

# **A Study On Credit Risk Management Of Banks In Coimbatore District**

**G. Sophia**

Research Scholar, PG and Research Department of Commerce, Kaamadhenu Arts and Science College Sathiyamangalam, Erode Dt., Tamilnadu.

**Dr. M. Prakash**

Associate Professor, PG and Research Department of Commerce, Kaamadhenu Arts and Science College Sathiyamangalam, Erode Dt., Tamilnadu.

## **Abstract**

*Banking credit plays an inevitable role for the key sectors to attain development and economic growth. At the same time, though it is not prescribed by RBI, maintaining a good CD ratio is also important for the banks. Credit Risk Management in Public and Private sectors banks have greater impact on its profitability and sustainability. This paper is mainly aimed to establish the difference among the targeted planned credit and actual credit disbursed with the given credit risk factors such as Credit Growth amount of banks in Coimbatore district.*

**Keywords:** Annual credit plan, Public and private sector banks, Credit Risk Management, Coimbatore District.

## **Introduction**

Banks as financial systems are the backbone of the economy. After independence, when liberalization came in to existence private banks and other financial institutions nexus with public sector banks mitigated money supply. Think tanks and policy makers thought of inclusive growth and development that resulted in banks nationalization at the same time, regional development were also taken into consideration. Later, New Economic Policy have opened foreign players to easily come up and collaborate with Indian markets in a way of enhancing savings and other credit lending.

Credit lending, apart from traditional banking, in modern India with stringent regulations becomes easy for various sectors of economy to widen their business. When private players of banks eases the way of credit lending activities then naturally, corporate companies, industries and manufacturers avail credit from private banks than public banks. It is inevitable to understand that banks have been nationalized for the welfare of people who is nothing but

larger section of economy, hence credit lending to public is also required. The public banks thus untied new schemes to attract public resulted in opening of credit facilities to people in private banks comparatively. Khan, Nisar Ahmed et al. (2005) say in their study about efficiency of banks have been improved considerably during post reform period but growth of credit, growth of deposits have been significantly declined during the post reform period.

In an economy, lending credit to various sectors of economy is part and partial activity of public and private banks. As a part of that every year banks have credit plans for the proposed year that will be released as regulated by RBI. But there is always a competent competition between public and private banks in financial services. With easy credit facilities the banks are transforming the consuming propensity of Indians with everything from microwave Owens to houses on sale at easy monthly installments EMIs (Girija, 2015). However, banks have certain risks in lending credit to rural markets, non-repayment of loans, economic slowdown in international and domestic markets. Risk management becomes obligatory with the current situation of credit lending for bad debts and outstanding debts are going higher in both public and private banks. With the given risks how for banks are ready to offer or lend credit to various sectors is the big question arise in current scenario.

As an industrial city third largest city Coimbatore district, has numerous public, private banks and other financial institutions with enormous fund flow. Credit requirements always emerge to industries, agriculture, MSMEs and allied sectors in and around the city for the banks provide financial assistance. Thus annual credit plan has been listed for the year 2018-19 to lend credit facilities by public and private banks agricultural, industries, MSMEs and others for about seventeen thousand crore rupees. This huge value proposed envisaging development of economy and growth of various sectors. Public banks with social cause provide financial assistance to agricultural sectors, small and medium enterprise etc. whereas, private banks only concentrate leading sectors which ensures repayment of loans and debts.

### **Objectives**

1. To find out the difference between credit plan of public and private sector banks
2. To find out the sector wise difference between public and private sector banks.

### **Material and Methods**

This study mainly concentrates on the credit lending data which is provided by the banks for the year 2018 and 2019. Moreover, the study tends to find out the differences among the

trends of credit lending between public and private sector banks. Hence the data collected from the banks are used as secondary sources. Data has been collected from Reserve Banks of India, District annual plan report 2018-19 etc. for empirical analysis the data is split in to two groups viz. public and private banks and their credit lending plan for the year 2018-19. To understand Foreign banks credit lending is also studied. Ranking and graphical representation methods have been used to cull out the information from the raw data.

## Results and Discussion

**Table 1: The achievements under Annual Credit Plans – A Comparison (Rs .in Crores)**

Sector & Year	2014		2015		2016		2017		2018	
	Target	achievement	Target	achievement	Target	achievement	Target	achievement	Target	achievement
Agri & Allied	3560.01	3666.92	4336	4422.73	5127	5382	5742	5915	6431	6687
MSME	3389	3468.97	4168	4334.87	5028	5281	6233	6607	7355	7427
Trade	1483.99	1548.33	1722	1809.99	1995	2195	2274	2439	2615	3085
Total	8433	8684.22	10226	10567.59	12150	12822	14249	14961	16401	17199

Source: computed data from Annual credit plan 2019-20

This table clearly gives an idea about the achievements of the banks over a period of time spent under various headings in Coimbatore district. It is seen from the table that the achievements exceeds the target all the years from 2014 to 2018. It is known factor that Coimbatore district is prominent for small, medium and large scale industries viz. textile, manufacturing, motor industries and agro industries so on. This table gives an inference about the money disbursed for various sectors has been increasing over a period of time. Money disbursed by banks for agri and allied sectors has doubled from 2014 (3666.92 crore) to 2018(6687 crore). The same pattern resembled in other two sectors viz. MSME and Trade sectors. Near about 3500 crore has been disbursed by banks in Coimbatore district in the year 2014 whereas 7427 crore has been disbursed in the year 2018. Over a period of five years disbursal of money has been increased across micro, small and

medium enterprise. As same as other sectors money disbursed towards trade has also increased is quite visible from the table. Around 1500 crore of money disbursed by the banks in the year 2014 towards trade is literally two folded in 2018 (3085 crore). The annual credit plan has shown the achievement of more than 100 percent (105%) by disbursing the sum of 17199 crores against target of 16401 crores. Yet another important reason that should be understood is that, the hike in money disbursal is due to increase in the bank branches from 709 in the year 2015 to 818 branches in the year 2018. The deposit in the above said banks has also increased from 44960 crores to sixty thousand crores over a period of four years. It is also noticed from the annual credit plan for the year 2019-20 the credit deposit ratio has tremoundly increased more than 100 percent (109%). The CD ratio is the rate at which the banks lend out of deposits it has mobilized from various sources. That in turn indicates deposit in banks is the source of loan and advance disbursal to various sectors. That is the reason banks achieved 105 percent of money disbursal against its target.

**Figure-1: Achievements under annul credit plan**



Source: computed

The graph above apparently shows the difference between the target and achievement of money disbursal over the years by the banks in Coimbatore district. The banks invoked the sum of deposits of Rs.60810.67 crores until March 2018. At the same time banks lend around 6600 crores according to the data released by Tamilnadu Annual Credit Plan 2019-20. Banks in Coimbatore district disbursed money for various loans and advances towards government

schemes as well as individual credit. Agricultural sector loan advance and MSME credit are the two main sectors which received more than half of the credit disbursed by the public, private sector, cooperative and other banks in the district. UYEGP, NEEDS, KVIC, PMEGP, TAHDCO are some of the government schemes where individuals get credit, under these schemes, from banks. In such way banks have disbursed sizeable amount of credit towards these schemes. The figure gives an idea about targeted loans and advances as well as achievement of money disbursement to Agri and allied sector, MSME and Trade with reference to annual credit plan 2019-20. This figure clearly explains that banks lending has been continuously shows an increasing trend from 2015 to 2018 with regard to various sectors. More over the banks have increased money disbursement to agriculture, MSME and trade over the years. In the year 2014, near about 8700 crores of total money disbursed towards these schemes, whereas, 17199 crores of total money disbursed in the year 2018. It is apparent the size of money disbursement is doubled over a period of four years as a consequence of rise in economic needs. This graph also tells us that, besides Coimbatore district is well known for textile, trade and manufacturing industries, sizeable sum of money has been released towards agriculture and allied sector requirements. At the same time it should be noticed that over a period of five years money disbursement towards enterprise (MSME) has increased from 3389 crores to 7427 crores, which is twice than that of base year. When compared with agriculture and enterprise, the quantum of money disbursed towards trade is low even though there exist increasing trend. This graph also conveys that there is gradual increment on money disbursement from 2014 to 2018 across the sectors.

**Table - 2 Credit Plan and Performances of Public Sector banks as at March 2018 (Amount in lakhs)**

S.NO.	BANK	PLAN	%	PERF	%
1	STATE BANK OF INDIA	207779	18.25	228506	19.14
2	INDIAN OVERSEAS BANK	145559	12.78	151531	12.69
3	CANARA BANK	134897	11.85	143636	12.03
4	INDIAN BANK	133031	11.68	140238	11.75
5	SYNDICATE BANK	81079	7.12	84037	7.04
6	CORPORATION BANK	74948	6.58	75382	6.31
7	COIMBATORE CENTRAL	52134	4.58	58642	4.91
8	UNION BANK OF INDIA	51909	4.56	54786	4.59
9	BANK OF INDIA	43472	3.82	46981	3.93
10	BANK OF BARODA	43183	3.79	45139	3.78
11	CENTRAL BANK OF IND	36989	3.25	33192	2.78
12	PUNJAB NATIONAL BAN	33309	2.93	32099	2.69
13	VIJAYA BANK	16389	1.44	19363	1.62
14	ANDRA BANK	14003	1.23	15990	1.34
15	TIIC LTD	17858	1.57	14034	1.18
16	PALLAVAN GRAMA	11629	1.02	12449	1.04
17	UCO BANK	5755	0.51	6536	0.55
18	ALLAHABAD BANK	6166	0.54	6323	0.53
19	SIDBI	7942	0.70	6167	0.52
20	DENA BANK	5122	0.45	5189	0.43
21	BANK OF MAHARASTRA	5765	0.51	4739	0.40
22	ORIENTAL BANK OF CO	5098	0.45	4435	0.37
23	PUNJAB & SIND BANK	2525	0.22	2584	0.22
24	UNITED BANK OF INDIA	2020	0.18	2001	0.17
	Total	1138561	100	1193979	100

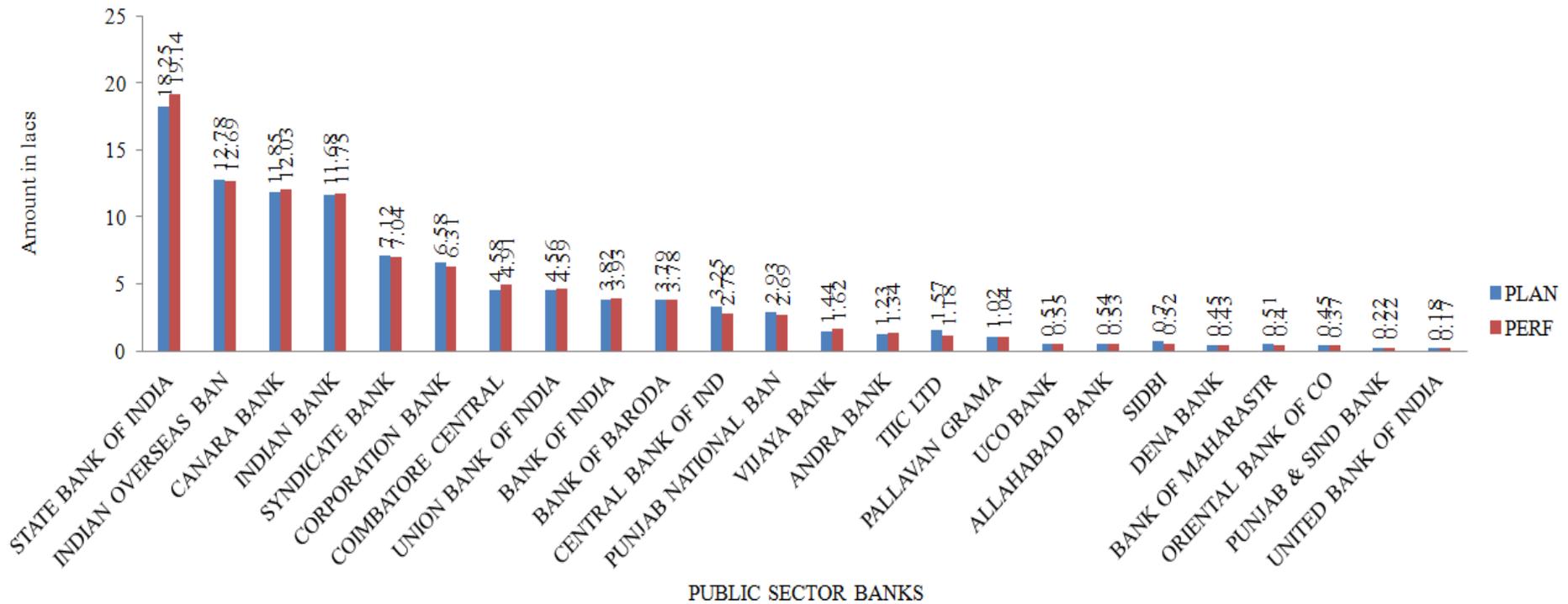
Computed data from annual credit plan 2019-20

The table 2 reveals about the money disbursement by the public sector banks in Coimbatore district towards key sectors of growth for the year ended with March 2018. As it is well known factor that public sector banks are meant to servicing the people as well as implementing government welfare schemes and projects. The set of public sector banks in Coimbatore district provided loans and advances to key sectors like agriculture, enterprise and trade over a period of one year has increased. It is also portrayed in the table that the plan to disburse and actual disbursement of money for the key sectors by public sector banks. The table shows the ascending trend of money disbursement by banks towards the key sectors. The top four banks in the list disbursed more than fifty percent (55.61%) of money rather than that of other twenty banks. Out of 24 total banks SBI, IOB, Canara Bank and Indian

Bank are the top leading banks which has highest amount of money disbursement which is 6.63 lakhs out of 11.93 lakhs. Whereas, four banks (Bank of Maharashtra, Oriental Bank of Commerce, Punjab and Sind bank and United Bank of India) given at the bottom of the table, disbursed money less than (1.16%) two percent to various key sectors in the district. Yet another interesting factor to be taken from the table is that UCO bank, Allahabad bank, SIDBI and DENA bank have also disbursed less than one percent of money to key sectors. The data, annual credit plan year ended March 2018, revealed that Bank of Maharashtra have spent no money towards agriculture and allied sectors. It is important to mention SIDBI and TIIC have not even disbursed a single pie to agriculture and allied sector. Thus this table reveals that though public sector banks provide monetary service to key sectors like agriculture, enterprise and trade there exists a huge difference among banks in disbursement of credit.

The figure 2 below exhibits the actual plan and performance of money disbursal by public sector banks for the year ending with March 2018. This graph portrays percentage wise difference between the actual plan and original performance of money lending by nationalized banks in Coimbatore district. It is easy to identify that there is only meager variation found between the actual plan and the performance across the banks starting from SBI to Union bank of India. The blue layer shows the disbursal plan and the brown layer shows the actual performance of money disbursed by banks. It could be noticed from the graph eight banks have disbursed less than one percent of money towards key sectors when compared with other banks. On the other hand four of the banks disbursed less than two percent, six banks disbursed money which is less than ten percent and the remaining four banks only have disbursed higher than ten percent.

**Figure -2: Credit Plan and Performances of public sector banks as at March 2018 (Amount in lacs)**



**Table 3 – Credit Plan and Performances of Private Sector Banks (Amount in lacs)**

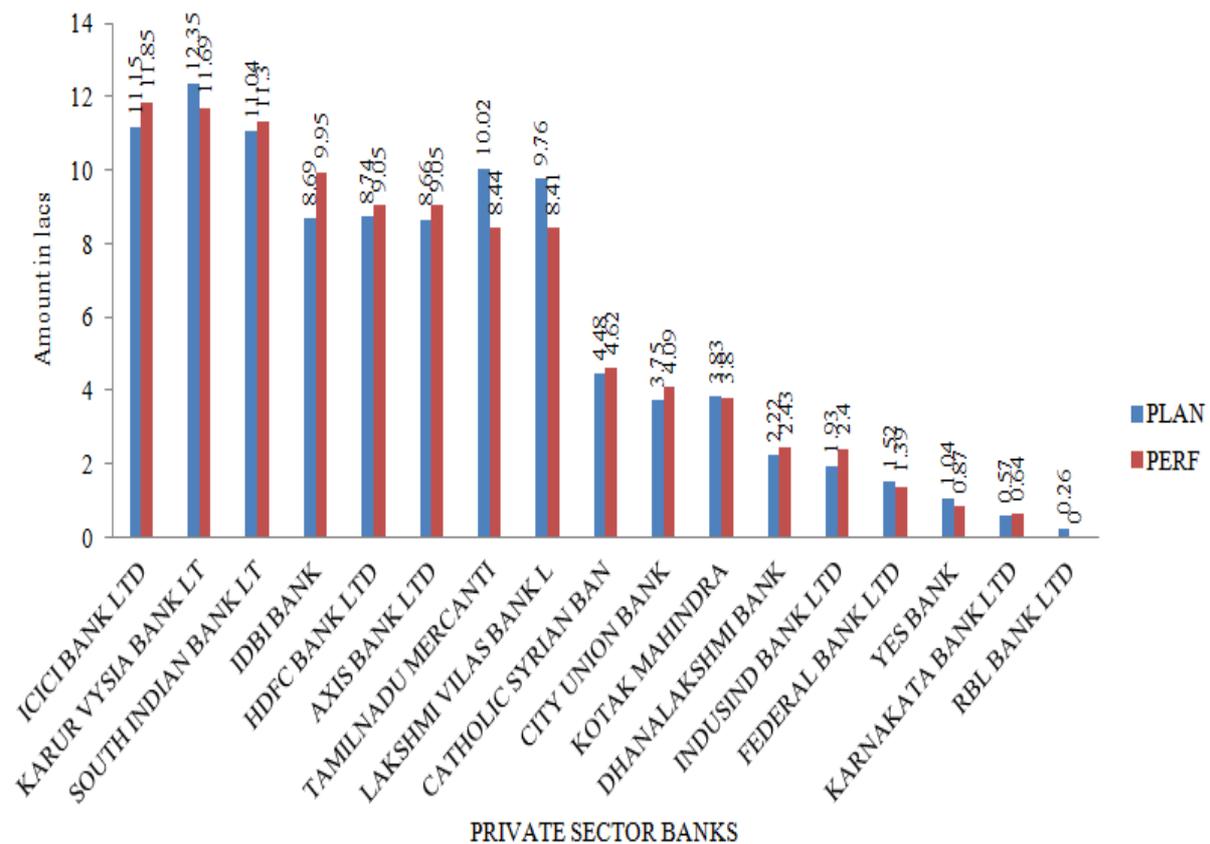
S.NO.	BANK	PLAN	%	PERF	%
1	ICICI BANK LTD	54234	11.15	60940	11.85
2	KARUR VYSIA BANK LT	60063	12.35	60111	11.69
3	SOUTH INDIANBANK LT	53678	11.04	58074	11.30
4	IDBI BANK	42280	8.69	51147	9.95
5	HDFC BANK LTD	42491	8.74	46556	9.05
6	AXIS BANK LTD	42112	8.66	46529	9.05
7	TAMILNADU MERCANTI	48724	10.02	43413	8.44
8	LAKSHMI VILASBANK L	47472	9.76	43250	8.41
9	CATHOLIC SYRIAN BAN	21768	4.48	23775	4.62
10	CITY UNION BANK	18241	3.75	21021	4.09
11	KOTAK MAHINDRA	18641	3.83	19536	3.80
12	DHANALAKSHMI BANK	10814	2.22	12509	2.43
13	INDUSIND BANK LTD	9405	1.93	12336	2.40
14	FEDERAL BANK LTD	7373	1.52	7168	1.39
15	YES BANK	5056	1.04	4483	0.87
16	KARNAKATA BANK LTD	2767	0.57	3302	0.64
17	RBL BANK LTD	1253	0.26	0	0.00
	Total	486372	100	514150	100

Computed data from annual credit plan 2019-20

This table 3 envisages about the plan and performance of money disbursement towards key sectors by private sector banks. Interestingly, the private sector banks as a whole, had plan to disburse only around five lakhs to key sectors, whereas, public sector banks as a whole released more than eleven lakhs of rupees towards loans and advances and benefit schemes. As a welfare initiative private banks has also coming forward to lend loans and advances to agriculture and its allied sectors. This table gives an idea about the percentage of money disbursement by private sector banks on the basis of higher to lower disbursal ratio. Private sector banks such as South Indian bank, Karur Vysya bank, Tamilnadu Mercantile bank, Lakshmi Vilas bank disbursed a sizeable amount of money towards agriculture and allied sectors. This shows modern private sector banks are ready to disburse money to agriculture and its allied sector which is welcoming factor. Farmers hence avail loans and advances not only from public sector banks but also from private sector banks. Even new generation banks like ICICI, HDFC and IDBI are also providing loans and disburse money to farming and allied sector activities as equal as public sector banks. At the same time RBL bank for instance neither spent money towards agricultural sector nor to

other sectors. This shows that RBL bank has very poor performance in lending and disbursement money in key sectors like agriculture, SSI and other public schemes which result in zero performance. Hence it could be understood private sector banks are ready to disburse money to agriculture and its allied sectors whereas some of the public sector banks have failed to do so.

**Figure 3- Credit Plan and Performances of Private Sector Banks**



The figure above shows the percentage wise plan and performances of private sector banks for the year ended with March 2018. It is quite visible from the graph that there is huge difference found among the banks on money disbursement towards key sectors. Banks in the left end of the graph spent ten times more than that of banks on the right end of the graph. Yet another important thing which can be understood is that, top four banks (ICICI, Karur Vysya, South Indian bank and IDBI) actively involving in lending advances and loans to agriculture and its allied sectors comparatively higher than that of banks on the end. Some of the private sector banks which spend more than that of public sector banks on key sectors. Interestingly, YES

bank, Karnataka bank and RBL bank have disbursed less than 1percent against loans & advances, government schemes and other public requirements. This graph portrays about difference between the plans and actual performances by private sector banks.

**Table 4: Credit Plan and Performances of Foreign Banks (Amount in lacs)**

S.NO.	BANK	PLAN	PERF	Percentage difference bt n plan and perf
1	STANDARD CHARTERED	5056	3933 (33.33)	78%
2	CITI BANK	5056	3933 (33.33)	78%
3	SCOTIA BANK	5056	3933 (33.33)	78%
	Total	15168	11799	78%

Computed data from annual credit plan 2019-20

This table gives inference about the plan and performances of foreign banks located in Coimbatore district for the year ended on March 2018. It is easy to understand that foreign banks lend 33.33 percent of money to key sectors as lending advances only to small scale industries. The annual credit plan clearly says that the foreign banks hardly disburse any money to agriculture and allied sectors or to other public schemes whereas these banks disbursed money only to micro, small and medium scale enterprises. This table also conveys that there exists difference between plan and actual performance. Only 78 percent has been expended out of the initial plan and the balance remains unspent on any sectors. Ironically, all the three foreign banks had similar plan of expenditure (Rs.5056 lakhs) and actual disbursement (Rs.3933 lakhs) are also same. Yet another important inference is that, more than 20 percent of credit still remains unutilized and not distributed among foreign banks.

**Table 5: Credit plan and performances of All banks (Amount in lacs)**

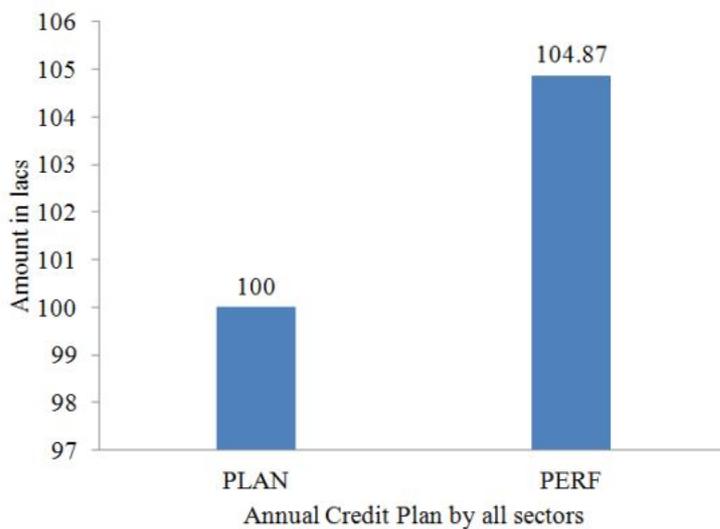
	PLAN	%	PERF	%
TOTAL	1640101	100	1719928	104.87

Computed data from annual credit plan 2019-20

This table gives an idea about the total expenditure made by the banks and planned expenditure for the year 2018. The total performance of the banks exceeds one hundred percent (104.87%) than that of planned expenditure. Near about 18lakhs (Rs. 17,19,928) has

been spent on key sectors like agriculture , SSI and other welfare schemes. It can also be understood that banks raise their lending through the deposits and investments it received from various sources can be utilized for lending loans and advances. The hidden fact is that banks will receive two-fold of interest for their loans and advances through which banks generate income. According to the annual credit plan achievements banks in Coimbatore district (public, private and foreign banks) performed well when compared with their planned expenditure. The role of banks is inevitable in the development of every sector and improvement of an individual. Though some banks neglect to pay loans and advance to agriculture sector which is compensated with the lending loans and advances to enterprises. Hence performance of the banks exceeds the planned expenditure.

**Figure – 4: Credit plan and performances of all banks as on 2018**



The above graph explains about the total plan and performances of banks in Coimbatore district. The total expenditure of the banks exceeded the planned expenditure is visible in the graph. The performance outlay came near to 105 percent than that of original plan. At the same time the district has achieved more than 105 percent of the targeted level.

**Conclusions**

This paper tries to find out the difference between the actual plan and performance of banks in

credit lending with reference to public sector and private sector banks. Also this paper tries to give an outlay of credit target and achievement pattern of banks from 2014-2018 in Coimbatore district. Interestingly the banks in Coimbatore district has achieved 105 percent more than that of the targeted level. The conclusion remarks are as follows:

According to annual credit plan 2019-20 around 1500 crore of money disbursed by the banks in the year 2014 towards trade is literally two folded in 2018 (3085 crore).

The annual credit plan has shown the achievement of more than 100 percent (105%) by disbursing the sum of 17199 crores against target of 16401 crores.

Banks credit lending has continuously been shown an increasing trend from 2015 to 2018 with regard to various sectors

It is apparent the size of money disbursal is doubled over a period of four years as a consequence of rise in economic needs.

Out of 24 public sector banks SBI, IOB, Canara Bank and Indian Bank are the top leading banks which has highest amount of money disbursement which is 6.63 lakhs out of 11.93 lakhs.

Four public sector banks (Bank of Maharashtra, Oriental Bank of Commerce, Punjab and Sind bank and United Bank of India) disbursed credit less than (1.16%) two percent to various key sectors.

UCO bank, Allahabad bank, SIDBI and DENA bank have also disbursed less than one percent of money to key sectors.

It is revealed that Bank of Maharashtra have spent no money towards agriculture and allied sectors. It is important to mention SIDBI and TIIC have not even disbursed a single pie to agriculture and allied sector.

Private sector banks such as South Indian bank, Karur Vysya bank, Tamilnadu Mercantile bank, Lakshmi Vilas bank disbursed a sizeable amount of credit towards agriculture and allied sectors. This shows modern private sector banks are ready to disburse money to agriculture and its allied sector.

Interestingly, YES bank, Karnataka bank and RBL bank have disbursed less than 1percent against loans & advances, government schemes and other public requirements.

The foreign banks hardly disburse any money to agriculture and allied sectors or to other public schemes whereas these banks disbursed credit only to micro, small and medium scale enterprises.

More than 20 percent of credit still remains unutilized and not distributed among foreign banks.

The banks have exceeded the target level more than one hundred percent in credit lending.

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