

**A STUDY ON CREDIT APPRAISAL SYSTEM IN CANARA BANK WITH SPECIAL REFERENCE TO SME BRANCH.**

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**ABSTRACT**

Credit appraisal means investigation/assessment done by the bank before providing any loans and advances/project finance and also checks the commercial, financial & industrial viability of the project proposed its funding pattern and further checks the primary & to study the collateral security cover available for recovery of such funds. Credit appraisal system with respect to banking industry which means how the managers in banks appraise the corporate firms lending process and how the whole process carried forward like a system keeping certain aspects like risk, legal into concern.

The main objective of the study is to understand the credit appraisal of canara bank. And to check the commercial, financial & technical viability of the project proposed & its funding pattern. Review of literature mainly focused on the pattern and methods of credit appraisal system. The study was conducted in canara bank SME branch. The research design is analytical in nature. The method of the study is case study method. Tools used in this study are methods followed by this bank during the period of study. Findings are based on the case and suggestions are given and so on. According to this study we have found out that the appraisal system is differ from case to case based on the form of business.

**INTRODUCTION**

The root cause of the economic and financial crisis is credit default of companies and individuals which has badly affected many financial institutions which has been resulted in more NPAs. So in the present scenario analyzing one's credit worthiness has become very important for any financial institution before providing any form of credit facility so that such situation doesn't arise in near future again. Analysis of the credit worthiness of the borrowers is known as Credit Appraisal. In order to understand the credit appraisal system followed by the banks this project has been conducted. Credit appraisal is an important activity carried out by the credit department of the bank to determine whether to accept or reject the proposal for finance.

**OBJECTIVES**

- 1, To study the credit appraisal of canara bank
2. To check the commercial, financial & technical viability of the project proposed & its funding pattern.

**SCOPE OF THE STUDY**

The research methods have been designed to fit the main objectives. The main scope to this study is obtaining knowledge regarding credit accessibility in Canara Bank. The study covers the factors relating to the appraisal process. There is further scope for analyzing other factors relating to credit risk in the future.

**REVIEW OF LITERATURE**

It carries the risk. To determine the eligibility and quantum of the loan. Evaluating the credit worthiness of the applicant. It assures the repayment capacity of the borrower. Vignan Institute Of Technology And Management in the year of 2014, Credit Appraisal: Credit appraisal means investigation/assessment done by the bank before providing any loans . Credit appraisal system is not only looking for financial wealth. Other strong parameters also play an important role in analyzing credit worthiness of the firm/company. In all, the viability of the project from every aspect is analyzed, as well as type of business, industry,

promoters, past records, experience, projected data and estimates, goals, long term plans also plays crucial role in increasing chances of getting project approved for loan. Credit Appraisal should be based upon Conduct of account  $\propto$  Quality of management  $\propto$  Industry outlook Business performance  $\propto$  financial performance by Rishav sarkar in 2014.

According to Dinesh Bhai in 2012, Credit appraisal means investigation/assessment done by the bank before providing any loans and advances/project finance and also checks the commercial, financial & industrial viability of the project proposed its funding pattern and further checks the primary & to study the collateral security cover available for recovery of such funds. Credit appraisal system with respect to banking industry which means how the managers in banks appraise the corporate firms lending process and how the whole process carried forward like a system keeping certain aspects like risk, legal into concern. The scope lays in way a bank finances its potential borrowers which is tailor made at time to meet the client need and help with all the services the bank can deliver in order to meet its persons goals and objectives.

The research Paper on *“Evaluation of decision support systems for credit management decisions”* by S. Kanungo, S.Sharma, P.K. Jain from Department of studies, IIT Delhi have conducted a study to evaluate the efficiency of decision support system (DSS) for credit management. This study formed a larger initiative to access the effectiveness of the I.T based credit management process at SBI. become an integral sub-function of the Indian banks in view of growing incidence of non- performing assets. The DSS they have assessed was a credit appraisal system developed by Quattro pro at SBI. This system helps in analysis of balance sheets, Calculation of financial ratios, cash flow analysis, future projections, sensitivity analysis and risk evaluation as per SBI norms.

**Crouhy, Gala, Marick** have summarized the core principles of Enterprise wide Risk Management. As per the authors Risk Management culture should percolate from the Board Level to the lowest level employee. Firms will be required to make significant investment necessary to comply with the latest best practices in the new generation of Risk Regulation and Management. Corporate Governance regulation with the advent of Sarbanes-Oxley Act in US and several other legislations in various countries also provide the framework for sound Risk Management structures. Hitherto, Enterprise wide Risk Management existed only for name sake.

**Uwe** (2005) analyzed and further development of the building blocks of modern credit risk management: Definitions of default; Estimation of default probabilities; Exposures; Recovery Rates; Pricing; Concepts of portfolio dependence; Time horizons for risk calculations; Quantification of portfolio risk; Estimation of risk measures; Portfolio analysis and portfolio improvement; Evaluation and comparison of credit risk models; Analytic portfolio loss distributions.

**International Practice and Policies by John Broome** Published by Sweet and Maxwell (August 2005) reviews the developments in the area of Money Laundering. The author explains with reference to case studies the possible effects of Money Laundering. The book gives a comprehensive account of the existing rules and practices and suggests several improvements to make the control systems and oversight more failsafe.

**Carl Felsenfeld** outlined the patterns of international Banking regulation and the sources of governing law. He reviewed the present practices and evolving changes in the field of control systems and regulatory environment. The book dealt a wide area of regulatory aspects of Banking in the United States, regulation of international Banking, international Bank services and international monetary exchange. The work attempted in depth analysis of all aspects of Bank Regulation and Supervision. Money Laundering has been of serious concern worldwide. Its risk has wide ramifications. Money Laundering has lead to the fall of Banks like BCCI in the past. In this context the book on Anti-Money Laundering

**ANALYSIS****Current Ratio:**

Table 1 shows the current ratio for the following years.

Year	Current assets	Current liabilities	Ratio
2014	6000226.86	2967672.63	1:2.02
2015	7349387.41	4593402	1:1.60
2016	7635690.41	4580000	1:1.67

In the year of 2014, the current ratio is 1:2.02 and in the year of 2015, it is 1:1.60. In the proposed year it is assumed to be at 1:1.67.

**Fixed Asset Turnover ratio:**

Table 2 shows the fixed asset turnover ratio for the following years.

Year	Cost of goods sold	Net fixed assets	Times
2014	6666607.44	7095355.21	0.94
2015	6787568.31	6672632.18	1.02
2016	8546400	6292181.18	1.36

The fixed assets can be recovered quicker in the previous year than proposed years. It needs more time in the coming year. The fixed asset turnover ratio was 0.94 time in the previous year. It is 1.02 time in the current year and 1.36 time in the proposed year.

**MPBF Method – 1**

Table 3 shows the MPBF value for the following years.

Particulars	2014	2015	2016
WCG	3032554.23	2755985.41	3055690.41
25% of WCG	758138.56	688996.35	763922.60
Actual NWC	NIL	NIL	NIL
<b>MPBF</b>	<b>2274415.67</b>	<b>2066989.06</b>	<b>2291767.81</b>

The credit appraised by the bank to this concern according to the first method of MPBF, it is high for the proposed year at 2291767.81. And it was minimum in the current year at 2066989.06. In the past year the amount was 2274415.67.

**MPBF -2**

Table 4 shows the second method of MPBF value for the following years.

Particulars	2014	2015	2016
WCG	3032554.23	2755985.41	3055690.41
25% of TCA	1500056.72	1837346.85	190922.60
Actual NWC	NIL	NIL	NIL
<b>MPBF</b>	<b>1532497.95</b>	<b>918638.56</b>	<b>1146767.81</b>

According to the second method of MPBF the credit to the concern was estimated high in the past year at 1532497.95. It was minimum in the year at 918638.56. In the year 2016 it was proposed at 1146767.81.

**SUGGESTIONS**

- Bank has to grant the loans for the establishment of business at a moderate rate of interest. Because of this, the people can repay the loan amount to bank regularly and promptly.
- The Bank should keep on revising its Credit Policy which will help Bank's effort to correct the course of the policies
- There is a critical need to devote substantial resources to improving the skills and capabilities of banks' lending officers, especially with regard to the analysis of the SMEs' financial statements. Banks are now better equipped to handle the varied needs of the SME sector due to better technology and risk management.

**CONCLUSION**

The Canara Bank contains various norms for sanction of different types of loans. These all norms does not apply to each & every case. Canara Bank norms for providing loans are flexible & it may differ from case to case. Usually, it is seen that credit appraisal is basically done on the basis of fundamental soundness. But, after different types of case studies, the conclusion was such that, in Canara Bank, credit appraisal system is not only looking for financial wealth. Other strong parameters also play an important role in analyzing credit worthiness of the firm.

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