AN ANALYSIS OF CREDIT FACILITIES WITH REFERENCE TO CANARA BANK

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ABSTRACT

The project report entitled "An analysis of Credit Facilities with reference to Canara Bank, Velachery". Credit is contractual agreement in which a borrower receives something of value and agrees to repay the lender at some later date with consideration, generally with interest. Credit also refers to an accounting entry that either decrease assets or increase liabilities and equity on the bank balance sheet. It is based on customer's expectation on their bankers to provide them with loans and advances to make up any short fall in their funds requirement for transactional motive.

By analytical research design and sources of data (i.e. secondary data collection of about 7 years of balance sheet, the research project is carried out in Canara Bank. The objective of the study is to identify the different types of loans provided by the Canara Bank. To examine the profitable loans among different loans and also find the outstanding amount for loan schemes provided by the bank. To compare different schemes and find the best out of available credit schemes. Also to suggest some remedial measures to be taken for improving credit facilities by the Canara Bank.

The research studies like the present on may help the bank to re-orient its strategy related to loans, deposits and provide different services. The research involves in ratio and trend analysis for their analysis of credit facilities in Canara Bank. Through the analysis, the management shall easily take decisions showing in its report how utilization of available capacity will lead to increase in profit.

Key word: - *Credit analysis, Analytical Research Design, profitable loans.*

1. INTRODUCTION

Credit facility is basically a term used to describe credit issued for business purposes. This can be a short term revolving credit such as line of credit or it can be a long-term credit issue such as a term loan. A facility is a formal assistance program offered by a lending institution to help a company that requires operating capital. Credit analysis is governed by the "5Cs:" character, capacity, condition, capital and collateral. The terms of interest payments, repayments, and loan maturity are detailed. They include the interest rates and date for repayment, if a term loan, or the minimum payment amount and recurring payment dates, if a revolving loan. The agreement details whether interest rates may change and specifies the date on which the loan matures, if applicable. The credit facility agreement addresses the legalities that may arise under specific loan conditions, such as a company defaulting on a loan payment or requesting a cancellation. The section details penalties the borrower faces in the event of a default and steps the borrower takes to remedy the default. A choice of law clause itemizes particular laws or jurisdictions consulted in case of contract disputes.

According to James Chen, "A credit facility is a type of loan made in a business or corporate finance context. It allows the borrowing business to take out money over an extended period of time rather than reapplying for a loan each time it needs money".

1.1 TYPES OF CREDIT FACILITIES

Credit facilities come in a variety of forms. Some of the most common include: Retail credit facility, revolving loan facility and committed facility. Credit facility is an agreement that enables a person or organization to be taken credit or borrow money when it is needed. All types of credit facilities may broadly be classified into two groups on the basis of funding: fund based credit and non-fund based credit. Fund based credit is the any credit facility which involves direct outflow of bank's fund to the borrower. It involves are loans, cash credit, over draft and so on. Non- fund based credit is a facility where there is no involvement of direct outflow of bank's fund on account of third party on behalf borrower. It involves are letter of credit, buyer credit, supplier's credit, bank guarantee and so on.

The Canara Bank is providing various types of credit facilities to their customers. They provide different types of loans such as personal loan, home loan, gold loan, car loan, mortgage loan, pension loan, canara jeevan loan and so on. The project is carried out on the analysis of various loan schemes provided and find the profitable loan from the available facilities for the development of bank. Credit enables the individual or business to "purchase ahead of ability" or "desire to pay". Bank credit accelerates the process of economic development in the country by providing loan to the industries in time. Credit also results in improving the living standard of the peoples.

1.2 NEED FOR THE STUDY

It is needed to know about the type of loans provided by the bank and percentage of returns from it. It is also needed to compare the type of loans and to know the profitable one among different loans. It is to know the non-payment or dues and remedial measures to collect the money on time.

1.3 OBJECTIVES OF THE STUDY

PRIMARY OBJECTIVE:

- To analyze about Credit Facilities with reference to the Canara Bank.

SECONDARY OBJECTIVES:

- To identify the different types of loans provided by the bank.
- To examine the profitable loan for the bank among different loan.
- To identify the outstanding amount for different loans provided by Canara Bank.

1.4 SCOPE OF THE STUDY

The scope of the study was entitled towards the credit policy provided to members by Canara Bank. It provides various types of loans to the members. The study encloses some of the financial tools and techniques in order to know the financial performance of debtors. The study provides the information related to different loans and their rate of interest collected by bank. It helps to measure the future growth of the firm.

1.5 LITERATURE REVIEW

Linda Serwah Akoto, Edmund Nana Kwame Nkrumah, Korankye Benjamin, Alex Antwi-Adjei, *"The Influence of Credit Risk on Equity Performance: An Empirical Assessment of Banks Listed on Ghana Stock Exchange"*, American Journal of Social Sciences and Humanities, ISSN NO: 2520-5382, vol.5, No: 1, 2020. The purpose of the study is to assess how credit risk exposure among listed banks on the Ghana Stock Exchange (GSE) affects Return on Equity (ROE). The study adopts a panel data for the period 2006 – 2017 of seven different banks listed on the Ghana Stock Exchange. The empirical assessment was tested using the fixed and common constant effect regression, correlation and the Granger causality test. Secondary data were extracted from the BoG time series data, Ghana Statistical service and audited annual reports of the listed banks. Credit risk measured by NPLTL was found to negatively and significantly influence ROE. Both the common constant effect and fixed effect of the regression results indicated a negative significant influence of credit risk on ROE. The Granger causality test as well supports the regression findings as credit was found to cause ROE. In conclusion, banks must strengthen their credit risk management framework to help combat the credit risk exposures they face. The Ghanian central bank must as well improve their supervisory role to ensure banks comply with the existing financial regulations.

Danstun B Ngonyani, Harun J Mapesa, *"Implication of credit supervision practices on portfolio at risk of Microfinance Institution in Tanzania"*, Journal of Economics and Financial Analysis, ISSN: 2521- 6627, vol.3, No: 1, 2019. This study seeks to establish the implication of credit supervision practices on portfolio management of microfinance institutions in Tanzania. Utilizing multivariate regression technique over sampled 219 microfinance institutions from Dar es Salaam, Morogoro and Dodoma regions, it documents two plausible results. First, the study finds that timely loan release and number of borrowers per loan officer have positive and statistically significant impact on portfolio at risk of microfinance institutions. Second, it reveals that operation cost per borrower and provision of training sessions to borrowers have negative and statistically significant impact on portfolio at risk of microfinance institutions.

1.6 RESEARCH METHODOLOGY

Research methodology is the specific procedure or techniques used to identify, select, process, and analyze information about a topic. In a research paper, the methodology selection allows the reader to critically evaluate a study overall validity and reliability. This project research has been carried out by an analytical research. In Analytical Research, the researcher has to use facts or information already available, and analyze them to make a critical evaluation of the material. Analytical research is specifying and interpreting relationship, by analyzing the facts or information already available. In this research, the data collection is made only on secondary data. Secondary data involves the data collected through 7 years annual reports of the Canara Bank. The data collection was aimed at study of credit facilities of the Canara Bank. Financial tools to be used in this analysis are Ratio Analysis, Changes in loan outstanding and Trend Analysis.

1.7 LIMITATIONS OF THE STUDY

- The study is limited to the data made available by the bank.
- The Management officers were very busy with their jobs, which lead a little time to consult with them.
- Due to inadequate time of research it is not possible to analyze all aspects of the bank's operations.

2. DATA ANALYSIS AND INTERPRETATION

Table 2.1: Table showing loans issues for the financial year 2019-20

Year	**2019-20**	**2019-20**	**2019-20**	**2019-20**	**2019-20**	**2019-20**	**2019-20**
Loans and Advances	Car loan	Home loan	Gold loan	Education loan	Personal loan	Mortgage loan	Pension loan
Loans issues	98.00	178.20	3089.06	357.24	421.13	1682.50	132.50

Interpretation:

The table shows about the loans issues for the financial year 2019-20. In this, the issue of car loan- 98.00, home loan- 178.20, gold loan- 3089.06, education loan- 357.24, personal loan- 421.13, mortgage loan- 1682.50 and pension loan- 132.50. The loan issues are higher in gold loan (i.e. 3089.06) it shows a good sign for the bank. And also there is a less issue in car loan (i.e. 98.00) it shows a bad sign for the bank. Hence, the bank may increase the issue of car loans by taking some remedial measures in providing loans to the customers.

Chart 2.1(a): Chart showing loans issues for the financial year 2019-20

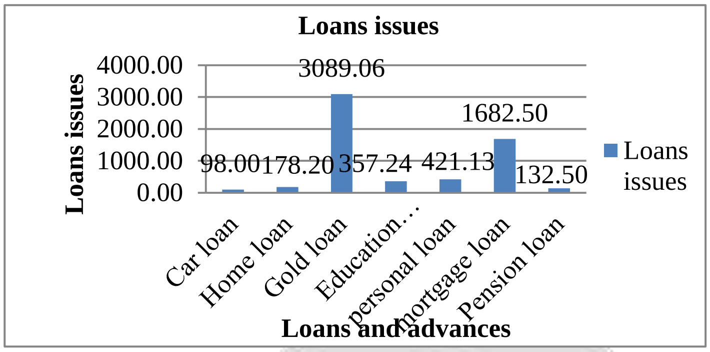


Table 2.2: Table showing Credit Deposit Ratio for the financial years 2012-13 to 2018-19

Years	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Total advances	242,176.62	301,067.48	330,035.51	324,714.82	342,008.76	381,702.99	427,727.27
Total Deposits	355,855.99	420,722.82	473,840.10	479,791.56	495,275.24	524,771.86	599,033.27
Ratio	0.68	0.72	0.70	0.68	0.70	0.73	0.71

Interpretation:

The table shows the Credit Deposit Ratio for the financial years 2012-13 to 2018-19. The Credit Deposit Ratio for the financial years 2012-13 is 0.68; 2013-14 is 0.72; 2014-15 is 0.70; 2015-16 is 0.68; 2016-17 is 0.70; 2017-18 is 0.73 and 2018-19 is 0.71. This shows that the Credit Deposit Ratio is highly increased in 2017-18 by 0.73 and decreased in 2012-13 & 2015-16 by 0.68.

Chart 2.2(a): Chart showing Credit Deposit Ratio for the financial years 2012-13 to 2018-19

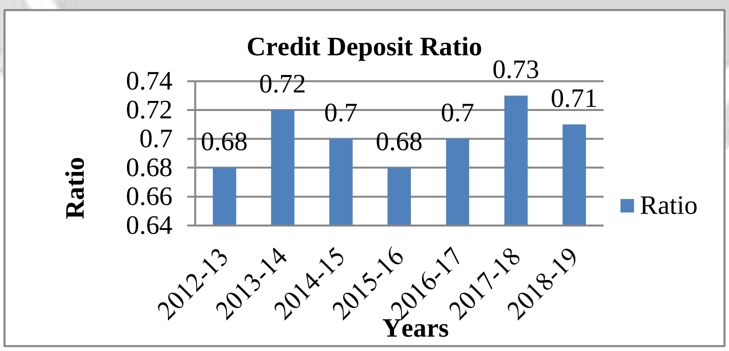


Table 2.3 Table showing changes in loan outstanding for education loan and car loan for the financial years 2017-18 and 2018-19

Particulars	2017-18	2018-19	Difference	Remarks
Education loan	5,763.31	5,643.29	120.02	Favourable
Car loan	1,971.70	2,898.82	-927.12	Unfavourable

Interpretation:

The table shows about the changes in loan outstanding for education loan and car loan for the financial years 2017-18 to 2018-19. It is inferred that loan outstanding for education loan for the financial year 2018-19 are found to be lower than previous year 2017-18 with a difference of 120.02, it's a favourable condition. And also shows that the loan outstanding for car loan is higher for the financial year 2018-19 is higher than the previous year 2017-18 with a difference of -927.12, it's an unfavourable condition (i.e. danger signal) from the bank. Hence, the necessary steps can be taken to reduce the outstanding. Such low outstanding should be help to attain the short term obligations.

Chart 2.3(a) Chart showing changes in loan outstanding for education loan and car loan for the financial years 2017-18 and 2018-19

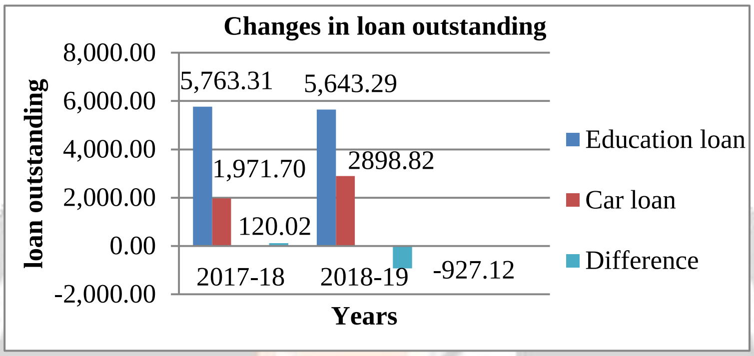


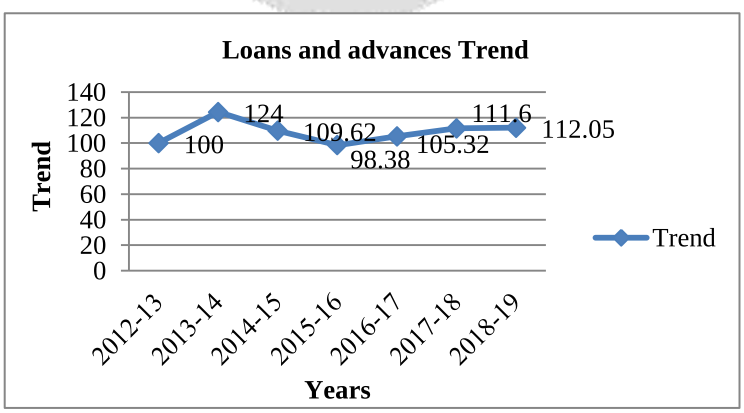
Table 2.4 Table showing trend analysis of loans and advances issue for the financial years 2012-13 to 2018-19

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Loans and advances	242176.62	301067.48	330035.51	324714.82	342008.76	381702.99	427727.27
Trend	100	124.31	109.62	98.38	105.32	111.60	112.05

Interpretation:

The table shows the trend analysis of loans and advances issue for the financial years 2012-13 to 2018-19. In this, it shows an increasing trend in 2012-13 to 2013-14 (good sign) and decreasing trend in 2014-15 to 2015-16 (bad sign). Then, again it shows an increasing trend in 2016-17 to 2018-19. Hence, the loans and advances issue are found to be in good position for the bank.

Chart 2.4(a) Chart showing trend analysis of loan and advance issue for the financial years 2012-13 to 2018-19



3. FINDINGS AND SUGGESTIONS

- It has found that the issue of car loan is very less (i.e.98.00) when compared to other loan issues for the financial years 2012-13 to 2018-19.
- It has found that the credit deposit ratio is highly increasing in 2017-18 by 0.73 and decreasing in 2012-13 & 2015-16 by 0.68
- It has found that the changes in loan outstanding for car loan are in unfavourable condition with a difference of -972.12 for the financial years 2021-13 to 20181-19.
- It has found that the loans and advances are in decreasing trend from 2014-15 to 2015-16 and an increasing trend in 2016-17 to 2018-19.
- The providing of loans can be increased through automation process (example: mobile apps). Make it easy for the customers to apply for loans, reduces processing time and allows higher volume of credit sales for the bank.
- The bank may take legal and proper actions against loan outstanding, which helps to recover the loans. It involves a bank to send a 'letter of demand' to the debtor on its letter head, demanding that the debt is paid by a particular date or legal action may be taken.

4. CONCLUSION

The Canara Bank is serving its members in various ways such as loans with lesser rate of interest, working for welfare of members. The loan distribution system can be modified, so that the bank may improve their services on credit facility. And also the bank may take necessary steps to increase the issue of loans and advances to their customers for their future development. No doubt Canara Bank is working in a right direction. It cannot be ignored, since its establishment it is striving hard for improving the economic condition of the members. It is well known fact that the tag line of Canara Bank is "TOGETHER WE CAN". Therefore, it is necessary that bank shall always aim at continuous development or adoption, which will be more helpful to the members of its services. Therefore, research studies like the present on may help the bank to re-orient its strategy related to loans, deposits, and provide different services.

5. REFERENCES

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