.5+5+4.8+4.7)/4 = 4.75$$

TABLE-2 CALCULATION OF VARIANCE BETWEEN SAMPLES

S. No	SBI (M-GM) ²	PNB (M-GM) ²	HDFC (M-GM) ²	ICICI (M-GM) ²
1	0.0625	0.0625	0.0025	0.0025
2	0.0625	0.0625	0.0025	0.0025
3	0.0625	0.0625	0.0025	0.0025
4	0.0625	0.0625	0.0025	0.0025
5	0.0625	0.0625	0.0025	0.0025
6	0.0625	0.0625	0.0025	0.0025
7	0.0625	0.0625	0.0025	0.0025
8	0.0625	0.0625	0.0025	0.0025
9	0.0625	0.0625	0.0025	0.0025
10	0.0625	0.0625	0.0025	0.0025
Total	1.25	1.25	0.05	0.05

$$\text{Sum of square} = 1.25 + 1.25 + 0.05 + 0.05 = 1.3$$

$$\text{Degree of Freedom} = 4-1 = 3$$

$$\text{Means of Squares} = \text{Sum of square} / \text{Degree of freedom} = 1.3 / 3 = 0.43333$$

TABLE-3 CALCULATION OF VARIANCE WITHIN THE SAMPLE

	SBI		PNB		HDFC		ICICI	
S. No	$X_1 - M$	$(X_1 - M)^2$	$X_2 - M$	$(X_2 - M)^2$	$X_3 - M$	$(X_3 - M)^2$	$X_4 - M$	$(X_4 - M)^2$
1	-0.5	0.25	0	0	0.2	0.04	0.3	0.09
2	0.5	0.25	0	0	0.2	0.04	0.3	0.09
3	0.5	0.25	0	0	-0.8	0.64	0.3	0.09
4	0.5	0.25	0	0	0.2	0.04	0.3	0.09
5	0.5	0.25	0	0	0.2	0.04	0.3	0.09
6	-1.5	2.25	0	0	0.2	0.04	0.3	0.09
7	0.5	0.25	0	0	0.2	0.04	0.3	0.09
8	0.5	0.25	0	0	0.2	0.04	-1.7	2.89
9	-0.5	0.25	0	0	-0.8	0.64	0.3	0.09
10	-0.5	0.25	0	0	0.2	0.04	-0.7	0.49
Total	4.5		0		1.6		4.1	

$$\text{Sum of square within sample} = 4.5 + 0 + 1.6 + 4.1 = 10.2$$

$$\text{Degree of freedom} = N - \text{No. of sample} = 40-4 = 36$$

$$\text{Mean of sum of square within sample} = 10.2 / 36 = 0.28333$$

All the above results can be tabulated as follows in Table-4

Source of Variation	Sum of square	Degree of freedom	Mean of square
Between Sample	1.3	3	0.43333333
Within Sample	10.2	36	0.28333333

Analysis of Variance (H_1)

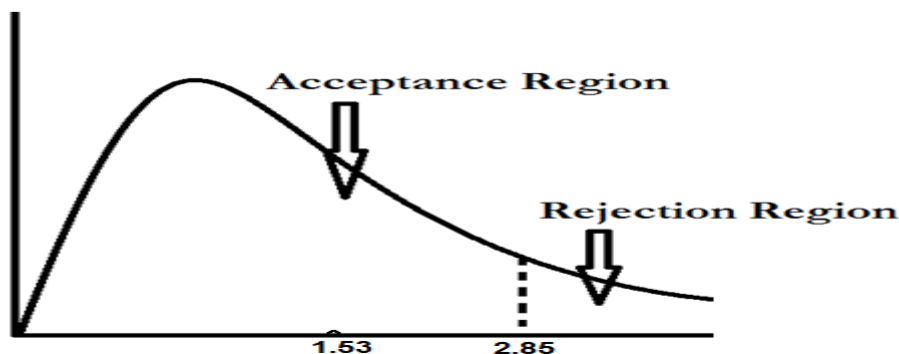
$$F = \text{Variance between Samples} / \text{Variance within Samples}$$

$$= 0.43333 / 0.28333$$

$$= 1.529412$$

Critical Value of F for $V_1 = 3$ and $V_2 = 36$ at 5% level of significance = 2.85

FIGURE: 1 ACCEPTANCE & REJECTION REGION OF HYPOTHESIS 1



The Calculated F is lies under acceptance region. Hence Null Hypothesis is accepted.

Hypothesis 2: Repayment History

Hypothesis 2

H_0 = Repayment history of the applicants is a significance factor for credit analysis.

H_a = Repayment history of the applicants is a not significance factor for credit analysis.

TABLE-5 CALCULATION OF GRAND MEAN

	SBI	PNB	HDFC	ICICI
S. No.	X_1	X_2	X_3	X_4
1	5	5	5	5
2	5	5	5	5
3	5	5	5	5
4	4	5	5	5
5	5	5	4	5
6	3	5	4	4
7	5	4	4	4
8	4	4	5	4
9	5	4	5	5
10	5	3	5	5
Total	46	45	47	47
Mean	4.6	4.5	4.7	4.7

$$\text{Grand Mean} = (4.6 + 4.5 + 4.7 + 4.7) / 4$$

$$= 4.625$$

TABLE-6 CALCULATION OF VARIANCE BETWEEN SAMPLES

S. No	SBI (M-GM) ²	PNB (M-GM) ²	HDFC (M-GM) ²	ICICI (M-GM) ²
1	0.000625	0.015625	0.005625	0.005625
2	0.000625	0.015625	0.005625	0.005625
3	0.000625	0.015625	0.005625	0.005625
4	0.000625	0.015625	0.005625	0.005625
5	0.000625	0.015625	0.005625	0.005625
6	0.000625	0.015625	0.005625	0.005625
7	0.000625	0.015625	0.005625	0.005625
8	0.000625	0.015625	0.005625	0.005625
9	0.000625	0.015625	0.005625	0.005625
10	0.000625	0.015625	0.005625	0.005625
Total	0.00625	0.15625	0.05625	0.05625

$$\text{Sum of square} = 0.00625 + 0.15625 + 0.05625 + 0.05625$$

$$= 0.275$$

$$\text{Degree of Freedom} = 4-1$$

$$= 3$$

$$\text{Means of Squares} = \text{Sum of square} / \text{Degree of freedom}$$

$$= 0.275 / 3$$

$$= 0.0916671$$

TABLE-7 CALCULATION OF VARIANCE WITHIN THE SAMPLE

	SBI		PNB		HDFC		ICICI	
S. No	$X_1 - M$	$(X_1 - M)^2$	$X_2 - M$	$(X_2 - M)^2$	$X_3 - M$	$(X_3 - M)^2$	$X_4 - M$	$(X_4 - M)^2$
1	0.4	0.16	0.5	0.25	0.3	0.09	0.3	0.09
2	0.4	0.16	0.5	0.25	0.3	0.09	0.3	0.09
3	0.4	0.16	0.5	0.25	0.3	0.09	0.3	0.09
4	-0.6	0.36	0.5	0.25	0.3	0.09	0.3	0.09
5	0.4	0.16	0.5	0.25	-0.7	0.49	0.3	0.09
6	-1.6	2.56	0.5	0.25	-0.7	0.49	-0.7	0.49
7	0.4	0.16	-0.5	0.25	-0.7	0.49	-0.7	0.49
8	-0.6	0.36	-0.5	0.25	0.3	0.09	-0.7	0.49
9	0.4	0.16	-0.5	0.25	0.3	0.09	0.3	0.09
10	0.4	0.16	-1.5	2.25	0.3	0.09	0.3	0.09
Total		4.4		4.5		2.1		2.1

Sum of square within sample = 4.4 + 4.5 + 2.1 + 2.1

= 13.1

Degree of freedom = N – No. of sample

= 40-4

= 36

Mean of sum of square within sample = 13.1/ 36

= 0.363889

All the above results can be tabulated as follows:

TABLE 8: ANALYSIS OF VARIANCE (H)

Source of Variation	Sum of square	Degree of freedom	Mean of square
Between Sample	0.275	3	0.09166667
Within Sample	13.1	36	0.36388889

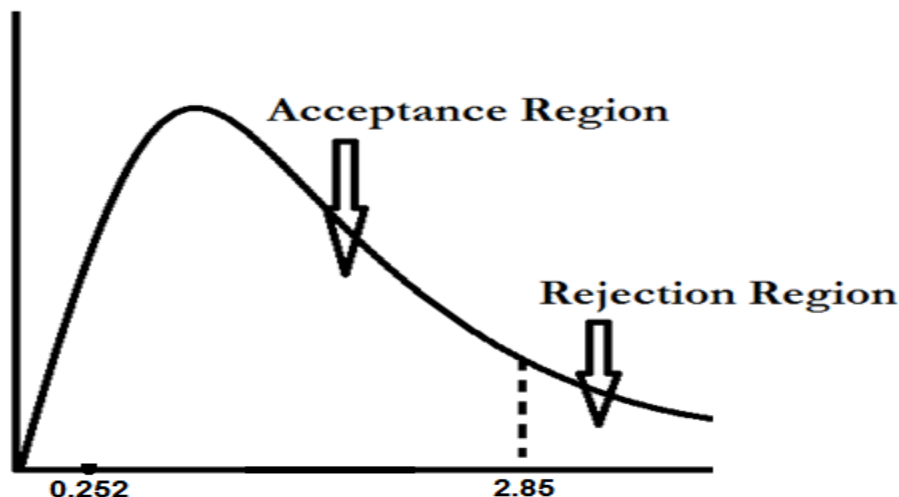
F = Variance between Samples / Variance within Samples

= 0.091667 / 0.363889

= 0.251908

Critical Value of F for $V_1 = 3$ and $V_2 = 36$ at 5% level of significance = 2.85

FIGURE 2: ACCEPTANCE & REJECTION REGION OF HYPOTHESIS 2



The Calculated F lies under acceptance region. Hence Null Hypothesis is accepted.

FINDINGS AND CONCLUSIONS

Conclusion and Finding of this analysis is that the repayment history of the applicants a significance factor for credit analysis. As result, we find out that there is positive impact of effective analysis of income & repayment history of applicant with effectiveness of credit analysis or effectiveness in accessing credit worthiness of applicant borrower. Status of previous credit record is a major concern to assess credit worthiness of borrower.

If anyone repays his all previous loan installments in time; then he will considered as credit worthy and vise-versa. So we can conclude that credit Analysis is positively correlated with effectiveness of analysis of expected future income and repayment history of applicant borrower.

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ANNEXURE**QUESTIONNAIRE**

I am conducting a survey on the **Credit Analysis in Banks**. You are requested to fill out the questionnaire. Information collected in this survey will be kept confidential and being used for research purpose only.

Name :
 Bank Name :
 Department :
 Designation :

Section A: Applicant Credit Analysis: Issues and implications.

(Please tick the appropriate answer.)

- | | | |
|---|-----|----|
| 1. Does your bank have a customer credit policy? | Yes | No |
| 2. Is the policy different for corporate and personal credit? | Yes | No |
| 3. Does the policy define hierarchy and authority? | Yes | No |
| 4. Does the banking culture determine the rate and means by which credit policy alters? | Yes | No |
| 5. Are credit decision based on profitability profiles, rather than the risk profile? | Yes | No |
| 6. Do you price the credit according to the risk profile if the applicant? | Yes | No |
| 7. Do you think that adequate collateral/ guarantor minimize credit risk? | Yes | No |
| 8. Does your bank have risk management department? | Yes | No |
| 9. Have you been trained in area of risk management? | Yes | No |
| 10. Are the credit decisions based on future income of borrower applicant? | Yes | No |
| 11. Are the future income of applicant is verified from source? | Yes | No |
| 12. Are the credit decision based on repayment history of applicant? | Yes | No |

Section B: While assessing the applicant's application for loan, what weight does u give to following variables? (Please tick the appropriate answer.)

Variables	Very important	Important	Moderately important	Of little important	Unimportant
13. Employment status	5	4	3	2	1
14. Year of employment	5	4	3	2	1
15. Total Assets	5	4	3	2	1
16. Monthly Income	5	4	3	2	1
17. Monthly Expenditure	5	4	3	2	1
18. Repayment history	5	4	3	2	1
19. Status of pervious credit	5	4	3	2	1

Section C: Rate the statement.

20. Effectiveness of credit analysis of credit applicant is depending on analysis of his/her future income and repayment history.

Strongly Agree	Agree	Indifferent	Disagree	Strongly Disagree
5	4	3	2	1

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With sincere regards

Thanking you profoundly

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Co-ordinator

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