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The Implications of Credit Ratings in Rural Businesses

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ABSTRACT

A fundamentally solid credit scoring model, based on history but unaffected by facts, capable of measuring default risk and yielding consistent findings across time and for a wide range of borrowers, would merely be an anchor of sound credit management. Credit scoring is a set of scientific methodologies for estimating the credit risk of a new credit application. Statistical models that allocate points to characteristics indicative of acceptable repayment are used to construct scores. Models are empirically designed, which means they are built totally from data gleaned from prior experience. As a corollary, credit scoring presents a clear approach in evaluating rather than a subjective instrument as to which they believe or are informed. According to the findings, credit rating is extremely useful in the market.

INTRODUCTION

The commercial bank extends credit to different type of borrowers for much different purpose. Today the marketing is not possible without credit as source of finance. The fundamental objective of commercial lending is to make profitable loans with minimum risk. The management should target specific industries or markets in which lending officer have expertise .The somewhat competing goals of loan volume and loan quality must be balanced with the bank's liquidity requirement s, capital constraints and rate of returns objectives .The Indian retail lending market is relatively unexplored with the per capita usage of retail product offerings such as housing finance, credit cards, auto loans, consumer finance, etc. lower as compared to Asian peers. Also the relative size of the Indian market s, backed by factors such as growing population of bankable households low penetration rate of retails finance products and the increased propensity of the urban populace to take credit, offers scope for expansion .In retail finance most of the players trying to enter or consolidate their housing fiancé segment as housing loan market is perhaps the least risky segment in the financial sector. Housing finance companies generally target the retail borrower where the nature of the loan ensures that defaults are few and far between. The relatively small size of the housing loans also ensures the risk as spread out. Moreover pursuance to the government s policy to provide shelter to a large number of people and concessions provided in the finance act to boost housing and housing finance activities indicates great future potential for this segment. Interest paid on capital borrowed for the acquisition of construction of property is entitled to a deduction.

REVIEW OF LITERATURE

Credit risk management is a process which begins with identifying the target markets and proceeds through a series of stages to loan repayment. Different types of risk management strategies need to be employed at each stage. Every activity is undertaken with the ultimate aim of protecting the loan quality, which is critical to the health of a bank. A healthy loan portfolio, in turn, leads to the maximization of profits and the shareholders wealth. The balancing of risk and returns presents a major challenge and banks are successful when the risks taken are reasonable, controlled and within their financial resources and competence.

Dr. S.V. Kaveri says that the small scales industries (SSI) have somehow managed to live with the problem of inadequate supply of bank credit despite several measures initiated by the government and reserve bank of India. Here we analysis the problems of SSI and offer s certain suggestion – with a hope that both banker – borrower would work together to ensure that no viable project from the SSI sector would suffer for want of bank finance . By now small scale industries have somehow managed to live with the problem of inadequate supply of bank credit despite several measured initiated by the central government and reserve bank of India.

Krishna chaitony (2005) observed in this study that managing credit risk is a challenging task bank across the globe is facing today. Banks need to have cost effective credit risk management models and instruments. Credit linked notes in one such instrument s . He also throws s light on issues involved in developing the credit derivatives market in India besides their structures and features.

S.N. Ghosal (2005) analyzed in his study that the principal objective of inspection in banks is to ensure that operating units follow the rules and procedure changes in the methodology and strategy in inspection of bank advance control risks involved in advance. Remedial steps required to minimize the risk should be addressed quickly and timely. To improve the quality of assets, RBI has recently come up with a risk based inspection and audit models.

Need of the study:
This study provide an in –depth analysis of all the concepts associated with the credit management in any bank which will include credit process undertaken by bank to approve the loans, credit policy etc.The conclusion is also made study the behavior of banks in the rural marketing. The credit rating policy adopted and enhanced.

Scope of the study
Theoretical framework for the credit management in banks like credit process undertaken by the banks to approve the loans , credit risk assessments , credit rating system , credit culture, credit rating review credit policy , evaluation of the loan request , evaluation of the of loan procedure .

Objective of the study

- To provide theoretical framework for the various aspects of the credit management in banks
- To evaluate the credit procedure be adopted by the banks for granting the loans. All the steps of credit procedure will be evaluated.
- To evaluate the risks which are involved in the granting of credit by the banks?
- To enumerate all factors which are involved in the credit rating to analyze the credit worthiness of loan seekers?
- To analyze a loan proposal to be sanctioned to small sector industries
- To analyses the loan proposal to be sanctioned to the retailers in the rural markets

RESEARCH METHODOLOGY

The min tool which is used for the analysis of the data is ratio analysis. The methods which are followed are specific to the procedures which are illustrated by the banks in their rules. The procedures are specific to the assessment being made under the proposal to be analyzed for the sanctioning of the loan. The ratios are Debt service coverage ratio, current ratio PAT/ net sales, ROCE, PBIDT/INTT, INv.+REC./Sales.

Credit management:

Ratios	31.3.2009	31.3.2010	31.3.2011	31.3.2012
Net sales	6.33	7.79	9.5	11
PBT	0.72	1.22	1.43	1.75
PBT/sales	11.37	15.66	15.05	15.90
Toal tangible assets	7.51	9.18	12.05	13.14
PAT	0.63	1.2	1.36	1.67
Paid up capital	0.47	0.47	0.47	0.47
Total Net worth	3.66	4.7	5.96	7.53
Total outstanding liabilities / Total Net worth	1.05	0.95	1.02	0.75
Current Ratio	1.43	1.29	1.53	1.74
Growth in sales	N.A.	23.06	21.95	15.79

On the basis of credit risk, the markets are in study shows favorable rating as per the rules and it is provided to the market which has very less credit risk. As per the maximum permissible banks finance also, the company's proposal suits the bank as the amount demanded by the company can be given accounting to the rules . while analyses the operating system it was found that the prediction for future years were made on the basis of actual data available for previous years were very optimistic and favorable for the marker ant net profit of the various market is continuously increasing which is very suitable for it and for the bank also from repayment .

Risk management

Ratios	Actuals	Risk level	HISTORIC AV.	IF RATIOS
Current ratios	1.29	2:1	1.26	1.5
TOL / TNW	0.95	1.5	1.25	1.33
PBID/INTT	15.4	5.0	9.25	1.27
PAT/NET SALES (%)	21.13	15.37	17.7	STD.
ROCE(%)	21.13	9.08	7.779	STD.
INV. +REC/SALES (%)	162	172	177	STD.

The ratios which are calculated also make a company more worthwhile in future. An appropriate analysis of ratios is being made in risk management. The different ratios shown in table indicate the future indications about the marketability of different banks in regard to financing to the rural area. Although bank gives the finance to only if market is suitable without the risk management and market research no bank wants to give more loans to start with, performance in terms of profitability is benchmark for any business enterprise including the banking industry. This study reveals the market in rural area where the banks provide loan facility to the rural market

CONCLUSION

The fundamental objective of commercial lending is to make lending is to make profitable loans with minimum risk. The management should target markets in which lending banks has detailed study and repayment mechanism.it is quite important to evaluate the credit procedure being adopted by the banks for granting the loans and evaluate the risk which are involved in the granting of credit by the banks

SUGGESTIONS

- The rural market is very poor in the competitive world needs to more expertise.
- The rural markets could not function without the financing so finance is much important to the
- Proper credit rating is to be made that they should know which source of funds is better

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