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"A STUDY ON CREDIT APPRAISAL PROCEDURES WITH REFERENCE TO CANARA BANK"

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Abstract: Canara Bank is a leading public sector bank established on July 1, 1906 in the town of Mangalore in Karnataka by Shri Ammembal Subba Rao Pai, an eminent lawyer, educationist and social reformer. The bank has already completed 100 years of service. It provides all sorts of financial services ranging from loans to insurance. Net profit for the year ended March 2019 was Rs 3470151 Crores.

The credit appraisal will help in reducing the various parameters of risk by doing a proper investigation of financial, business, management commercial and technical aspects which are connected with providing loans. This project report will help in understanding and broadening the knowledge of appraisal system in Canara bank.

The financial statement of the companies who have obtained loan from Canara Bank was analysed. The report was guided throughout by the experts in specific areas.

The core objective of the study was:

- To study the funding pattern for credit appraisal by the bank
- To understand the steps taken by Canara bank to provide finance for establishment of firms, corporate and others for business/ trade industry.
- To analyse the DSCR for the loans provided by Canara Bank.

The research methodology was comprehending the above objective involves collection of data through both primary and secondary sources. Analysis and interpretation were done. At the end adaptable, recommendation and suggestion based on the findings of the study are given.

Keywords: Credit appraisal, risk, parameters

1.INTRODUCTION

Credit appraisal is a holistic exercise which starts from the time a prospective borrower walks into the branch and culminates in credit delivery and monitoring with the objective of ensuring and maintaining the quality of lending and managing credit risk within acceptable limits.

There are two types of proposal that are received by the banks for funds. The first types of proposals are for starting a new project for setting up a new company, also known as project financing and the other proposals are for additional funds requirements (working capital). Financial requirements for projects finance and working capital purposes are taken care of at credit department. Companies that intend to seek credit facilities approach the bank. Primarily, credit is required for following purposes: -

1. Working capital finance
2. Term loan for mega projects
3. Non fund-based limits like letter of guarantee, letter of credit

There are two types of securities, primary and collateral. The primary security is the asset created out of banks finance. Collateral security refers to other assets owned by the company or its directors. The process of credit appraisal would begin with the selection of the proponent. It would involve appraising the background of the proponent/management, commercial, technical and financial appraisal.

Credit Appraisal Process:

1. Pre- Sanction appraisal of projects
2. Post- Sanction supervision and follow up

2. LITREATURE REVIEW

Author: Rais Ahmad and Nasirullah Bhat (2004): They studied the recovery performance of District Cooperative Banks in Jammu & Kashmir and it is found that over dues are greater than the owned funds of Central Cooperative Banks. The main reason for the accumulation of over dues is the defective lending policies and procedures, unrealistic scales of finance and untimely due date for repayment of loans, poor supervision over societies, absence of proper climate for recovery including excessive and growing patronage of defaulters by the management authorities. It must be emphasized that repayment of credit is essential to its recycling and recycling of credit is crucial to the development which also builds up confidence among credit institutions in their climate and among the credit users in their own ability to develop.

Author Ujjwal Mishra & Praneetam Naidu (2016): The credit appraisal is a process of appraising the credit worthiness of loan applicants. Thus, it is extremely important for the lender bank to assess the risk associated with credit thereby ensure the security for the funds deposited by the depositors. There are clear guidelines on how the credit analyst or lending officer has to analyse a loan proposal. For credit risk assessment only, financial estimation is not sufficient. Borrower's credit worthiness, industry type, product length, etc. is also considered. Estimating financial growth of the firm is key factor in credit assessment. It depends on market condition, industry growth and managerial control.

Author: JR Yadav (2013): Credit risk simply means the risk of default being made by a customer owing to non-repayment of the credit obtained by him from a bank. Proper evaluation of the customer measures the financial condition and the ability of the customer to repay loan in future. Credit appraisal is a process of collecting related information of customers and projects to undertake risk assessment exercise by the bank prior providing any loans & also checks the technical, economical & financial viability of the project proposed. It also includes verification of primary & collateral security available for recovery of such funds being lent to the customer. Credit Appraisal thus ascertains the risks associated with lending functions in banks. It is generally carried out by the banks which are engaged in providing finance to its customers.

Author: Sharma S G & Bardia S C (2003): The researchers reported that the biggest challenges of current times in the banking sector are managing Non-Performing assets. NPAs are to be kept within tolerance level of the bank as because it is the inevitable burden of any bank. The banks should grant loans only after judging the credit worthiness of their customers in order to accomplish this objective the banks should use the refined methods for credit risk management.

Author: Mohan N J Monteiro and Ananthan B R (2007): Lending activities of banks carried credit risk, from the failure of the borrowers to fulfil its contractual obligation by not paying interest or instalments in time. Non recovery of instalments and also interest on the loan portfolio negates the effectiveness of this process of credit cycle. Nonperforming assets, which represent bad and doubtful debts, are endemic in any bank. According to them, wilful default and poor monitoring were the major causes for an account becoming NPA at the first level and diversion of funds at the next level are causes for NPA. Good pre sanction scrutiny and effective post sanction supervision and effective recovery steps were in measures to control NPA.

3.RESEARCH METHODOLOGY

3.1 Background of the study

Credit appraisal is a process by which a lender appraises the technical feasibility, economic viability and bankability including credit worthiness of the prospective borrower. Credit appraisal process of a customer lies in assessing if that customer is liable to repay the loan amount in the stipulated time or not.

3.2 Statement of the problem

Lending is the major fund-based service offered by the financial institution. These financial institutes have high degree of competition under the present global economy scenario all over the world. Scientific methods need to be deployed for the evaluation credit proposals of applications. Any gap arises during the appraisal may turn loan to NPA. In order to develop their competitive edge and compete with business rivals, there is a need for appropriate methods to scrutinize the application. This study helps to understand the methods adopted by the bank while appraising the loans.

3.3 Need and importance of the study

Offering the credit by banks is an operation that involves some difficulties along with risk factor, credit will be sanctioned by banks only when the organization is attaining satisfactory financial performance after taking into consideration the various factors.

This study aims to analyse the method of assessment done at Canara bank before granting credit, after analysing the credit health by the appraisal team

3.4 Objectives of the study

- To study the funding pattern for credit appraisal by the bank
- To understand the steps taken by Canara bank to provide finance for establishment of firms, corporate and others for business/ trade industry.
- To analyse the DSCR for the loans provided by Canara Bank.

3.5 Type of Research

The project is restricted to a circle office in Bangalore. The research design is descriptive as the study is based on the data already available from the bank and analysis from the data provided.

3.6 Research instrument

This study includes Case study Analysis. The tool used for the case study analysis is Ratio and working capital assessment.

3.7 Actual Collection of Data

Primary data sources

It is the raw data without interpretation and represents the personal or official opinions, these data are more authoritative since these are not filtered or tampered data is collected through informal way of asking question and discussions with the LBA section, staff of the bank in the circle office, taking suggestions from the internal guide

Secondary Data

- Article
- Website
- P&L & Balance sheet of companies approved for loan
- Term loan manuals

3.8 Period of study

The period of the data collected is for five years. i.e., from 2017-18 to 2021-22

3.9 Limitations

- The study is limited to extent of information of materials provided by the Canara Bank
- The study is confined to the particular department and does not consider the total network of the bank
- The study is based on the data issued by bank officials and reports of the bank, the confidentiality of some facts and figures are maintained

4.DATA ANALYSIS AND INTERPRETATION

The data of 3 companies (name changed) to which loan is approved by Canara Bank.

4.1(1) CASE STUDY I: M/S XYZ PVT LTD

4.1 (a) BRIEF PROFILE:

<table>
<tr><td>Name of the Company</td><td colspan="3">M/s XY PVT LTD</td></tr>
<tr><td>Constitution</td><td colspan="3">Private Ltd</td></tr>
<tr><td>Line of activity</td><td colspan="3">Manufacturing Electronic Systems in the domain of Embedded Computing for the National Defence Programmes.</td></tr>
<tr><td>Date of Establishment</td><td colspan="3">1992</td></tr>
<tr><td>Registered Office & Present Unit Address</td><td colspan="3">A11, Electronics Campus, ECIL Post, Kushaiguda, Hyderabad</td></tr>
<tr><td>Admin Office</td><td colspan="3">No 83-53-143/2-1, C V Raman Nagar, DRDO Phase II, Bangalore - 560 093</td></tr>
<tr><td>Project Site</td><td colspan="3">Plot No. 13, Aerospace Domestic Tariff Area, Sy No 656/A, Adibhatla Village, Ibrahimpatinam, Rangareddy Dist, Telangana</td></tr>
<tr><td rowspan="3">Key Persons / Promoters</td><td>Name</td><td>Designation</td><td>Occupation</td></tr>
<tr><td>Mr X</td><td>Managing Director</td><td>Entreprenuers</td></tr>
<tr><td>Mr Y</td><td>Director</td><td></td></tr>
<tr><td>Existing Banking Arrangement</td><td colspan="3">Existing FB limit (Rs. 12.00 crs) and NFB limit (Rs. 24.00 crs) from SBI proposed to be taken over by our Bank.</td></tr>
<tr><td>Present Proposal</td><td colspan="3">To part fund the construction of factory buildings at the above-mentioned project site at an estimated project cost of Rs. 7.98 crs</td></tr>
</table>

4.1 (b) FINANCIAL INDICATORS

Particulars	ABS 2017-2018	PBS 2018-2019	EST 2019-2020	PROJ 2020-2021	PROJ 2021-2022
Capital	3.50	3.50	5.48	6.47	6.47
Reserve & Surplus	20.33	23.73	23.86	24.38	25.11
Sub Total	**23.83**	**27.23**	**29.34**	**30.85**	**31.58**
Less: Intangible Asset	0.08	0.14	0	0	0
Tangible Net Worth I	**23.75**	**27.09**	**29.34**	**30.85**	**31.58**
Long term loans from Banks/FI (Unsecured)	5.26	0.21	1.05	0	0
Unsecured loans from relatives	0	9.64	9.64	9.64	9.64
Secured loans- Existing term loan	7.79	10.14	4.64	4.22	3.8
secured loans- New term loan	0	0	3.25	4.65	3.22
Debentures/Bonds/foreign currency convertible bonds etc	0	0	0	0	0
Sub Total II	**13.05**	**19.99**	**18.58**	**18.51**	**16.66**
Total Capital Funds I+II	**36.8**	**47.08**	**47.92**	**49.36**	**48.24**
Current Asset	41.86	49.87	56.61	58.84	61.14
Current Liabilities	29.1	26.35	35.23	35.82	36.63
Other term liabilities	0.98	1.03	1.13	1.25	1.37
Net Working Capital (CA-CL)	**12.76**	**23.52**	**21.38**	**23.02**	**24.51**
Gross Block	30.36	30.93	36.17	38.91	38.91
Net Block	24.13	23.7	26.94	26.84	24.35
Investment	0	0	0	0	0
Non-Current Asset	0.75	0.75	0.75	0.75	0.75
Net Sales	17.5	30.46	67.25	68.6	69.97
Net Sales of which Exports	0	0	0	0	0
Other Income	0.09	0.04	0.04	0.05	0.05
PBDIT	**4.68**	**8.71**	**3.46**	**4.03**	**4.52**
Less: Interest	3.17	3.99	3.26	3.28	3.48
Net Profit Before Tax	**1.51**	**4.72**	**0.2**	**0.75**	**1.04**
Less: Tax	0.36	1.09	0.06	0.23	0.32
Net Profit After Tax	**1.15**	**3.63**	**0.14**	**0.52**	**0.72**

Depreciation	0.85	1	2	2.84	2.49
Cash Accruals	**2**	**4.63**	**2.14**	**3.36**	**3.21**

Comments:

- **Income:** The income of the Company is showing a fluctuating trend due to the nature of the business as the demands for the products keep varying depending on the defence expenditure of the country for the FY as they mainly cater to DRDO and other Defence PSUs. The net sales for FY 2017-18 was Rs. 17.5 cr. As per the PBS, the Company has achieved a turnover of Rs. 30.46 cr for the FY 2018-19 from which it increased to 67.25 cr for the year 2019-20, and 68.6.25 cr for the year 2020-21, and 69.97 for the year 2021-22. The Company is confident of achieving the projected turnover.
- **Profit / Profitability:**
  The Company has registered a net profit of Rs. 1.15 cr for FY 2017-18 as against Rs. 2.03 cr registered during the previous FY 2016-17. As per the PBS, the Company is set to achieve Rs. 3.63 cr profit for FY 2018-19, 1.09 cr profit for the FY 2019-2020, 1.43cr profit for the FY 2020-21, 0.27 cr profit for the year 2021-22
- **Tangible Net Worth:**
  The TNW stands at Rs. 23.83 cr as at 31.03.2018 on ploughing back of profits into the system. The TNW as at 31.03.2019 is estimated at Rs. 27.23 cr, The TNW as at 31.03.2020 is estimated as Rs. 29.34. The TNW as at 31.03.2021 is estimated as Rs. 30.85. The TNW as at 31.03.2022 is estimated as Rs. 31.58.

4.1 (c) Means of Finance

(Rs in Cr)

Debt	5.00
Promoter's Equity	2.98
Total	**7.98**

Promoters' Equity: (Rs. 2.98 crs)

The promoters have envisaged bringing in contribution of Rs. 2.98 crs by way of equity. The internal cash accruals of the Company as per ABS 2018 is Rs. 23.83 crs.

Bank loan: (Rs. 5.00 cr): The Company has approached our Bank for term Loan of Rs. 5.00 crs for part financing the proposed project.

PROJECT PARAMETERS

Project parameters as per the credit policy (HO Cir 330/2020) for project cost more than Rs 100.00 lakhs are as below:

Particulars	As per Norms
Promoters Contribution	Minimum of 20% of project cost.
Debt Equity Ratio	Not more than 3:1. In exceptional cases sanctioning authorities not less than DGMCO- CAC (Circle Head) can accept up to 4:1 duly justifying the reasons.
Fixed Assets coverage ratio	Not less than 1.33. In exceptional cases sanctioning authorities not less than DGM-COCAC (Circle Head) can accept up to 1.20 duly justifying the reasons.

Project parameters	
Debt Equity Ratio	1.6
Fixed asset coverage ratio	1.59
Promoters contribution	37.3%

4.1 (d) Computation of MPBF

Particulars	Holding level (days)	2018-19	2019-20	2020-21	2021-22
Current Assets					
Raw Material	60	5.09	7.22	7.89	8.05
WIP / FG	180	22.49	21.42	23.40	23.87
Sundry Debtors	90	16.14	16.81	18.37	18.74
Other Current Assets		0.41	0.45	0.50	0.55
Total Current Assets		**44.13**	**45.90**	**50.16**	**51.21**
Current Liabilities					

Sundry Creditors	45	4.80	5.35	5.85	5.97
Other Current Liabilities		4.59	4.36	4.14	3.94
Total Current Liabilities		**9.39**	**9.71**	**9.99**	**9.90**
Working Capital Gap		**34.74**	**36.18**	**40.17**	**41.30**
Less: 25% CA		11.03	11.47	12.54	12.80
MPBF		**23.71**	**24.71**	**27.63**	**28.50**

As per the MBPF method, the projected total current asset 51.21 Crores and overall current liabilities Rs.9.90 Crores. The Working Capital Gap (WCG) was found 41.30 crores and 25% of WCG is 12.80 crores. Therefore. Maximum Permissible Bank Finance is Rs. 28.50Crores.

4.1 (e) DSCR CALCULATION for Term Loan

Particulars	**2019-20**	**2020-21**	**2021-22**
Profit After Tax	**0.14**	0.52	0.72
Add: Depreciation	2.29	3.71	3.27
Add: Term Loan Interest	0.41	0.33	0.43
Total Cash Accruals	**2.84**	**4.56**	**4.42**
Term Loan Interest	0.41	0.33	0.43
Repayment of term loan	2.1	1.83	1.85
Total	**2.51**	**2.16**	**2.28**
Yearly DSCR	**1.13**	**2.11**	**1.94**

The above DSCR Calculations is as per the projections submitted by the company which is more than adequate to meet the commitments of the proposed as well as the exiting TLs Interest Rate on term loan is taken as 12.60% for calculation of DSCR.

NOTE: here the interest on term loan for financial year 2020-21 and 2021-22 is 0.33 and 0.43, it includes not only the interest on present proposal but also the existing term loan interest.

4.1 (2) CASE STUDY II: UVW PVT LTD

4.1 (f) <u>BRIEF PROFILE:</u>

<table>
<tr><td>Name of the Company</td><td>M/s VVU PVT LTD</td></tr>
<tr><td>Established in</td><td>2004</td></tr>
<tr><td>Constitution</td><td>Private Ltd</td></tr>
<tr><td>Nature of Business</td><td>Body building and assembly of various types of buses, special purpose vehicles, and export of fully built buses.</td></tr>
<tr><td>Registered Office</td><td>No. 6 & 7, “C” Block, I Floor, St.Patrick’s Complex, Residency Road, Bangalore – 560025</td></tr>
<tr><td>Unit Address</td><td>Plot No.16, 17, 18 & 19, Bommasandra Jigani Link Road, KIADB Industrial Area, Anekal Taluk, Bangalore – 562106</td></tr>
<tr><td>Project Site</td><td>Plot No.16, 17, 18 & 19, Bommasandra Jigani Link Road, KIADB Industrial Area, Anekal Taluk, Bangalore – 562106</td></tr>
<tr><td>Key Persons / Promoters</td><td><table>
<tr><th>Name</th><th>Designation</th><th>Occupation</th></tr>
<tr><td>Mr. U</td><td>Managing Director</td><td rowspan="3">Entrepreneurs</td></tr>
<tr><td>Mr. V</td><td>Director</td></tr>
<tr><td>Mrs. W</td><td>Director</td></tr>
</table></td></tr>
<tr><td>Existing Banking Arrangement</td><td>Existing OD limit (Rs. 11.50 cr), TL – I (Rs. 6.00 cr), TL – II (Rs. 11.00 cr), DPN (Rs. 4.00 cr) and NFB (Rs. 32.50 cr) from our Bank.</td></tr>
<tr><td>Present Proposal</td><td>To part fund the construction of factory building at their existing Bommasandra Unit at an estimated project cost of Rs. 7.18</td></tr>
</table>

4.1 (g) FINANCIAL INDICATORS

Particulars	**ABS 2017-2018**	**PBS 2018-2019**	**EST 2019-2020**	**PROJ 2020-2021**	**PROJ 2021-2022**
Capital	4.00	4.00	6.18	6.18	6.18
Reserve & Surplus	22.68	23.91	29.83	32.33	35.65
Sub Total	**26.68**	**27.91**	**36.01**	**38.51**	**41.83**
Less: Intangible Asset	0	0	0	0	0
Tangible Net Worth I	**26.68**	**27.91**	**36.01**	**38.51**	**41.83**
Long term loans from Banks/FI (Unsecured)	0	0	0	0	0
Unsecured loans	5.34	5.34	5.34	5.34	5.34
Secured loans- Existing term loan	12.23	7.20	3.02	0.66	0
secured loans- New term loan	0	0	5.00	4.88	4.64
Debentures/Bonds/foreign currency convertible bonds etc	0	0	0	0	0
Sub Total II	**17.57**	**12.54**	**13.36**	**10.88**	**9.98**
Total Capital Funds I+II	**44.25**	**40.45**	**49.37**	**49.39**	**51.81**
Current Asset	68.58	87.85	128.34	135.96	146.02
Current Liabilities	64.13	69.03	106.29	111.72	117.46
Other term liabilities	1.41	1.55	1.71	1.88	2.06
Net Working Capital (CA-CL)	**4.45**	**18.82**	**22.05**	**24.24**	**28.56**
Gross Block	31.00	31.02	38.20	38.20	38.20
Net Block	24.76	23.07	28.89	26.9	25.19
Investment	0	0	0	0	0
Non-Current Asset	0.12	0.12	0.12	0.12	0.12
Net Sales	85.53	93.22	164.13	176.40	190.57
Other Income	0.15	0.17	0.17	0.18	0.19
PBDIT	**5.06**	**4.58**	**11.18**	**6.2**	**7.36**
Less: Interest	2.62	2.8	2.67	2.59	2.58
Net Profit Before Tax	**2.44**	**1.78**	**8.51**	**3.61**	**4.78**
Less: Tax	0.96	0.54	2.59	1.10	1.46
Net Profit After Tax	**1.48**	**1.24**	**5.92**	**2.51**	**3.32**

Depreciation	0.61	1.71	1.35	1.99	1.71
Cash Accruals	**2.09**	**2.95**	**7.27**	**4.5**	**5.03**

Comments:

i. **Income:**

The net sales of the Company is increased from Rs. 85.53 crores as at 31.03.2018 to Rs. 93.22 crores as at 31.03.2019, further there is an increase from Rs.164.13 crores as at 31.03.2020 to Rs. 176.40 crores

ii. **Profit / Profitability:**

Net profit of the company declined from Rs. 1.48 crores as at 31.03.2018 to Rs. 0.66 crores due to decrease in sales. Further there is an increase of 6.72 crores as at 31.03.2020. it has declined from Rs. 1.29 crores as at 31.03.2021 to Rs 0.32 Crore due to decrease in sales

iii. **Paid up capital and Tangible Net Worth:**

Authorized and paid up capital of the Company is Rs.6.18 crores, divided into 6,18,000 equity shares of Rs.100/- each.

The TNW of the Company has been increasing year on year due to plough back of profits. As per ABS 2018, TNW of the Company has increased from Rs. 26.68 crores to Rs. 27.34 crores on account of plouging back of profits.

iv. **Net Working Capital and Current Ratio:**

the project is complete now and repayment of TLs have commenced. As per the ABS 31.03.2018, NWC has improved to Rs. 4.45 crores.

Current Ratio has remained at 1.07 as at 31.03.2018

4.1 (h) Means of Finance

(Rs. in Crs)

Debt	5.00
Promoter's Equity	2.18
Total	**7.18**

Promoters' Equity: (Rs. 2.18 cr): The promoters have envisaged bringing in contribution of Rs. 2.18 cr by way of equity. The internal cash accruals of the Company as per ABS 2018 is Rs. 26.68 cr.

Bank Loan: (Rs. 5.00 cr): The Company has approached our Bank for term Loan of Rs. 5.00 cr for part financing the proposed project.

PROJECT PARAMETERS

Project parameters as per the credit policy (HO Cir 330/2020) for project cost more than Rs 100.00 lakhs are as below:

Particulars	As per Norms
Promoters Contribution	Minimum of 20% of project cost.
Debt Equity Ratio	Not more than 3:1. In exceptional cases sanctioning authorities not less than DGMCO- CAC (Circle Head) can accept up to 4:1 duly justifying the reasons.
Fixed Assets coverage ratio	Not less than 1.33. In exceptional cases sanctioning authorities not less than DGM-COCAC (Circle Head) can accept up to 1.20 duly justifying the reasons.

Project parameters	
Debt Equity Ratio	2.30
Fixed asset coverage ratio	1.44
Promoters contribution	30.36%

4.1 (i) Computation of MPBF

Particulars	Holding levels (days)	2018-19	2019-20	2020-21	2021-22
Current Assets					

Raw Material	120	55.40	80.02	86.00	92.91
WIP / FG	90	3.34	5.89	6.33	6.84
Sundry Debtors	75	22.07	38.86	41.76	45.12
Other Current Assets		0.00	0.00	0.00	0.00
Total Current Assets		**80.82**	**124.76**	**134.09**	**144.86**
Current Liabilities					
Sundry Creditors	120	40.70	71.66	77.02	83.20
Other Current Liabilities		12.11	16.35	19.62	20.40
Total Current Liabilities		**52.81**	**88.01**	**96.64**	**103.61**
Working Capital Gap		**28.00**	**36.75**	**37.45**	**41.25**
Less: 25% CA		20.20	31.19	33.52	36.22
MPBF		**7.80**	**5.56**	**3.93**	**5.04**

As per the MBPF method, the projected total current asset 144.86 Crores and overall current liabilities Rs.103.61 Crores. The Working Capital Gap (WCG) was found 41.25 crores and 25% of WCG is 36.22 crores. Therefore. Maximum Permissible Bank Finance is Rs. 5.04Crores.

4.1 (j) DSCR CALCULATION for Term Loan

Particulars	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Profit After Tax	1.24	5.92	2.51	3.32
Add: Depreciation	1.71	1.35	1.99	1.71
Add: Term Loan Interest	0.80	0.59	0.42	0.32
Total Cash Accruals	**3.75**	**7.86**	**4.92**	**5.35**
Term Loan Interest	0.80	0.59	0.42	0.32
Repayment of Term Loan	4.18	4.18	2.49	0.90
Total	**4.98**	**4.77**	**2.91**	**1.22**
Yearly DSCR	**0.75**	**1.65**	**1.69**	**4.39**

The above DSCR Calculations is as per the projections submitted by the company which is more than adequate to meet the commitments of the proposed as well as the exiting TLs Interest Rate on term loan is taken as 12.85% for calculation of DSCR.

NOTE: here the interest on term loan for financial year 2018-19, 2019-20, 2020-21 and 2021-2022 is 0.80, 0.59, 0.42 and 0.32, it includes not only the interest on present proposal but also the existing term loan interest

5. SUMMARY

FINDINGS

From the above three case study analysis, it is analysed that all the three companies satisfy the factors which is to be considered before lending i.e., financial, technical and commercially viable firms.

The method used to evaluate the cases is MPBF (Maximum permissible bank finance) is used to calculate the limit and DCSR (Debt service coverage ratio) is used to estimate the repayment capacity of the business

The credit appraisal of the bank is proper with all the three cases:

- For the case I as per the MPBF method, the MPBF for the case in the year 2021-22 is 28.50 crore. DSCR is also used to calculate the term loan repayment capacity and the DSCR for the year 2021-22 is 1.94.
- For the case II MPBF calculated for the year 2021-22 is 5.04 crore. DSCR for year 2021-22 is 4.39
- For the case III MPBF calculated for the year 2024-25 is 121.03. DSCR for the year is 2021-22 is 1.35.

The project parameters as per the credit policy are:

- Where the promoter's contribution must be minimum 20% of the project cost

  Case 1: 37.3%, Case 2: 30.36%, Case 3: 28.72%
- Debt Equity ratio not more than 3:1

  Case 1: 1.6:1, Case 2: 2.30:1, Case 3: 2.48:1
- Fixed asset coverage ratio not less than 1:33

  Case 1: 1.59, Case 2: 1.44, Case 3: 1.37

SUGGESTION

Evaluation must be done at regular intervals to assess the impact of programme implementation. The bank should not only give importance to existing customers but also importance should be given to the other individuals who are new customers of the bank. This may increase the financial transaction and the reputation of the bank far and wide.

As per the RBI guidelines to reduce the level of NPA in the banks they can choose to follow these methods:

Restructuring is one of the methods where the loanee is provided a reduction in the amount to be paid back as instalment. The bank will restructure the amount to smaller figure so that the business can pay them without difficulty and later the bank would add the amount which was reduced in the beginning, thus initially the loan amount would be less and as the repayment capacity improves bank and would charge higher than initial which the original amount. There is a dual dual advantage for this method, the bank provides a chance for the business to improve and to pay back the debts at the same time they would move from doubtful to standard asset.

FITL (Funded interest term loan) is also a part of restructuring, here the bank provides the loan to pay back the interest of the debt.

Refinance is another suggestion for NPA either as mortgage for additional amount or through pledging of shares on behalf of the business.

The bank can provide them additional time to repay depending on cash generations of the business. They can also provide at concessional rate of interest.

CONCLUSION

The credit appraisal in Canara Bank will be done to know and understand the valuing and evaluating the technical, managerial and financial status the risk analysis and credit rating. In Canara bank the credit appraisal is done by the study involves, risk analysis and credit rating. It is based on credit risk level, collateral securities to be given by the borrower and determined. The credit department thoroughly analyses the credit requirement of the company and the capacity to service the debt. The credit appraisal passes through various stages of evaluation before it is appraised. This shows Canara Bank has sound system for credit appraisal. The credit appraisal process carried out at Canara Bank has good parameters to appraise.

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