

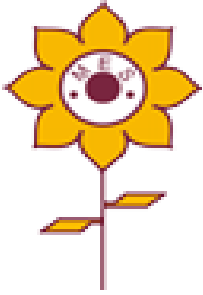


MAHATMA EDUCATION SOCIETY'S  
PILLAI COLLEGE OF ARTS COMMERCE  
AND SCIENCE  
NEW PANVEL  
RE-ACCREDITED BY NAAC WITH 'A'  
GRADE

A PROJECT  
ON  
“A PROJECT REPORT ON CREDIT POLICY OF  
ABHYUDAYA CO. OP. BANK.”

In the subject **RESEARCH METHODOLOGY**

SUBMITTED TO  
UNIVERSITY OF MUMBAI,  
FOR SEMESTER-III  
OF  
MASTER OF COMMERCE (PART 2)  
BY  
**PRAFUL MOKAL**  
**3550**  
UNDER THE GUIDANCE OF  
**PROF. SHADAB RIZVI**  
  
YEAR-2013-2014



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ISO 9001:2008 CERTIFIED

**DECLARATION BY THE STUDENT**

I, Mr. **PRAFUL MOKAL** student of M.Com Part-II Roll number **3550** hereby declare that the project for the **RESEARCH METHODOLOGY** titled,

**“A PROJECT REPORT ON CREDIT POLICY OF  
ABHYUDAYA CO. OP. BANK.”**

Submitted by me for Semester-III during the Academic year 2013-2014, is based on actual work carried out by me under the supervision of **PROF. SHADAB RIZVI**  
I further state that this work is Original and not submitted anywhere else for any examination.

Signature of student



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EVALUATION CERTIFICATE

This is to certify that the undersigned have assessed and evaluated the project on,

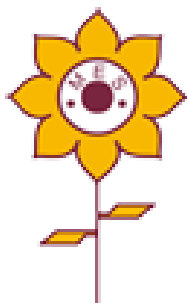
“A PROJECT REPORT ON CREDIT POLICY OF  
ABHYUDAYA CO.OP. BANK.”

Submitted by **PRAFUL MOKAL** Student of M. Com Part-II

This project is original to the best of our knowledge and has been  
accepted for Internal Assessment.

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**SCIENCE**  
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## 1.1: INTRODUCTION

Almost all of the industrial enterprises whether they are into manufacturing, trading or service sector need bank finance in order to run the businesses. So everyone approaches the bank at some point of time for [business loan](#) whether it is for running day to day business or for setting up of a new project. A banker appraises the proposal and then decides whether to lend the money or not. Some tips on what goes behind the credit appraisal of the proposal by the banker.

**Credit Appraisal** It is the process of appraising the credit worthiness of a loan applicant. Factors like age, income, number of dependents, nature of employment, continuity of employment, repayment capacity, previous loans, credit cards, etc. are taken into account while appraising the credit worthiness of a person. Every bank or lending institution has its own panel of officials for this purpose.

## 1.2: OBJECTIVE OF THE STUDY

The main objective of the research is to understand the concept of credit (Loan) appraisal. What is the definition of credit appraisal? How can it function and control? What are the important things in credit appraisal? How banks can control NPA with nil? Through this project we can also analyze banking industry. What are the challenges this industry is facing. I also included overview of banking sector as well as types of bank. I choose ABHYUDAYA CO-OPERATIVE BANK for my study of CREDIT APPRAISAL. It is the lending urban co-operative sector bank. They perform in credit appraisal and control NPA in very good manner. That why it is interesting to know how they able to do this one,

### **1.3: COMPANY PROFILE**

Abhyudaya Co-op. Bank Ltd., one of the leading Urban Co-operative Banks in India, in its outlook and approach, has the objective of progress and prosperity of all. From a humble beginning in January 1964 as a Co-operative Credit society with a share capital of a merely Rs.5,000/- held by 83 members, today Abhyudaya Co-op bank has become one of the large Urban Co-operative Banks with a "Scheduled Bank" status. The bank has been converted into a "Multi-State Scheduled Urban Co-op. Bank "w.e.f. 11th January, 2007. The area of operation which was restricted to the State of Maharashtra has now been extended to Karnataka State. Currently, the capital base of the bank stands at Rs. 45.78 crores and Reserves and surpluses at Rs.671.95 crores as on 31.03.2009. The bank has 1, 23,011 members and more than 12 lakhs depositors. The Bank has seen a tremendous growth in deposits. The deposits of the bank are over Rs. 3174.81 crores as on 31.03.2009, which were Rs. 2625.51 crores as at the end of the financial year 2008. The loans and advances stood at Rs. 1856.39 crores as on 31.03.2009. The bank had posted a net income of Rs. 92.36 crores as on 31.03.2009. "The growth rate of the bank compares well with that of others in the sector. The Bank has maintained a steady growth. The bank has been paying dividend @ 15% to its members which is maximum permissible as per the MCS Act.

The Bank has launched different loan schemes tailor-made to suit the needs of various customers. The schemes aim at providing loans for purchase or construction of residential premises, repair/renovation of house property, purchase of car, seeking higher education and for purchase of household consumer durable. One of the loan schemes, viz. "Udyog Vikas Yojana" is specially designed for the benefit of small entrepreneurs and businessmen. The procedure for sanctioning of loans under the schemes has been simplified and relaxed with a view to attract new customers and facilitating speedy sanction of loans. The Bank has total 75 branches including a Mobile Bank at Navi Mumbai. Bank is committed to spread network of branches throughout the State and provide much needed banking services to the population, which has been deprived of the banking facilities.

Innovative Banking is another area of operation that Abhyudaya is currently focusing on for a sustainable long term growth. The Bank has always endeavored for providing satisfactory customer service with the help of the latest technology. The Bank has provided fully computerised services to its valued clients. Bank is offering 11 Hours fully computerised services at 15 branches and 24 hours ATM service at 42 branches.

## **Milestones:**

**1964-** Established as Co-operative Credit Society.

1965- Converted into a Bank with one Branch at Abhyudaya Nagar.

1985-Inauguration of Bank's own Building, Staff Training College and Auditorium at Vashi, RBI Permitted the Bank to open and maintain NRI Accounts.

1986 - Instituted Educational Prizes to the children of Members and Employees.  
Became 3<sup>rd</sup> Biggest Urban Co-op. Bank in India.

1988 - Became Scheduled Bank.

1990 - Inauguration of Bank's own Building at New Panvel.

1995- Decision to set up "Development Reserve Fund" to undertake special schemes.

1997- All Branches fully computerized.

1999- Eleven Hours & Sunday Banking started in 16 Branches.

2000- ATM installed at 3 branches.

2003- Opened 40<sup>th</sup> Branch with ATM Facility & 11 hours and Sunday banking  
At Lokmanya Nagar (Thane).

2004- Started RTGS and NDS Facilities.

2006- Merger of Citizen Co-operative Bank Ltd., with 13 branches.

2007- Registration of the Bank under "Multi-State" Co-Op Societies Act on  
11<sup>th</sup> Jan., 2007.

2008- Merger of Shri Krishna Co-operative Bank Ltd, Vadodara

- Merger of Janata Sahakari Bank, Udupi
- Foreign Exchange Department we inaugurated

2009 - Opened Bhayander branch And Dahisar branch  
Opened recovery call centre at Parel

## **OVERVIEW OF FINANCIAL STRUCTURE OF ABHYUDAYA CO-OP BANK LTD.**

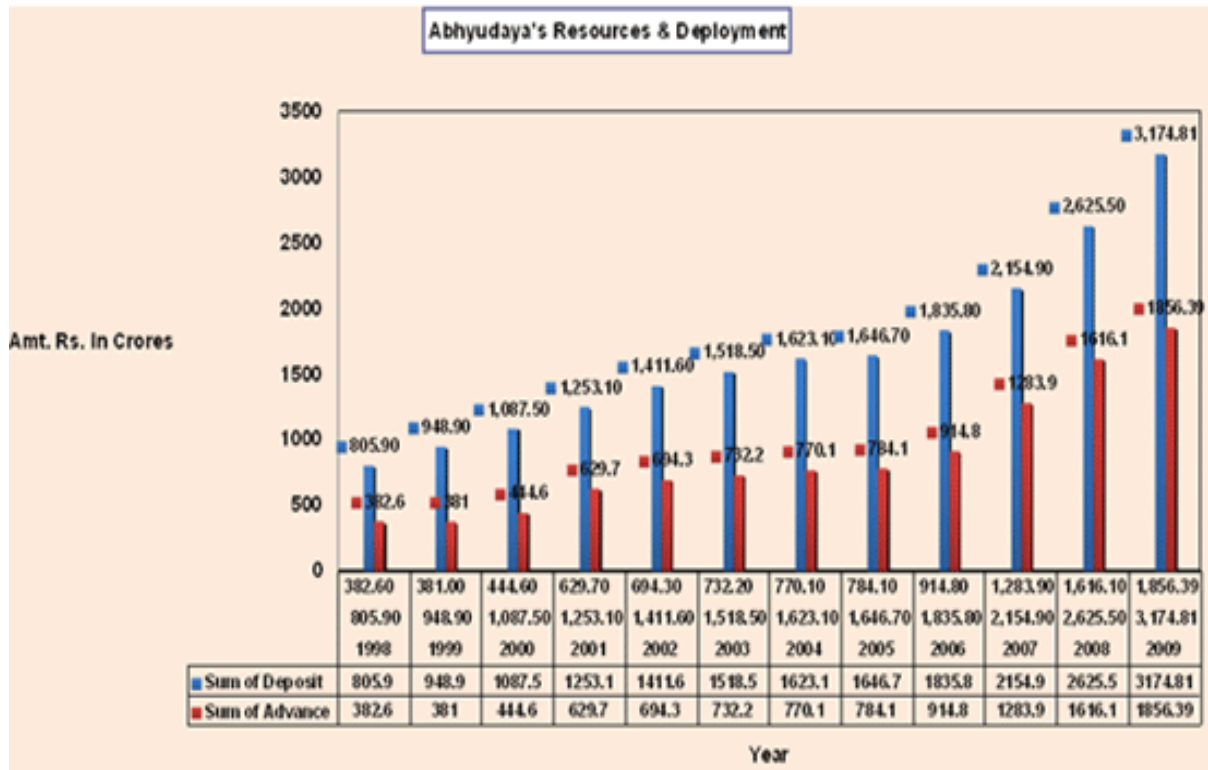
(Amt. in Lacs)

	31.03.2006	31.03.2007	31.03.2008	31.03.2009
<b>Paid up Share Capital</b>	<b>2628.00</b>	<b>3232.00</b>	<b>4046.00</b>	<b>4577.00</b>
<b>Reserves</b>	<b>48816.00</b>	<b>61993.00</b>	<b>62965.00</b>	<b>67195.00</b>
<b>Deposits</b>	<b>183587.00</b>	<b>215498.00</b>	<b>262550.00</b>	<b>317481.00</b>
<b>Loans &amp; Advances</b>	<b>91487.00</b>	<b>128395.00</b>	<b>161610.00</b>	<b>185639.00</b>
<b>Gross Profits</b>	<b>8848.00</b>	<b>7890.00</b>	<b>12607.00</b>	<b>17587.00</b>
<b>Net Profits</b>	<b>7270.00</b>	<b>1875.00</b>	<b>4081.00</b>	<b>9236.00</b>
<b>Working Capital</b>	<b>244870.00</b>	<b>299197.00</b>	<b>343428.00</b>	<b>412215.00</b>
<b>Investments</b>	<b>137573.00</b>	<b>137634.00</b>	<b>142072.00</b>	<b>188320.00</b>
<b>Membership (Nos.)</b>	<b>1,12,523</b>	<b>1,17,139</b>	<b>1,20,577</b>	<b>1,23,011</b>

The deposits have grown to Rs.3174.81 crores at the previous year end and registered a growth of 11.5%. Advances have grown by 16.7% and gone up by Rs.1856.38 crores. As a result bank has achieved a CD ratio of 49.83%.

Paid up Capital of the Bank increased from Rs.40.46 crores to Rs.45.78 crores, registering a growth of 17.22% over the previous year. The Reserves and other funds have increased from Rs.629.65 crores to Rs.671.95 crores in the previous year. The working capital have grown to Rs. 2991.97 crores at the previous year end and registered a growth of 10.92%.

The net profit has increased from Rs. 40.81 crores to Rs. 92.36 crores.



## CAPITAL TO RISK ASSETS RATIO-

Movement of CRAR	As on 31.3.2008	As on 31.3.2009
Capital Adequacy Ratio	23.94%	26.42%
Tier I Ratio	18.83%	21.24%
Tier II Ratio	5.11%	5.18%

## NPAs

NPAs	As on 31.3.2008	As on 31.3.2009
Gross NPAs	Rs. 20417.84 lacs	Rs. 25756.54 lacs
Net NPAs	NIL	NIL

## Chapter 2

# RESEARCH METHODOLOGY

The purpose of research is to discover answer to the questions through the application of scientific procedures. The main aim of research is to find out the truth which is hidden and which has not been discovered as yet. Though each research study has its own

Specific purpose, we may think of following broad categories:

- ❖ To gain familiarity with a phenomenon or to achieve new insights
- ❖ Into it.
- ❖ To portray accurately the characteristics of a particular individual, Situation or a group.
- ❖ To determine the frequency with which something occurs or with which it is associated with something else.

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind them.

Research methodology has many dimensions and research methods do constitute a part of the research methodology. The scope of research methodology is wider than that of research methods. Thus, when we talk of research methodology we not only talk of the research method but also consider the logic behind the methods we use in the context of our research study and why we are using a particular method or technique and we are not using others so that research results are capable of being evaluated either by the researcher himself or by other. Why a research study has been undertaken, what data have been collected and what particular method has been adopted, why particular technique of analyzing data has been used and a host of similar other question are usually answered when we talk of research methodology concerning a research problem or study.

Research is often described as active; diligent and systematic process of inquiry aimed at discovering, interpreting and revising facts. This intellectual investigation produces a greater understanding of events, behaviors or theories and makes practical application through laws and theories. In other words we can say the purpose of research is to discover answer to the

questions through the application of scientific procedures. The main aim of research is to find out the truth which is hidden and which has not been discovered as yet.

To carry out my project I have used the descriptive research.

Descriptive research includes survey and fact finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs, as it exists at present. The main characteristic of this method is that the researcher has no control over the variable; he can only report what is happening. It is also called as ex post facto research. Most ex post facto research projects are used for descriptive studies in which researcher seeks to measure such items as, for example, frequency of shopping, preferences of people, or similar data. Descriptive research also includes attempts by the researcher to discover causes even when they cannot control the variables. The methods of research utilized in descriptive research are survey method of all kinds.

## **WHY DESCRIPTIVE RESEARCH?**

In this case descriptive research was most suitable because it helped in giving focus to the preferences, knowledge, beliefs & satisfaction of a group of people in a given population and characteristics of the successful and unsuccessful companies. Moreover it helped in determining the relationship between two and more variables.

## **DATA SOURCE**

To carry out the project work I have consulted the various secondary sources of data such as Magazines, Journals and websites.

## 4.1: BANKING SECTOR- AN OVERVIEW

Banking in India originated in the last decades of the 18th century. The oldest bank in existence in India is the [State Bank of India](#), a government-owned bank that traces its origins back to June 1806 and that is the largest commercial bank in the country. Central banking is the responsibility of the [Reserve Bank of India](#), which in 1935 formally took over these responsibilities from the then Imperial Bank of India, relegating it to commercial banking functions. After India's independence in 1947, the Reserve Bank was nationalized and given broader powers. In 1969 the government nationalized the 14 largest commercial banks; the government nationalized the six next largest in 1980.

Currently, India has 88 scheduled commercial banks (SCBs) - 27 public sector banks (that is with the [Government of India](#) holding a stake), 31 private banks (these do not have government stake; they may be publicly listed and traded on stock exchanges) and 38 foreign banks. They have a combined network of over 53,000 branches and 17,000 [ATMs](#). According to a report by ICRA Limited, a rating agency, the public sector banks hold over 75 percent of total assets of the banking industry, with the private and foreign banks holding 18.2% and 6.5% respectively

Indian Banking sector is dominated by Public sector banks (PSBs) which accounted for 72.6% of total advances for all SCBs as on 31st March 2008. PSBs have rapidly expanded their foot prints after nationalization of banks in India in 1969 and further in 1980. Although there is a restrictive entry/expansion for private and foreign banks in India, these banks have increased their presence and business over last 5 years.

Peculiar characteristic of Indian banks unlike their western counterparts such as high share of household savings in deposits (57.4% of total deposits), adequate capitalisation, stricter regulations and lower leverage makes them less prone to financial crisis, as was seen in the western world in mid FY09.

The Scheduled Commercial Banks (SCBs) in India have shown an impressive growth from

FY04 to the mid of FY09. Total deposits, advances and net profit grew at CAGR of 19.6%, 27.4% and 20.2% respectively from FY03 to FY08. Banking sector recorded credit growth of 33.3% in FY05 which was highest in last 2 and half decades and credit growth in excess of 30% for three consecutive years from FY04 to FY07, which is best in the banking industry so far. Increase in economic activity and robust primary and secondary markets.

A significant improvement in recovering the NPAs, lowest ever increase in new NPAs combined with a sharp increase in gross advances for SCBs translated into the best asset quality ratio for banking sector in last two decades. Gross NPAs to gross advances ratio for SCBs decreased from the high of 14% in FY2000 to 2.3% in FY08.

The law governing Banking Activities in India is Called “Negotiable Instruments Act 1881”.

The banking activities can be classified as:

- Accepting Deposits from public / other (Deposits)
- Lending money to public (Loans)
- Transferring money from one place to another (Remittances)
- Acting as trustees
- Acting as intermediaries
- Keeping valuables in safe custody
- Collection Business
- Government Business

Banking Segment in India functions under the umbrella of Reserve Bank of India – the regulatory, central bank. This segment broadly consists of:

- Commercial Banks
- Co-operative Banks

## **COMMERCIAL BANKS:**

In 1969, fourteen major commercial banks were nationalized. In 1980, six more commercial banks were nationalized. The State Bank of India and its subsidiaries are also own by the central government. After this amendment the existing structure has evolved in

- Public sector
- Private sector

Public sector banks have either the Government of India or Reserve Bank of India as the majority shareholder. This segment comprises of:

- State Bank of India (SBI) and its subsidiaries.
- Other nationalized banks.

Private sector banks consist of

- Scheduled Commercial Banks
- Unscheduled Banks

Scheduled commercial Banks Constitute those banks which have been included in the Second Schedule of Reserve Bank Of India (RBI) Act, 1934. RBI in turn includes only those banks in this schedule which satisfy the criteria laid down vide section 42 (6) of the Act. Some co-operative banks are scheduled commercial banks albeit not all co-operative banks are. Being a part of the second schedule confers some benefits to the bank in terms of access to accommodation by RBI during the times of liquidity constraints.

## **4.2: EVOLUTION OF URBAN CO-OPERATIVE BANKS**

The term Urban Co-operative Banks (UCBs), though not formally defined, refers to primary cooperative banks located in urban and semi-urban areas. These banks, till 1996, were allowed to lend money only for non-agricultural purposes. This distinction does not hold today. These banks were traditionally centered on communities, localities work place groups. They essentially lent to small borrowers and businesses. Today, their scope of operations has widened considerably.

The origins of the urban cooperative banking movement in India can be traced to the close of nineteenth century when, inspired by the success of the experiments related to the cooperative movement in Britain and the cooperative credit movement in Germany such societies were set up in India. Cooperative societies are based on the principles of cooperation, - mutual help, democratic decision making and open membership. Cooperatives represented a new and alternative approach to organization as against proprietary firms, partnership firms and joint stock companies which represent the dominant form of commercial organization.

## **MAIN FEATURES OF CO-OPERATIVE ORGANIZATION:**

The main features of Co-operative organization are:

- Voluntary Association

- Democratic Administration
- Self-help and Mutual Aid
- Common Welfare through Common Action
- Participation of Members on the basis of Equality

## **CO-OPERATIVE BANKS-STRUCTURE AND FUNCTIONS**

The primary objective of a Co-operative bank is to encourage 'Thrift and self help' and to raise resources by way of deposits. Hence the basis tenet of a Co-operative bank is to encourage the savings habits of its members. Co-operation is definitely a school of thrift, and co-operative saving create first the basis of funds, which are then employed for granting credits and for securing the confidence of depositors and clients.

Another objective of co-operative banks is to lend money to those who may not have acceptable assets to secure funds, but who is in need of it, especially to the weaker section of the community. The resources of banks should not be given to a few chosen members. All members are entitled to get loans and an individual maximum if fixed to avoid the monopolizing of resources by a few. While lending money, the Co-operative banks see that they are properly used for productive purpose. Then only it would be possible for the borrower to repay the loans in time. The Co-operative system possesses certain qualities, which eliminate the difficulty encountered by commercial banks when lending to small borrowers. Co-operative banks are generally local in character and they have local feel. Therefore, lending by them is more to the needy people of the community and hence recovery becomes easier. The aim of Co-operative lending is not to weaken a member by making debt on unbearable burden but to help him to get rid of financial difficulties by creating assets and to start a new economic life.

The purpose of a Co-operative bank is also to offer service to the customer at a reasonable cost. As profit motive is eliminated, a Co-operative banker can afford to render services at a reasonable cost. Co-operative banks been enjoying legislative support from the government. In India, they have been working under the Co-operative Societies Acts of the respective states and have been provided certain concessions In order to help them to face challenges from commercial banks. They now have to pay income tax on their income. At present, Co-operative Banks have been providing all modern banking services comparable to that offered by any Commercial Bank.

The functions of Co-operative Banks in India are governed by the Banking Regulation Act, 1949. The Banking Regulation Act was not applicable to Urban Co-operative Bank till March 1966. It was made applicable to them with the ultimate objective of protecting customers interest as large amounts of deposits of deposits were at stake. According to section 6 of banking Regulation Act, Urban Co-operative Banks can immediate following functions.

In addition to normal business of banking, Co-operative banks may engage in any one or more of the following activities namely:

- The borrowing, raising or taking up of money, the lending or advancing of money either upon or without security, the drawing making accepting discounting, buying, selling, collecting and dealing of bills of exchange, hundies, promissory notes, coupons, drafts, bills of landing, railway receipts, warrants, debentures, certificates, scrip's and other instruments and securities whether transferable or negotiable or not; the granting and issuing of letters of credit, travelers cheques an circular notes: the buying and selling of foreign exchange, securities and investments of all kinds, the purchasing and selling of bonds, scrips or valuables on deposits or for safe custody or otherwise, the providing of safe deposits vaults: the collecting and transmitting and securities.
- Acting as an agent for any government or local authority or any other persons or persons: the carrying on of agency business of any descriptions including the clearing and forwarding of goods, giving of receipts an discharges and otherwise acting as an attorney on behalf of customers.
- Contracting for public and private loans and negotiating and issuing the same.
- Carrying on and transacting every kind of guarantee and indemnity business.
- Managing, selling and realizing any property which may come into the possession of the Co-operative bank in satisfaction or part satisfaction of its claims.
- Undertaking and executing trusts.
- Undertaking the administration of estates as executor, trustee or otherwise:
- The acquisition, construction, maintenance, and alteration of any building or works necessary or convenient for the purpose of the Co-operative bank.
- Acquiring and undertaking the whole or any part of the business of any persons or company or Co-operative society: when such business is of nature enumerated or described in the sub-section:

- Doing all such other things as are identical or conducive to the promotion or advancement of the business of the Co-operative bank.
- Any other form of business which the central government may by notification in the official gazette, specify as a form of business in which it is lawful for a Co-operative bank to engage.

## **PRESENT STATUS**

The urban cooperative banking system has witnessed phenomenal growth during the last one and a half decades. From 1307 urban cooperative banks (UCBs) in 1991, the number of UCBs has risen to 2105 in the year 2004. Deposits have increased by over 1100 percent from Rs.8600 crore to over Rs.100, 000 crore, while advances have risen from Rs.7800 crore to over Rs.65, 000 i.e. by 733 percent during the above 15-year period. This growth path has been possible mainly on account of the enabling policy environment in the Post 1991 period, which encouraged setting up of new urban cooperative banks. Further, the deregulation of interest rates, as available to commercial banks, enabled the UCBs to mobilize vast deposits, which, together with the liberal licensing policy propelled the growth of UCBs in terms of numbers as also in size. This significant growth in business, which has come about in a competitive environment was largely due to the efforts and the ability of the sector to harness resources from the small depositors.

Thus, while the sector has shown spectacular growth during the last decade exhibiting substantial potential for sustained growth, there are certain infirmities in the sector that have manifested in the form of weakness of some of the entities resulting in erosion of public confidence and causing concerns to the regulators as also to the sector at large. There is, thus, a need to harness the benefit of rapid growth and mitigate the risk to which individual banks and the system are exposed by providing a regulatory and supervisory framework that will address the problems of the sector as also the shortcomings of dual control.

## STRUCTURES AND SPREAD OF UCBS

In terms of geographical spread, UCBS are unevenly distributed across the states. Five states viz., Maharashtra, Gujarat, Karnataka, Andhra Pradesh and Tamil Nadu. Account for 1523 out of 1942 banks that presently comprise the sector. Further, the UCBS in these states account for approximately 82% of the deposits and advances of the sector as may be seen from the table below:

Name of the State	No of banks in operation	% to total no. of banks	Deposits (Rupees in Lakhs)	% of deposits to total deposits	Advance (Rupees in Lakhs)	% of Advances to total advances.
<b>Maharashtra</b>	639	26.68	60,72,498	55.08	37,42,401.2	55.09
<b>Gujarat</b>	321	15.24	16,27,946	14.77	9,70,287.03	14.28
<b>Karnataka</b>	300	14.25	8,35,274	7.58	5,37,186.7	7.91
<b>Tamil Nadu</b>	132	6.27	3,10,521	2.82	2,12,113.28	3.12
<b>Andhra Pradesh</b>	131	6.22	2,11,324	1.92	1,37,888.23	2.03
<b>Total</b>	1,523	2,106	90,57,563	82.15	55,99,876.5	82.44

For all UCBS in the country, the total Deposits are Rs. 1, 10, 25,642 Lakhs and total Advance are Rs. 67, 93,017 Lakhs

### 4.3: TYPES OF LOANS AND CREDIT FACILITIES GIVEN BY BANKS

The entire operations of the banking industry revolve around obtaining deposits and granting loans and different credit facilities to its customers for viable projects.

The different types of loans and credit facilities given by the banks can be broadly classified into two types.

- Retail Lending
- Commercial lending

## **RETAIL LENDING:**

Retail finance has become the preferred business of banks because of its higher spreads and low risk of delinquency. The Indian consumer is fast changing his habits, borrowing money to buy the product he wants, not content with buying what he can afford. The resultant consumer boom is what market strategists explain as the key to the access of the Indian retail finance market. Retail finance today is a win-win system in which everyone stands to gain. For the Indian consumer, it is an opportunity to upgrade his standard of living right now instead of waiting for years for his savings to accumulate. For manufacturers, it stimulates demand and lowers inventory. For middlemen, it's a sales boosting device. For players of consumer finance i.e. banks and lending institutions, it's a means of profit generation.

There are a number of retail loans given by banks to its customers, which would suite their requirements. They are stated as under:

- ❖ Housing Loan
- ❖ Education loan
- ❖ Mortgage loan
- ❖ Personal loan
- ❖ Senior citizen pension scheme
- ❖ Rent scheme
- ❖ Consumer durables loan
- ❖ Auto finance loan
- ❖ Trade finance loan
- ❖ Loan against National savings certificate (NSC)
- ❖ Loan against Kisan Vikas patra (KVP)
- ❖ Loan against fixed deposit receipt (FDR)
- ❖ Loan against RBI bonds
- ❖ Loan against LIC
- ❖ Loan against FCNR
- ❖ Overdraft against FD/NSC/KVP

## **COMMERCIAL LENDING:**

The entire commercial lending can be broadly classified as fund based commercial credit facility and non-fund based commercial credit facility.

### **Fund Based Bank Facilities:**

#### **Term Loans:**

Term loan is an installment credit repayable over a period of time in monthly/quarterly/half yearly / yearly installments. Term loan is generally granted for creation of fixed assets required for long-term use by the unit. Term loans are further classified in three categories depending upon the period of repayment as under:

- Short term repayable in less than 3 years.
- Medium term loans repayable in a period ranging from 3 years to 7 years.
- Long-term loans repayable in a period over 7 years.

#### **Cash Credit Facility:**

A major part of working capital requirement of any unit would consist of maintenance of inventory of raw materials, semi finished goods, finished good, stores and spares etc. In trading concern the requirement of funds will be to maintain adequate stocks in trade. Finance against such inventories by banks is generally granted in the shape of cash credit facility where drawing will be permitted against stocks of goods. It is a running account facility where deposits and withdrawals are permitted. Cash credit facility is of two types (depending upon the type of charge on goods taken as security by bank)

##### **(i) Cash credit – pledge:**

- When the possession of the goods is with the bank and drawings in the account are linked with actual movement of goods from / to the possession of the bank. The bank exercises the physical control of the goods.

##### **(ii) Cash credit – hypothecation:**

When the possession of the goods remains with the borrower and a floating charge over the stocks is created in favour of the bank. The borrower has complete control over the goods and the drawings in the account are permitted on the basis of stock statements submitted by the borrower.

**Overdraft Facility:**

Overdrawing permitted by the bank in current account is termed as an overdraft facility. Overdraft may be permitted without any security as ‘clean overdraft’ for temporary periods to enable the borrower to tide over some emergent financial difficulty. ‘Secured overdraft’ facility is against fixed deposits, NSC, and other securities.

**Bill Finance:**

This facility is against bills of sales raised or book debts.

**Export Finance / Packing Credit:**

Bank grants export credit on very liberal terms to meet all the financial requirements of exporters. The bank credit for exports can broadly be divided in two groups as under:

**Pre Shipment advances / packing credit advances:**

Financial assistance sanctioned to exporters to enable them to manufacture / procure goods meant for export and arrange for their eventual shipment to foreign countries is termed as per shipment credit.

**Post shipment credit:**

The bills purchase / discount facility granted to exporters is grouped as post shipment advance.

**Non – Fund Based Bank Facilities:**

Credit facilities, which do not involve actual deployment of funds by banks but help the obligations to obtain certain facilities from third parties, are termed as non-fund based facilities. These facilities include issuance of letter of credit, issuance of guarantees, which can be performance guarantee / financial guarantee.

## **Letter of Credit (LC):**

A LC represents a commitment of a bank to pay the seller of goods or services a certain amount provided he resents stipulated documents evidencing the shipment of goods or the performance of services within a prescribed period of time. LC can be of two types:

- Inland
- Foreign

In other words LC is the undertaking of a bank to make payment on behalf of a person to a third party with a conditional undertaking. There are four principle parties to the LC. They are stated as under.

- Applicant (opener): He is the buyer of the goods. LC is opened at the request of the buyer, as per his instructions.
- Issuing Bank (opening bank): The bank (buyer's bank) that issues the LC and undertakes conditional payment, at the request of the opener / buyer / importer customer.
- Beneficiary: He is the seller of the goods. LC is issued in his favour enabling him to obtain payment on submission of stipulated documents / compliance with the terms and conditions of LC.
- Advisory bank: This is the bank which a normally located in the country of the seller that advises the credit to the beneficiary, establishes the genuineness of the credit.

### **Types of LCs:**

#### ***According to the degrees of security provided:***

- Revocable credit
- Irrevocable credit
- Irrevocable confirmed credit

#### ***According to payment methods:***

- Sight credit
- Acceptance credit
- Deferred payment credit

- Negotiation Credit
- Revocable Credit
- Installment credit
- Credit with advance payment / Anticipatory cred

#### **4.4: CREDIT POLICY OF ABHYUDAYA CO-OPERATIVE BANK Ltd.**

By the definition of the word “banking” lending constitutes the core business of any bank. Given this prime objective of the organization, it is imperative that a bank should have a well defined lending policy known also as loan policy or credit policy that would set the business target and direction of credit business for the bank. Moreover, such a policy is also necessary for laying down the framework of procedures appropriate for achieving the desired growth and controlling and monitoring landing operations at different level in view of sensitive nature, of the business regulatory compulsions and safety of the bank’s funds. The loan policies should be as per the various guidelines issued by the ‘Reserve Bank Of India’ since it’s adoption, changes in the availability of loan able funds, the climate of intense competition from the new private sector banks, the need to fulfill objective assets classification norms, shrinking margins and need for maximizing profits, etc.

##### **1. Broad Objectives:-**

The broad objectives of Credit Policy are:

- i) To give clarity about various aspects of credit including acceptance, scrutiny, sanction, delegation, documentation and post-disbursement follow-up.
- ii) To maintain the CD Ratio 60% throughout the year and to ensure that total exposure of the Bank including amount sanctioned but not disbursed and unutilized portion of CC and other Working Capital.
- iii) To strengthen credit appraisal, improve post sanction follow-up, monitor loans and advances and to improve quality of credit.
- iv) To reduce the gross NPAs of the Bank to a reasonable level during the year by strengthening appraisal, sanction, post disbursement supervision and efficient recovery steps.
- v) To maximize profitability and return on capital.

## **2. Direction Of Credit:-**

### **I. Thrust Areas/Core Sector Advance:-**

- a) Small Scale Industries & SMEs
- b) Housing Loans
- c) Retail Trade & Small Business
- d) Professionals and Self-employed
- e) Surety/SDL/ECS Loans upto Rs. 2.00 Lakh
- f) Food Processing in Small Scale Units
- g) Textiles in Small Scale Units
- h) Educational Institutions
- i) Steel Manufacturers (Small Scale Units)
- j) Loans and CC against Govt. Securities and Transferable RBI/Govt. Bonds.
- k) Discounting of Bills under confirmed L/Cs issued by Nationalized and reputed Private Sector Banks or reputed Co-op. Banks (to the extent of Rs. 25.00 Lakh)
- l) Rent Securitisation Loan
- m) Educational Loan
- n) Working Capital limits to small retailers up to Rs. 20.00 Lakh
- o) Loans to women entrepreneurs
- p) Credit facilities to minorities like Sikhs, Muslims, Christians, Zoroastrians and Buddhists communities etc.
- q) All Priority Sector Advances like loans to Artisans and Craftsmen, Vegetable Vendors, Cart Pullers, Cobblers etc.
- r) Software Industries (Loans and Advances only against 100% collateral securities)
- s) Civil Contractors registered with PWD, CIDCO, MSRTC, MCGM, NMMC, MIDC and other Govt. organizations.
- t) Loans against Govt. Securities.
- u) Auto Ancillaries

- v) Service Industries
- w) Wind Mill (Advances will be considered only against 100% collateral securities except Agricultural Land)

## II. Sensitive Sectors:-

- a. Builders and Developers and Real Estate Development including construction of Shopping Malls and Multiplexes.
- b. Civil Contractors other than registered with PWD, CIDCO, MSRTC, MCGM, NMMC, MIDC and other Govt. organizations.
- c. Hotel Industries
- d. Loans to Iron & Steel Traders
- e. Mortgage Loans

In the above sectors lending to be considered selectively on case-to-case basis on the inherent strength of the Borrower. It is to be recognized that some units in these sectors also perform well. Hence, such units will be financed. Therefore, stringent restrictions are recommended while considering new loan proposals. They are given under “Benchmark Financial Parameters for scrutiny, recommendation and sanction” subsequently.

## III. Restricted Sector:-

- a) Loans against shares except to individual up to Rs. 10.00 Lakh if shares are in demat form.
- b) In case of Group accounts where one of the accounts is a Non-performing account, then the facilities for other Standard accounts in the Group Loan be considered only in the Loan Board Meeting.
- c) Sugar factories & Textiles and other activities under Co-op. Sector.
- d) Loans for making TV serials/feature films, movie etc.
- e) Loans to Class-IV employees of Municipal Corporation of Mumbai, Navi Mumbai, Thane, Bhiwandi, Dombivali, Kalyan and Pune etc.
- f) Loans for purchase of excavators and proclams

## IV. Banned Sector:-

- a) Advances to share brokers/Co. against the securities of shares/tangibles or any other collateral.
- b) Loans & Advances for acquisition of/investing in small saving instruments including Kisan Vikas Patras.

- c) Grant of loans to banned articles including articles possession/production of which is banned under Wild Life Protection Act, 1972.
- d) HUFs.
- e) Advances to commodity brokers operating in MCX and NCDEX exchanges.
- f) Loans for speculative purpose.
- g) NPA accounts of other Banks.
- h) Willful defaulters of other Bank/our Bank and associate accounts of willful defaulters.
- i) NBFCS.
- j) Capital Market.
- k) Plantation Firms.
- l) Borrowers who have defrauded our Bank/other Banks.
- m) Guarantors who have defrauded our Bank/other Banks.
- n) Guarantors and Borrowers against whom suit/s are/were filed by the Bank.
- o) All black listed persons as advised by Government of India/RBI etc.
- p) Borrowers whose line of activity is included in the Negative list by the Govt. of India/RBI i.e. Defaulter of State/Central Govt. dues.
- q) Whenever Bank had entered into O.T.S. settlements under One Time Settlement scheme or other scheme and has sacrificed its dues either by way of write-off of principal, interest charged/interest not charged, the Borrower should not be granted fresh credit facilities either in his individual capacity or in the name of any other firm/company.
- r) Loans for purchase of Land except for Industrial/ Manufacturing Activities where entire project is financed.

**V. General Sector:-**

Any loan other than above four sectors are treated as General Sector advances.

**3. Credit Exposure Norms:-**

**Exposure ceiling on credit to Individual/Group Borrowers**

- (i) Credit Exposure to an individual Borrower does not exceed 15% of capital funds
- (ii) Credit Exposure to a group of Borrowers does not exceed 40% of capital funds.
- (iii) The maximum per party limit will be Rs. 40.00 crores and group limits Rs. 100.00 crores.
- (iv) In respect of non-fund based facilities, 100% of sanctioned limit or outstanding whichever is higher is to be taken into account for computing of exposure level.
- (v) In case of Term Loan, the principal outstanding in the account will be reckoned for arriving at the amount of credit exposure.
- (vi) Sector wise maximum exposure will be as under:-
 

(a) Housing	-	15%
(b) Educational Institution	-	16%
(c) Builders & Developers	-	10%
(d) Real Estate including Housing, Builders, Mortgage Loan, Hotel Loan etc.	-	15%
		of the total Deposits as on 31.3.2009
(e) Iron & Steel	-	15%
- (vii) Loans to the Directors and their relatives has been prohibited w.e.f. 1.10.2003 as per RBI guidelines except that Directors of the UCBs and their relatives avail loans against FDRs and LIC policies standing in their own name.

The Directors and their relatives cannot stand as Surety/guarantor to the Loans and Advances (both secured and unsecured) sanctioned by UCBs.

The 'relative' of a Director of the Bank shall mean any relative of a Director of the Bank as indicated hereunder:

A person shall be, deemed to be relative of another, if and only if:

- (a) They are members of a Hindu Undivided Family or
- (b) They are husband and wife or
- (c) The one is related to the other in the manner indicated below:
  1. Father
  2. Mother (including step-mother)

3. Son (including step-son)
4. Son's wife
5. Daughter (including step-daughter)
6. Daughter's husband
7. Brothers (including step-brother)
8. Brother's wife
9. Sister (including step-sister)
10. Sister's husband

#### 4. Credit Rating:-

- I. It has been decided to do Credit Rating exercise in respect of all the Borrowers enjoying only cash credit limit above Rs. 10.00 Lakh or only loan limit above Rs. 25.00 Lakh or either of CC or Secured Loan limit being more than Rs. 10.00 Lakh will be subject to gradation. Thus, the Borrower with cash credit limit of Rs. 5.00 Lakh and Secured Loan of Rs. 11.00 Lakh or vice -versa will be eligible for credit rating.

	<u>Marks</u>
Financial Parameters	36
Security Parameters	15
Conduct of Account	28
Management	10
Business and Other Parameters	<u>11</u>
	<b>100</b>

The accounts shall be graded as under :

	<u>Marks</u>
AAA	Above 90
AA	81-90
A	71-80
BB	61-70
B	Up to 60

- II. The Credit Rating of existing Borrowal accounts should be continued as per norms. The exercise for assigning fresh credit rating should be carried

out and completed by 31<sup>st</sup> December every year on the basis of the audited Balance Sheet and Profit and Loss account as on 31<sup>st</sup> March. Branches are advised to take up immediately in writing with each such Borrower for submission of audited financial statements on or before 30<sup>th</sup> November every year.

Zonal Offices to ensure that Credit Rating of all Borrowal accounts at Branches under their jurisdiction is completed by 31.12.2009.

- III.** In case of takeover of standard proposals from other Banks, the grading should be done as per norms. In case of accountholder of our Bank or other Bank with no credit facilities but having established business, its grading should also be done as per norms

The parameters and the marks for takeover proposals and existing established units are as under:-

<u>Sr. No.</u>		<u>Marks</u>
1.	Financial Parameters	36
2.	Security Prime and Collateral	15
3.	Conduct of Account	28
4.	Management	10
5.	Business and Other Parameters	<u>11</u>
<b>Total</b>		<b><u>100</u></b>

The above grading should be done on the basis of audited financial statements for past 2 years and perusal of their statement of accounts for past 2 years in addition to other parameters specified in Annexure – III.

- IV.** In order to pass on the benefit of low interest rates to the Borrowal accounts, credit rating should not be confined to the time of renewal/review of the credit limits. The grading should be done as and when the latest audited financial statements are received and the same should be forwarded through Zonal Offices to Loans & Advances Dept., Head Office for approval.
- V.** In case of composite borrowing, single grading should be made and applied for different facilities. Same rate of interest on the basis of gradation will be applicable to both Term Loan and CC/DBD accounts of a single

Borrower. The gradation is valid for one year. However, in case any abnormalities are observed, fresh review should be made immediately and Account should be graded accordingly in between.

**VI.** It is emphasized that there is need for all Borrowers to be aware of the reduction in the rate of interest and the benefits of credit rating available by submitting latest audited financial statements at the earliest. This will inculcate the habit of submitting financial statements in time. Branches are advised to write to all Borrowers eligible for credit rating so that they can submit audited statements well in time to avail benefit of lower rates upon higher gradation.

**VII.** Credit Rating is not applicable for Mortgage Loans, Rent Securitization Loans and Premises Loan.

**VIII.** In case of loans to Educational Institutions, yearly Credit Rating should be done even though they are offered concessional rate of interest. Penal Interest @ 1% shall be charged if they do not complete the grading by 31.3.2009 w.e.f. 1.4.2009...

**IX.** Similarly Credit Rating of loans and advances to paper and stationery traders at Fort Branch should be done though interest rate is not linked to grading.

**X.** Revised interest rates after grading are applicable from the 1st day of the month in which Credit Rating is completed.

**5. Loans and Advances to Officers & Employees of the Bank and their Relatives:-**

**(i)** The loans to Officers & Employees (except Staff Housing Loan/Consumption/Vehicle Loans and other Loans and Cash Credit Facility etc. as per Agreement/MOU with Officers' Association/ Union) are sanctioned only by the Managing Director/Board.

**(ii)** The Loans and Credit Facilities to the relatives of Officers/Employees will also be sanctioned only by the Managing Director/Board.

The Officers, Employees and their relatives will be made Nominal Members only.

## **6. Acceptance & Scrutiny and Recommendations of Loan Proposals:-**

### **Acceptance:-**

- i.** All credit proposals will be accepted by respective Branches/Credit Cell.  
However, the proposals for In-Principle Acceptance as determined from time to time will be accepted at Regional/Zonal Offices but after acceptance In-Principle of such proposals by the Board, they will be once again scrutinized by the Branch and sent to Head Office through respective Regional/Zonal Offices.
- ii.** Proposals beyond the powers of Regional/Zonal Offices will be sent to Head Office duly scrutinized and recommended by the Branch and respective Zone.
- iii.** In exceptional cases the proposal may be accepted at Head Office directly.
- iv.** Acceptance and Scrutiny should be done as per the laid down norms and instructions issued by Head Office from time to time.
- v.** The Specialized Credit Cell at Abhyudaya Nagar will follow the procedure as laid down in Office Orders No. 206 dated 10.11.2005 and No. 218 dated 18.9.2006 respectively. They will send proposals beyond the delegated power of DGM and up to the delegated authority of the Managing Director directly to Head Office.
- vi.** The Regional Offices will send the proposals beyond the delegated power of DGM and up to Rs. 50.00 Lakh directly to Head Office for sanction and proposals beyond Rs. 50.00 Lakh and above shall be routed through respective Zonal Offices.
- vii.** It has been decided not to sanction Surety loans against income proof by Affidavit and there is no established business.  
In case of applications for loans from Class-IV employees of Municipal Corporation of Mumbai, Navi Mumbai, Thane, Bhiwandi, Dombivali, Kalyan and Pune etc. can be considered if their salaries are received/credited regularly through ECS in their accounts for more than six months.
- viii.** Branches shall invariably obtain Credit Report from Credit Information Bureau of India Ltd, (CIBIL) of all applicants i.e. Individual as well as Commercial Borrowers and its Partners, Directors, Trustees as well as the Sureties as per Circular OC No. 433 dated 8.4.2008 and 456 dated 8.10.2008. Branches shall also check the RBI List of Defaulters whenever new and takeover credit proposals are received.
- ix. In-Principle Loan Sanction Letter (Without Loan Application):-**

In-principle' Loan Sanction letters (without loan application) to be issued to our customers whose salary is being remitted to our Bank through ECS. The sanction amount will be based on the salary amount received in the branch. The Branch In-charge to issue In-principle approval letter.

## 7. Scrutiny:-

Various aspects of scrutiny are as under:-

Benchmark Parameters for the purpose of scrutiny/ recommendations and sanction of Cash Credit above Rs. 10.00 Lakh and Term Loan above Rs. 25.00 Lakh.

### a. For Core & General Sector (New and Existing)

- i. Current Ratio = 2.00
- ii. Quick Ratio = 1.00
- iii. Total Long-term Liabilities = 4:1  
Total Net Worth
- iv. Total Liabilities = 5:1  
Total Net Worth
- v. Actual Sales = Minimum 90%.  
Projected Sales
- vi. DSCR = 1.5 or above but not less than 1.25 each year.
- vii. Prime Security – Should adequately cover the Drawing Power. In case the Borrower operating account within DP throughout a year, it can be eligible for full marks.
- viii. Collateral Security – 25% to 50%.
- ix. Total Security – 160%
- x. Margin – As given in the subsequent column under margin.
- xi. Debtors = Maximum 90 days
- xii. Creditors should be less than Debtors.
- xiii. Profit making unit

### b. For Sensitive category

#### 1) For Builders & Developers:-

- I. Debt Equity Ratio = 2:1
- II. Total Liabilities = 3:1  
Total Net Worth
- III. Margin on Prime Security = 50 %

**IV. Collateral securities = Above 100%.**

**V. Total Securities = 300%**

**VI. Profit > 10% Sale**

2) For Other Civil Contractors, Hotel Industry and Iron and Steel Traders, the following ratios are fixed (New and Enhancement)

**I. Debt Equity Ratio = 3:1**

**II. Total Liabilities = 4:1**

Total Net Worth

**III. Margin = 40%**

**IV. Collateral securities = Minimum 50%.**

**V. Total Securities = 200%**

**VI. Profit > 5% Sale**

## 8. Margin:-

### I. A. Cash Credit – Hypothecation of Stocks & Book Debts

(Book Debts older than 3 months do not qualify for DP unless specially permitted by the Board in deserving cases. Stock should be paid stocks.)

#### Stock:-

a) For Priority Sector Advances and manufacturing units	-	25%
b) For others	-	25%

#### Debtors:-

a) For Priority Sector Advances and manufacturing units	-	25%
b) For others	-	40%

<b>B. a. DBD/SBD/Channel Credit</b>	-	15%
<b>b. Bill Discounting under L/C</b>	-	NIL

### II. a. New Machineries & Imported

Reconditioned Machineries not used in India (Import documents required for assessing the value for Term Loan)	-	25%
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- b. 2<sup>nd</sup> hand Indian Machines/ - 50%  
 2<sup>nd</sup> hand imported machines used  
 in India (Valuation Report by  
 Chartered Engineer is required  
 giving present value and residual  
 life of the machine.)

### III. Gold/Jewellery Ornaments

Repayable within 12 months (As per Circulars issued  
 Repayable within 24 months from time to time)

### IV. Purchase of

- a. Shop/Gala/Office/Commercial/Factory - 25%  
 b. Land & Building (Construction) - 25%  
 (In case of Mfg. Unit project only)  
 c. Residential Flat/House  
 Up to Rs. 20.00 Lakh - 25%  
 Above Rs. 20.00 Lakh - 30%

- V. a. Renovation/Repair of Flat/House - 10%  
 (Loan above Rs. 2.00 Lakh)  
 b. Renovation/Repairs of Shop/Factory - 25%

### VI. Vehicle:–

- A) New - 20%  
 B) Used Vehicles (Not more than three years old and for Buses  
 not more than five years)  
 a. Used Bus/Tempo/Trucks : 50% of valuation/Agreement  
 Value whichever is lower.  
 b. Private Vehicles : 40% of valuation/Agreement  
 Car/Jeep values whichever is lower.

VII. Furniture/Computer/Equipments etc. - 25%

VIII. Medical Instruments/Equipments to Medical  
 Practitioners - 10%

IX. Mortgage Loan: - 40%

X. (i) Govt. securities, NSC, KVP,

RBI Bond (Accrued Value)		
a. Up to 2 years old	-	30%
b. Above 2 years up to 4 years old	-	25%
c. Above 4 years old	-	15%
(ii) Secured Cash Credit (SOD) against NSC/KVP/RBI Bonds (Accrued Value)	-	20% For Customers And <b>NIL</b> for our Bank Officers & Staff
<b>XI. LIC Policy (Surrender Value)</b>	-	10%
<b>XII. Loan against FDR (accrued value)</b>	-	10%
<b>XIII. Bank Guarantee &amp; Letter of Credit</b>	-	Min. 25% Cash Margin

## 9. Calculation of Working Capital requirements/Term Loan

### I. Working Capital/Cash Credit/DBD/SBD/WCTL/Channel Credit Limits :-

- i. Up to Rs. 1.00 Crore for Borrowers other than SSI Units and  
Rs. 5.00 Crore for SSI Units
  - (a) The Assessment of Working Capital requirement of Borrowers other than SSI Units requiring fund based Working Capital limits up to Rs. 1.00 Crore and SSI Units requiring fund based Working Capital limit up to Rs. 5.00 Crore from banking system be made on the basis of their realistic projected annual Turnover.
  - (b) The Working Capital requirement is assessed at 25% of the realistic projected Turnover to be shared between the Borrower and the Bank i.e. Borrower contributing 5% of the Turnover as Net Working Capital and Bank providing minimum of 20% of the Turnover.
  - (c) Drawals against the limits should however be allowed on the basis of the Drawing Power calculated based on timely submission of monthly statements of Stocks, Receivables and Sundry Creditors and

also periodical verification of such statements vis-à-vis physical stocks by Branch Officials.

- ii. Above Rs. 1.00 Crore for Borrowers other than SSI Units and Rs. 5.00 Crore for SSI Units

Here the Bank may adopt Working Capital Gap Method or Production/Process Cycle Method for assessing the Working Capital requirements.

**a. Working Capital Gap Method:-**

Current Assets – Current Liabilities excluding outstanding Working Capital Facilities = Working Capital Gap (WCG) – 25% of WCG = Eligible Maximum Permissible Bank finance (MPBF)

**b. Production/Processing Cycle Method:-**

Sr. Manager/Manager, Industrial Finance Dept. will visit the industrial unit and work out requirement of working capital based on the existing production/processing cycle as well as realistic Projected Cycle. He will take into account credits received on purchase of raw material, credits allowed on sales, inventory levels of raw materials, work in process, finished goods etc. comparing the same with industry level.

In order to arrive at the future requirements of the unit, he will scrutinize the projected sales for next two years and work out the requirement of the working capital.

**II. Loans & Advances to Contractors/Builders/Developers:**

Loans & Advances to Contractors/Builders/Developers shall be worked out as follows:

The basis of fixing the eligible Loan amount is on the basis of projected realistic cash flows till the entire Contract/Project is completed. Here while calculating the projected cash flows, Branches should also take into account the Deposits/Tender amount kept with the principals, the period for preparing the Bills and the time gap between submission of Bills and realization of payment as well as the terms of the contract whereby the period

for payment for Bill is specified. They should also consider the period of credit available by the suppliers. After going through the Tender, the Branches should get a fair idea of realistic cash flows and arrive at net deficit until the entire project/contract is completed. The Bank's fund will be the maximum net deficit minus minimum margin.

### **III. Funded Interest Term Loan (FITL):**

Funded Interest Term Loan is extended for funding the interest on loans. This has to be considered very judiciously and can be extended to the Borrower when the account is Standard Asset or had never been an NPA account and when the Borrower does not have alternative source of servicing the interest on Term Loan. To consider such a finance, Bank will have to satisfy that the Borrower really does not have cash inflow generation from any other source to service interest and when there is genuine deviation from the initial projections like project/implementation delay for reasons beyond the control of the Borrower. Hence, the Borrower does not pay interest but Bank capitalizes the interest through a separate loan account i.e. FITL

### **IV. Working Capital Term Loan:**

Working Capital Term Loan limit is extended in the following cases:-

- (i) To units/trading accounts where large cash credit limit is asked and Bank decides to bifurcate working capital limit into cash credit and loan(WCTL) taking into account the available prime securities and existing substantial collateral security. In that case, WCTL limit shall be secured by hypothecation of stocks and book debts including book debts above 90 days. Weightage will be given to new/additional collateral securities offered for availing additional CC and WCTL limits.
- (ii) Where a contractor obtains contract of some amount and it is to be completed within certain months/period, he requires finance for completing the contract. As per the terms of contract, he receives advance and thereafter receives payment after stage-wise completion of the work. The balance amount is received after some months of completion of the contract. In such cases WCTL is sanctioned taking into account advance receivable, period of contract

execution, stage wise receipt of payment of work executed and period of receipt of balance contract amount after execution of the contract.

It is secured by Deposits/Advances given to the Principals, Stock, Work in Progress, Book Debts and Receivables of contract.

- (iii) WCTL should be sanctioned against Book Debts above 90 days only in case of Trading and Manufacturing Units. However, WCTL can be considered to the Govt. and Semi-Govt. contractors against the work orders.
- (iv) WCTL is also granted while reviving the sick unit under rehabilitation package. Under rehabilitation, additional finance is given for increasing production capacity, purchase of raw materials and for cost of production including payment of salaries and wages etc.
- (v) SOD limit up to Rs. 10.00 Lakh against Regd. Simple Mortgage of Non-agricultural (N.A.) Land and other immoveable properties would be considered for Borrowers other than Mumbai and Navi Mumbai branches. The value of properties shall be 200% as margin of 50% would be obtained.

#### **10. Visit to Borrower Accounts:-**

The visits to Borrower accounts residence, office, factory and all the properties offered for mortgage should be made well in time and as per the time frame stipulated by the Bank in its various circulars/guidelines. The Visit Report should be given in the specified Bank's format and complete in all respects.

#### **11. Collateral Securities:-**

**A]** The collateral securities acceptable to the Bank and to be obtained from Borrowers as approved by the Board are enumerated as under:-

1. Lien/Mortgage/Parri Passu or Second charge of Flat/Gala/ Shop/ Factory/Plot/Land and Building.
2. Assign/Pledge – LIC/NSC/Other Govt. securities/RBI Bonds.
3. Lien on Bank Deposit like FDR/RD etc.
4. Hypothecation of Machinery/Equipments/Vehicles
5. Govt. Guarantees.
6. Any other collateral securities, where Bank lien/Hyp./Mortgage/Charge is available.

**B]** Encumbrances/Third party interest in property offered as mortgage

## 12. Sureties:-

At least two sureties are required, as per the bank norms.

## 13. Housing Loans to Non-Resident Indians:-

Housing Loans to Non-Resident Indians be considered if the co-applicant is a resident of India and repayment capacity is good.

## 14. Repayment Schedule:-

Repayment schedule are decided by both the parties as par the Bank Norms

## 15. Membership:-

All Borrowers and their Sureties should be members of the Bank. .

## 16. Interest Rate Fixation:-

- (i) The Rate of Interest is normally fixed based on PLR i.e. Prime Lending Rate. However different rates of interest above and below PLR may be charged for different types of loans. Present PLR is 13.50%.
- (ii) For the Borrowal accounts which are subject to Credit Rating, the Rate of Interest is based on grading of accounts as follows:-
- (iii) The Rate of Interest changed from time to time will be communicated to the Branches.
- (iv) All Rate of Interest are floating rate of interest unless it is specifically mentioned by the sanctioning authority as per the norms.

<b>Grade</b>	<b>SSI &amp; Other manufacturing Units % p.a.</b>	<b>Govt. contractors Registered with PWD/MKVDC/Mun. Corpn./CIDCO, etc. % p.a.</b>	<b>Others (Incl. Traders) % p.a.</b>
<b>AAA</b>	<b>-1.00</b>	<b>PLR</b>	<b>PLR</b>

<b>AA</b>	<b>-0.50</b>	<b>+0.75</b>	<b>+0.50</b>
<b>A</b>	<b>PLR</b>	<b>+1.00</b>	<b>+1.00</b>
<b>BB</b>	<b>+1.50</b>	<b>+1.50</b>	<b>+1.50</b>
<b>B</b>	<b>+2.00</b>	<b>+2.50</b>	<b>+2.50</b>

## 17. Revalidation Of Limit:-

If the applicant fails to execute the documents for availing the new facility within 3 months from the date of sanction, his/their application should be submitted to the sanctioning authority for release of loans & advances. The order to release limit should not be automatic.

The Sanctioning Authority has to obtain latest audited Balance Sheet, Profit & Loss A/c. of loaner and other details. The In-charge of the Branch shall visit the unit/office and ensure that there are no adverse changes in the position of the account. He should submit his report accordingly.

For revalidation, following commitment charges to be charged.

- i) Loans and Advances up to Rs. 5.00 Lakh - Rs. 100/-
- ii) Loans and Advances above Rs. 5.00 Lakh  
up to Rs. 50.00 Lakh - Rs. 500/-
- iii) Loans and Advances above Rs. 50.00 Lakh - Rs. 1,000/-

The various powers exercised by the Branches like over drawings, against clearing & cheque purchase/discount shall be sent to the Zonal Offices on the monthly basis. Similarly, powers exercised by the Zonal Offices shall be sent to Head Office on monthly basis.

## 18. Permission to Borrower to maintain Current A/C. with Other Banks:-

Bank permits Borrower accounts to maintain CD A/c. with other Banks for payment of taxes/receipt of export proceeds/release of import documents/realization of upcountry cheques etc. The Borrower should

seek permission in writing, explain in detail the requirement and undertake not to avail credit limit from that Bank and to transfer amount credited in those accounts due to realization of upcountry cheques/export bills to cash credit a/c. with our Bank. They shall also undertake to submit statement of account every quarter to the Bank for perusal.

The officials are delegated to allow such CD A/c. with other Banks as under:-

		<b>Total Limits</b>
DGM	-	Rs. 25.00 Lakh
GM	-	Rs. 50.00 Lakh
M.D.	-	Above Rs. 50.00 Lakh

While granting permission to the Borrower, the In charge of the Branch should write to the concerned Bank informing credit limits enjoyed by the Borrower, prime securities and advise them not to extend any credit limit without our written permission. It should also be emphasized that CD A/c. is allowed only for the purpose of payment of taxes/collection of upcountry cheques etc.

#### **19. Submission of Audited Financial Statements for the year ended March by Borrowers with the Credit Limit above Rs. 10.00 Lacks:-**

It is decided that all Borrowers with credit limits above Rs. 10.00 Lacs from the Bank should get their accounts audited compulsorily by their Chartered Accountants.

##### **A. For Enhancement of Limits:**

- (i) To submit audited financial statements from 1<sup>st</sup> November.
- (ii) To submit Balance Sheet and Profit and Loss Account finalized by Chartered Accountants as per Books of Accounts – up to 31<sup>st</sup> October.

##### **B. Renewal/Review of Limits:-**

- (i) To submit Balance Sheet and Profit and Loss Account finalized by Chartered Accountants as per Books of Accounts - 30<sup>th</sup> November of the year

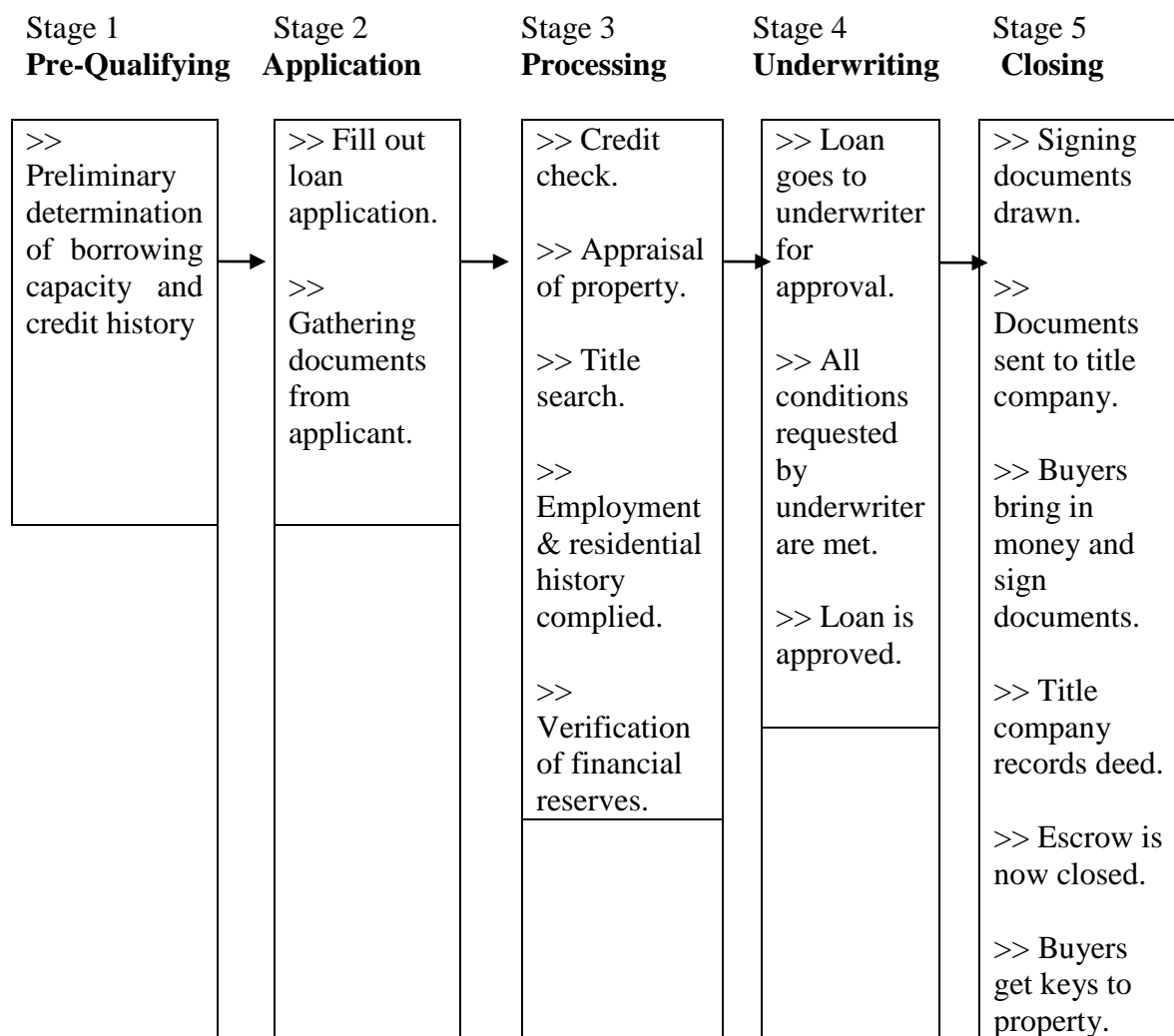
**OR**

- (ii) To submit Audited Balance Sheet and Profit and Loss A/c. by 31st December of the year

## 4.4: LOANS PROCESS & CREDIT ANALYSIS IN BANKS:

Loans are the most important assets in a bank's portfolio, sound credit analysis is the key to making high-quality loans and managing credit risk. As very few firms have the resources to operate their businesses on a cash basis. Most have to rely on credit just to stay in business.

### Loan Process Flow:



*Figure 2*

The above diagram shows various stages involved in the standard loan process flow.

As Shown in the diagram, credit analysis is integral and essential part of loan process. Credit analysis is defined as 'The process of evaluation an applicant's loan request in order to determine the likelihood that the borrower will live up to his/her obligations'. It means basically it checks the credit worthiness of the borrower.

The concept of credit offers a business many benefits, but it always entails risk. You're caught between two crucial profit objectives. Within your bank's credit policies, you want to do as much as you can to grant credit – and facilitate sales. But the credit manager is equally obliged to make tough judgments and determinations concerning his/her customer's credit-worthiness, to ensure that the bank is paid on time and in full. The entire operations of the banking industry revolve around obtaining deposits and granting loans and different credit facilities to its customers for viable projects.

## LOAN PROCESS & CREDIT ANALYSIS IN ABHYUDAYA CO-OP. BANK:

*The Loan Process Flow in Abhyudaya Bank Is As Follows:*

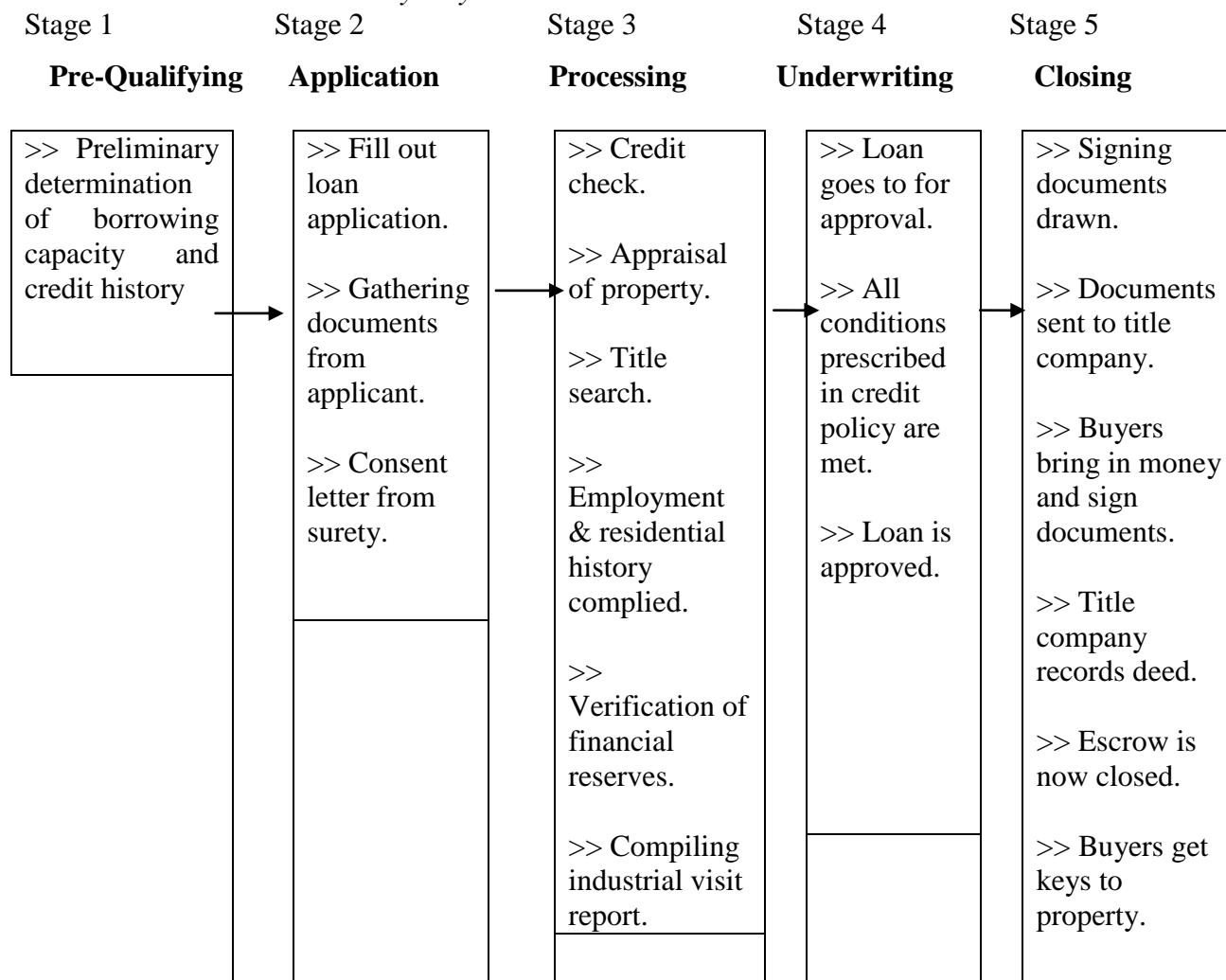


Figure 3

The popularity of loan and advances facility provided by Abhyudaya bank is due to its effectively structured loan process and credit policy. The credit policy is being revised at regular interval. These efforts resulted in maintaining the NPAs almost at Zero level Credit analysis of the loan proposal is been carried out as per the outline of credit policy

### Financial Position & Projection:

<b>1. Liabilities</b>	<b>As on 31.3.06</b>	<b>Current Year 31.3.07</b>	<b>Proj. Year 31.3.08</b>	<b>Proj. Year 31.3.09</b>	<b>Proj. Year 31.3.10</b>
a. Capital & Reserves	28.19	37.20	45.74	53.50	60.50
b. Quasi Capital	-	74.83	-	-	-
c. Unsecured Loans (ST)	4.49	2.32	3.00	-	-
d. Unsecured Loans (LT)	62.08	50.50	123.00	150.00	125.00
e. Bank Borrowings	236.52	251.84	225.00	225.00	220.00
f. Sundry Creditors	928.80	989.00	1785.00	1170.00	1250.00
g. Other Liabilities	17.19	24.18	12.00	15.00	13.50
h. Secured Long Term Loan		-	-	-	-
<b>TOTAL</b>	<b>1277.27</b>	<b>1429.87</b>	<b>1593.74</b>	<b>1613.50</b>	<b>1669.00</b>
<b>2. ASSETS</b>					
a. Fixed Assets	12.03	10.22	8.50	8.00	7.50
b. Current Assets	1231.08	1370.51	1500.00	1550.00	1600.00
c. Other Current Assets	1.05	3.48	52.12	20.00	24.50
d. Investments	33.11	45.66	33.12	35.50	37.00
<b>TOTAL</b>	<b>12277.27</b>	<b>1429.87</b>	<b>1593.74</b>	<b>1613.50</b>	<b>1669.00</b>

<b>3. PROFIT AND LOSSA/C</b>					
a. Purchases	3293.54	4116.96	Not given	Not given	Not given
b. Sales	3388.15	4513.47	Not given	Not given	Not given
c. Gross Profit	-	-	Not given	Not given	Not given
D. Net Profit	5.87	9.01	Not given	Not given	Not given
e. Depreciation	2.41	1.81	Not given	Not given	Not given
f. I. T. Paid			Not given	Not given	Not given

**(A) WORKING CAPITAL ASSESSMENT – Method -1**

(Rs. In Lakhs)

	<b>Actual As Per Current Year Balance Sheet as on 31.03.2007</b>	<b>Projected 1 31.03.2008</b>	<b>Projected 2 31.03.2009</b>
Current Assets	1370.51	1500	1550
Current Liabilities	1013.18	1197	1185
Working Capital Gap	357.33	303	365
Margin 25%	89.33	75.75	91.25
P.B.F.	268	227.25	273.75
Current Ratio	1.08 : 1	1.05 : 1	1.9 : 1

**(B) Working Capital as per Turnover Method:**

<b>YEARS</b>	<b>CURRENT YEAR</b>	<b>PROJECTED 1</b>	<b>PROJECTED 2</b>
Projected Sales	4513.47	Not Submitted	Not Submitted
Working Capital (20% of Projected Sales)	902.69	Not Submitted	Not Submitted

**Position Of Stock/ Book Debts/ Sundry Creditors as on the date of Visit:**

(Rs. in Lacks)

<b>Priority</b>			<b>Non Priority</b>		
Stock			Stock	128	84
+ Book Debts			Less: Sundry Creditors	544	70
			Sub Total	415	96
Sub Total			Less: Margin 25%	103	75
Less: Sundry Creditors			(A) Total	312	00
Sub Total			Book Debts	709	27
Less: Margin 25%			Less: Margin 40%	283	70
			(B) Total	425	57
Drawing Power			Drawing Power(A+B)	1139	61

**Bank recommends sanction of limit as under:**

	<b>AMOUNT</b>	<b>MARGIN</b>
[1] Cash Credit	Rs. 100.00 Lacs	25%
[2] Letter of Credit	Rs. 130.00 Lacs	
[3] W.C.T.L	Rs. 100.00 Lacs	25%

## CONCLUSION

Currently the credit policy of the Bank is reviewed periodically by taking into account changes in political environment, economical environment and money markets, changes in credit policy announced by the Reserve Bank of India and happening of other events to protect the interest of the Bank and to maintain profitability.

Proper credit appraisal involving performance of client, sureties and industrial visits helps bank to reduce its NPAs and hence to reduce its credit risks.

Bank has classified all the sectors in to five different categories such as core sector general sectors, sensitive sectors, banned sectors and restrictive sectors.

If an individual / Business concern or any other applicant need loan from Bank, they have to be member of the bank.

Bank use its own credit rating system, CIBIL report as well as confidential report from other banks as per the needs to judge the credit worthiness of clients.

## **RECOMMENDATIONS**

After learning the credit appraisal process at Abhyudaya Co-operative Bank and observing the findings, I put some of my recommendations which, firmly believe, would enhance the overall credit delivery process of the bank and experience of the corporate clients. My suggestions are as follows:

### **Findings:**

Currently, the processing of credit proposal is done manually by officers.

### **Suggestion:**

The processing of credit appraisal can be expedited by using suitable software that can help the Bank in calculation of Ratios, credit rating and pricing. The Bank could therefore make use of tools to evaluate the proposals for different interest rates and conditions.

## **FINDINGS**

The government and Reserve Bank of India have devised compromise settlement schemes to help Banks recover non performing assets specially for genuine borrowers. The scheme provides concession and interest waivers so that immediate settlements can take place.

## **SUGGESTION**

There are special software available that enables the Bank and the users in respect of:

- Speedy preparation, evaluation and approval of settlement proposals.
- Availability of reliable information and systems to monitor and control the recovery process.

Thus, such software could be installed to prepare and evaluate settlement schemes.

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