A STUDY ON CREDIT RISK MANAGEMENT WITH REFERENCE TO ULTRATECH

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ABSTRACT

Credit Risk Management is the key concept in banking sector which is given much attention among bank cross board. The study assessed the credit analysis of different sectors to which the SBI bank has granted the permission. The study employed a quantitative research method in its research methodology. The importance of credit risk management is it protects all of its receivables for further security which will cover up to 90% losses of its customer defaults. The objectives of the study are to know the different methods available for credit rating and procedure used in State Bank of India and to examine the credit risk management activities of State Bank of India. The tool used in the research study is percentage method. The major findings of The study includes that the bank is sanctioning less credit to private sector companies and it is increasing the amount of credit year by year for other sectors and the employees of the bank are considered that potential limits are the most preferred Technique for credit management. The major suggestions of the study includes that the bank have opportunity to entertain indirect agriculture and as well as joint stock Sector. The most important improvements needed in the bank are Credit Administration and Early Warning System (EWS).

Key Words: Credit Risk Management, Receivables, Security, Credit rating, Credit Administration, Early Warning System.

I. INTRODUCTION

The problem of credit risk management, as well as carrying out a quantitative assessment and analysis of the credit risk and rating of borrowers, is relevant to all banks involved in lending to individuals and legal entities. In general, when commercial banks grant loans to individuals and legal entities, the credit risk involved is characterized by the following quantitative parameters: risk as the probability of the borrower's failure to repay the loan; acceptable risk; average risk; possible losses given loan default; the average value of losses; the maximum allowable losses; the number of loans given by the bank; the possible number of different loans the bank can give; the number of problem loans

Banks are in the business o f risk and banking is all about managing risk and return. The balancing o f risks and returns presents a major challenge and banks are successful when the risks taken are reasonable, controllable and within their financial resources and credit competence. Banks, in the course o f their business, are confronted with various kinds of risks, which all these risks are interrelated, interdependent and overlapping in their cause and effects.

This is referred to as credit risk. To illustrate, credit risk is virtually non-existent for securities issued by the any government o f countries. Credit risk is higher for fixed-income securities issued by corporations. The degree o f credit risk is reflected in credit ratings described below. Securities with higher credit risks (and lower ratings) often referred to as high yield securities; generally pay a higher interest rate to compensate investors for the additional risk. In other word credit risk is the risk o f a certain security does not honor its commitments within the agreed maturity. Consequently, the fund that holds this security in its portfolio will have a loss equivalent to its investment. Normally, this risk may be evaluated by the rating o f the security. Also Credit Risk is simply defined as the probability that a bank borrower will fail to meet its obligations in accordance with agreed terms and involves inability or unwillingness o f a customer to meet commitments in relation to lending, trading, hedging, settlement and other financial transactions. Credit Risk is generally made up o f (a) transaction risk or default risk and (b) portfolio risk

Credit risk is the risk o f financial loss arising from the failure o f a borrower or other financial counterparty to meet its contractual obligations to the Bank. The pursuit o f the Bank's development objectives renders substantial credit risk an unavoidable and necessary consequence of its business operations. Credit risk is the major part o f the Bank's overall risk, and, in ensuring that the institution remains financially sustainable and is therefore able to achieve its objectives, managing this risk takes precedence.

OBJECTIVES OF THE STUDY

The objectives of the credit risk management encompasses of certain objectives. They are:

1. To study the concept of Credit Risk Management.

2. To study the complete structure and history of organization.

3. To know the different methods available for credit rating and understanding credit rating procedure used in company.

4. To examine the credit risk management activities of the organization.

5. To analyze the present credit risk schemes of company.

II. CREDIT RISK MANAGEMENT:

CREDIT:

The word 'credit' comes from the Latin word 'credere', meaning 'trust'. When sellers transfer his wealth to a buyer who has agreed to pay later, there is a clear implication of trust that the payment will be made at the agreed date. The credit period and the amount of credit depend upon the degree of trust.

Credit is an essential marketing tool. It bears a cost, the cost of the seller having to borrow until the customers payment arrives. Ideally, that cost is the price but, as most customers pay later than agreed, the extra unplanned cost erodes the planned net profit.

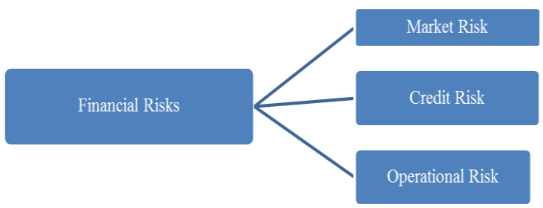
RISK:

Risk is defined as uncertain resulting in adverse outcome, adverse in relation to planned objective or expectation. It is very difficult o find a risk free investment. An important input to risk management is risk assessment. Many public bodies such as advisory committees concerned with risk management. There are mainly three types of risk they are follows

- Market risk
- Credit Risk
- Operational risk

Risk analysis and allocation is central to the design of any project finance, risk management is of paramount concern. Thus quantifying risk along with profit projections is usually the first step in gauging the feasibility of the project. Once risk has been identified they can be allocated to participants and appropriate mechanisms put in place.

TYPES OF FINANCIAL RISKS:



MARKET RISK:

Market risk is the risk of adverse deviation of the mark to market value of the trading portfolio, due to market movement, during the period required to liquidate the transactions.

OPERTIONAL RISK:

Operational risk is one area of risk that is faced by all organization s. More complex the organization more exposed it would be operational risk. This risk arises due to deviation from normal and planned functioning of the system procedures, technology and human failure of omission and commission. Result of deviation from normal functioning is reflected in the revenue of the organization, either by the way of additional expenses or by way of loss of opportunity.

CREDIT RISK:

Credit risk is defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms, or in other words it is defined as the risk that a firm's customer and the parties to which it has lent money will fail to make promised payments is known as credit risk.

The exposure to the credit risks large in case of financial institutions, such commercial banks when firms borrow money they in turn expose lenders to credit risk, the risk that the firm will default on its promised payments. As a consequence, borrowing exposes the firm owners to the risk that firm will be unable to pay its debt and thus be forced to bankruptcy.

CONTRIBUTORS OF CREDIT RISK:

- Corporate assets
- Retail assets
- Non-SLR portfolio
- May result from trading and banking book
- Inter bank transactions
- Derivatives
- Settlement, etc

KEY ELEMENTS OF CREDIT RISK MANAGEMENT:

- Establishing appropriate credit risk environment
- Operating under sound credit granting process
- Maintaining an appropriate credit administration, measurement & Monitoring
- Ensuring adequate control over credit risk
- Banks should have a credit risk strategy which in our case is communicated

throughout the organization through credit policy.

III. RESEARCH DESIGN

METHOD:

I would like to collect the data or information by using Quantitative method.

DATA COLLECTION:

The study is concerned with the improvement of the bank which collected from the bank's website, internet, and publications of the bank. These are some of the sources for collection of secondary data.

IV. CONCLUSION

The project undertaken has helped a lot in gaining knowledge of the "Credit Risk Management" in Nationalized `Bank with special reference to State Bank of India. Credit Risk Policy of the Bank has become very vital in the smooth operation of the banking activities. The Project work has certainly enriched the knowledge about the effective management of "Credit Risk Management" in banking sector.

- "Credit Risk Management" is a vast subject and it is very difficult to cover all the aspects within a short period. However, every effort has been made to cover most of the important aspects, which have a direct bearing on improving the financial performance of Banking Industry.

- To sum up, it would not be out of way to mention here that the State Bank of India has given special inputs on "Credit Risk Management". In pursuance of the instructions and guidelines issued by the Reserve Bank of India, the State Bank of India is granting and expanding credit to all sectors.
- The concerted efforts put in by the Management and Staff of company has helped the Bank in achieving remarkable progress in almost all the important parameters.
- The credit recovered by the State Bank of India in the year 2018 is 85% and hence it is a good progress that the recovery programs are effectively managed by the bank.

Credit Risk Management Policy of the bank dictates the Credit Risk Strategy. These policies spell out the risk acceptance/avoidance levels, risk tolerance limits, prefer levels of diversification and concentration, credit risk measurement, monitoring and controlling mechanisms. The ever-improving risk management practices in the Bank will result in Bank emerging stronger, which in turn would confer competitive advantage in the market.

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