



Credit appraisal process of bank of Maharashtra

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Abstract

Bank of Maharashtra is a major public sector bank in India. Government of India holds 87.01% of the total shares. The bank has 15 million customers across the length and breadth of the country served through more than 1800 branches. It has largest network of branches by any public sector bank in the state of Maharashtra.

This research paper explored the procedure related to credit appraisal process of Bank of Maharashtra, analysis of loan proposals and steps for sanction of loans.

Keywords: credit appraisal process, risk management, reserve bank of India, bank of Maharashtra etc

Introduction

The recent past few years financial crises have become the main cause for recession which was started in 2006 from US and was spread across the world. The world economy has been majorly affected from the crisis. The securities in stock exchange have fallen down drastically which has become the root cause of bankruptcy of many financial institutions and individuals. The root cause of the economic and financial crisis is credit default of big companies and individuals which has badly impacted the world economy.

So, in the present scenario analyzing one's credit worthiness has become very important for any financial institution before providing any form of credit facility so that such situation doesn't arise in near future again. Analysis of the credit worthiness of the borrowers is known as Credit Appraisal. In order to understand the credit appraisal system followed by banks this research has been conducted. The research paper has analyzed the credit appraisal procedure with special reference to Bank of Maharashtra. Research also includes knowing about the different credit facilities provided by the banks to its customers, how a loan proposal is being made, what are the formalities that is to be satisfied and most importantly knowing about the various credit appraisal techniques which are different for each type of credit facility. Before going further, it is necessary to understand the need and basic framework of the project. Therefore, this chapter provides an introduction to the topic, need and importance of credit appraisal, objective of the credit appraisal, reasons for selecting the project and the basic structure and framework how the credit appraisal proceeds.

Almost all the activities, directly or indirectly, involve the acquisition and use of finance. For the purpose of functioning any task requires manpower, land, building, furniture, various equipment and so on. For example, recruitment and promotion of employees requires fund for payment of wages and salary, buying fixed assets for the purpose of increasing efficiency affects the flow of funds, regular and recurring needs of an activity or functioning any task fund are needed. It means that without finance nothing can happen efficiently and effectively. Availability of

fund is must for meeting day to day expenses we also called as working capital for providing uninterrupted services to the stakeholder.

Credit appraisal is an assessment of the various risks associated with repayment of loan and analysis of credit worthiness of prospective borrowers. Following points kept in mind during credit appraisal process:

- Who is the customer?
- How much amount they need and when?
- How will the loan amount be utilized and what is the specific purpose?
- How will the borrower service the debt obligation?
- What is the key metrics and how well are they measured, monitored and comprehend?

This research is based on credit appraisal process of Bank of Maharashtra. One of the commercial bank in Indian banking industry. Also, major public sector bank in India. Government of India holds 87.01% of the total shares. The bank has large numbers of customers across the length and breadth of the country served through more than 1800 branches. It has largest network of branches by any public sector bank in the state of Maharashtra. This research is specifically based on credit appraisal process of Bank Of Maharashtra.

Objectives of the study

The primary objective of credit appraisal is to ensure that the money is given in right hands and the capital and interest income of the bank is relatively secured. While appraising loans, a financial institution would focus on evaluating the credit-worthiness of the company and future expected stream of cash flow with the amount of risk attached to them. Credit worthiness is assessed with parameters such as the willingness of promoters to pay the money back and repayment capacity of the borrower.

The major objectives of the study are to assess credit appraisal process of Bank of Maharashtra.

The specific objectives of the study are

1. To study credit appraisal process of banks

2. To make comparative analysis of the financial performance of BOM and other banks
3. To analyze the financial performance of Bank of Maharashtra
4. To analyze Lending Policy of Bank of Maharashtra
5. To analyze credit appraisal process of Bank of Maharashtra
6. To find out impact of Credit Appraisal Process on financial performance of bank
7. To understand the cause and factors that are responsible for low profitability and efficiency with respect to credit appraisal
8. To understand the cause and factors that are responsible for high Non-Performing Assets with respect to credit appraisal
9. To Suggest ways and means to improve the profitability and efficiency
10. To Suggest ways and means to decrease Non-Performing Assets
11. To suggest future prospect for banks to improve credit appraisal process.

Limitations of the study

This research paper highlights on credit appraisal process of Bank of Maharashtra. Following are the limitations of the study:

1. The study is primary based on secondary data.
2. The data for study mainly based on a single bank i.e. Bank of Maharashtra
3. Different tools used for the study may suggest different results as the approach differs.
4. The study considers data of only limited duration of time.
5. It is only study of interim policies, circulars and reports of the bank.
6. The study is based on lending policies therefore limiting the study of research.
7. As majority of the customers are employees of the bank, they might be biased in giving the information.

Review Literature

Research methodology

4.1 Type of Research - Descriptive research is used in this study in order to identify the lending practices of bank and determining customer’s level of satisfaction. The method used was questionnaire and interview of the experienced loan officers.

4.2 Collection of data:

4.2.1 Primary Data

- a. Observation Method
- b. Interview Method
- c. Structured Questionnaire [from customers and credit officers]

4.2.2 Secondary Data

- a. Annual reports of the bank
- b. Manual of instructions on loans and advances
- c. Books
- d. Articles and Research Papers
- e. Internet

4.3 Sampling Unit: The Study population includes the customers of bank and Sampling Unit for Study was Individual Customer.

4.4 SAMPLING SIZE: 200 Respondents

Data analysis and Interpretation:

The study based on secondary data source which is collected from various data sources such as books, annual reports of RBI, annual reports of Bank Of Maharashtra, credit policy of Bank Of Maharashtra, various circulars issued by Head Office Of Bank Of Maharashtra Pune, manual of instructions on loans and advances, Information Documents On Bank Of Maharashtra Data given by Bank Of Maharashtra Officers Association in it’s 28th BINNIAL CONFERENCE held at Nagpur and various websites.

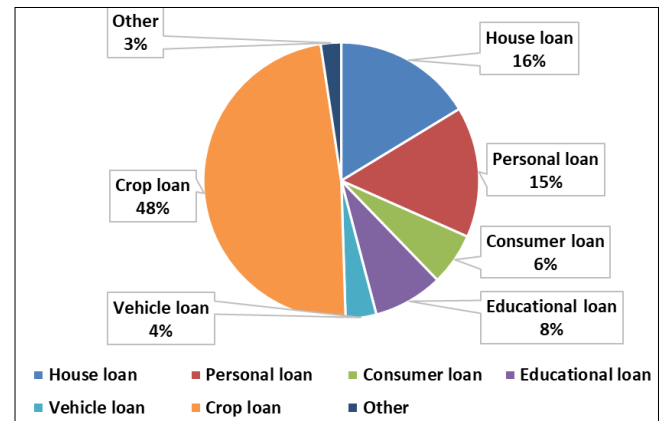


Fig 1: Preferences of the customers for the loans

Bank of Maharashtra is lead bank and has more than 80% branches in Maharashtra. Many customers are given Bank of Maharashtra as first preference for taking various types of credit in Maharashtra. Bank of Maharashtra with many branches in Maharashtra state has established excellent network in rural areas. Farming in Maharashtra depends mostly on rainy season. Financial condition of farmers is very poor that is because of farmers before starting kharif season are mainly depends on bank loan. Farmers are given first preference to Bank of Maharashtra for availing crop loans.

Due to low rate of interest and high number of instalments many customers prefers Bank Of Maharashtra as first preference in housing loans, vehicle loans and other retail loans like Personal loan, consumer loan & educational loan.

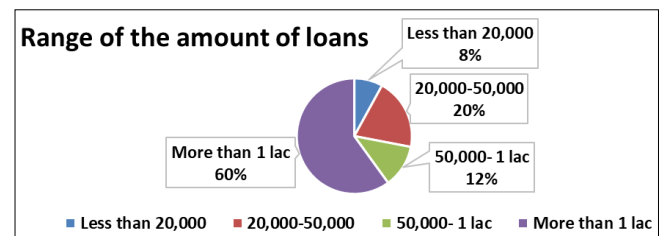


Fig 2: Range of the amount of loans

Bank of Maharashtra has various customers which is categorized with the help of income group. Bank of Maharashtra always sanctioned all types of credit / loans as per their head office circular and directions given by it’s higher authorities. It mainly depends on income of borrower, age of borrower, property documents. 60% borrowers taken more than Rs.1.00 lakh loan from bank. Mostly includes housing loan, MSME loans, crop loans etc. less than 40% borrowers taken loans upto Rs. 1.00 lakhs.

This segments mainly includes low income group category customers or marginal farmers who has less than 2 acres of land.

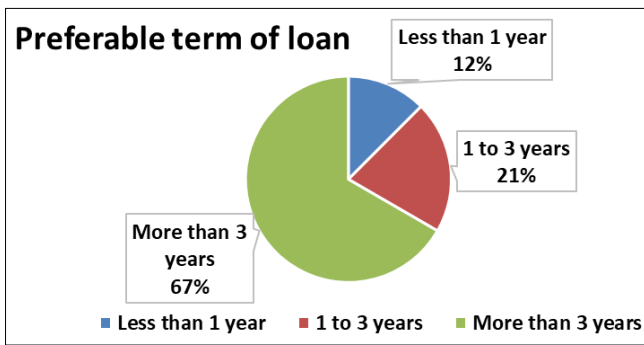


Fig 3: Preferable term of loan

Most of borrowers of Bank of Maharashtra prefers long term loans i.e. more than 3 years so that they can receive less EMI. These loans includes housing loans up to 30 years, vehicle loans up to 7 years, MSME term loans, loan against property loans. Bank has given 1-year repayment to less than 12% that to borrowers, these loans includes loan against deposits.

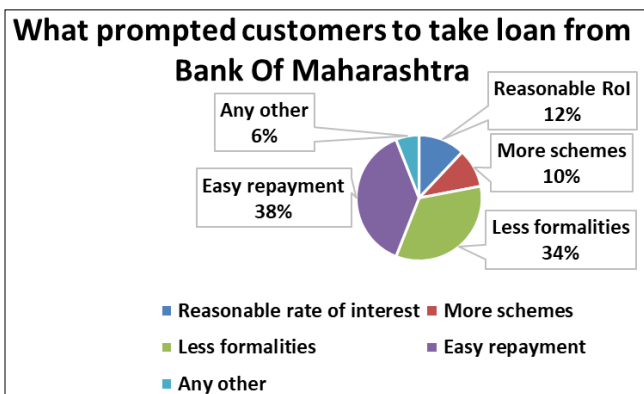


Fig 4: What prompted the customers to take loan from Bank of Maharashtra

Customers of Bank of Maharashtra prefers first bank because of low rate of interest, less formalities and easy repayment EMIs. In 2019 Bank of Maharashtra announced various loans schemes to their customers like in housing loans, vehicle loans. Now Bank of Maharashtra linked their rate of interest to repo rate of Reserve Bank of India. It means all rate of interest are Repo Linked Lending Rate. And rate of interest is given to customers as per borrower’s CIBIL score. Bank of Maharashtra given two categories i.e. salaried and business categories.

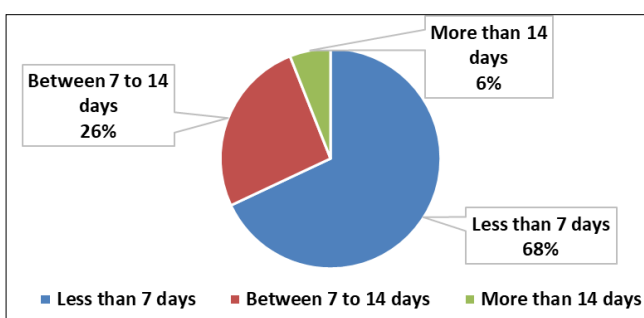


Fig 5: Average time taken for the processing of the loan

Bank of Maharashtra has its own turnaround time method for sanctioning all types of loans. Head office of Bank of Maharashtra issued circular in this regard. And higher authorities of bank are keeping an eye on time taken for sanction of loans. For this Bank of Maharashtra developed credit maintenance portal to inward proposals and give sanction in system itself.

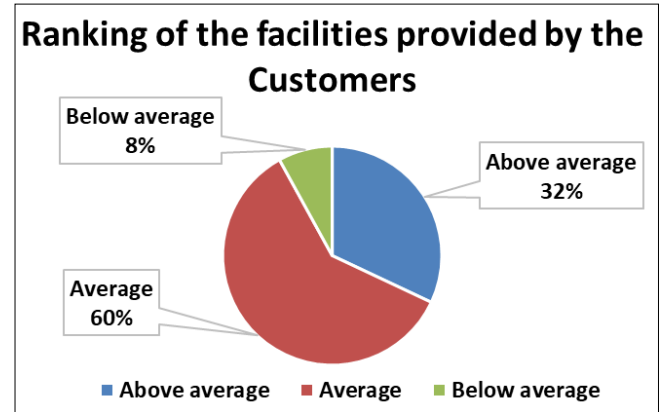


Fig 6: Ranking of the facilities provided by the Customers

60% customers of Bank of Maharashtra gave average ranking to facilities provided by bank in process of loan sanction. Bank of Maharashtra provides many facilities to it’s customers. Some of are waiver of processing charges in festival season, last two EMI free in housing loan, low amount of EMI etc.

Table 7: Customer’s ranking for service of the bank

52% of customers of Bank of Maharashtra after taking sanction letter from bank gave good customer ranking for service given by bank in overall process of loan. 22% of customers gave excellent raking for service. These are mostly those customers who has submitted all required documents in one stroke and received sanction letter within a day or next day. Very few customers gave average and poor ranking to Bank of Maharashtra. These are mostly those customers who has expectations for sanction of their loan proposals but by rules and as per head office guidelines bank could not sanction loan proposals.

Findings of the Study

1. Majority (48% as per the study) of the respondent were having crop loan from this bank.
2. Most (67% as per the study) of the people prefer to take long term loan which is more than 3 years.
3. There is a very simple procedure followed by bank for loan.
4. Easy repayment and less formalities are the main factors determining customer’s selection of loans.
5. Quality of services provided by the staff is satisfactory because bank is catering to a small segment only and the customers are properly dealt with.
6. Customers are satisfied with the mode of repayment of installments.
7. Average time for the processing of loan is less i.e approx. 7 days.
8. Percentage of customers who would like to refer Bank of Maharashtra to their friends and relatives are in very high number because of customer service & low rate of

interest.

Problems Faced by Bank of Maharashtra

1. Bank of Maharashtra is facing severe problems which have restricted their ability to ensure smooth flow of credit mainly because of Low Level of recovery of overdue.
2. Losses in Rural Branches
Most of the rural branches are running at a loss because of high overdue in agriculture loans and prevalence of the barter system in most parts of rural India.
3. Large Over-Dues
The small branches of commercial banks especially Bank of Maharashtra in Maharashtra are now faced with a new problem—a large amount of overdue advances to farmers. The decision of the Maharashtra Government to waive loans to farmers up to the value of Rs.1,50,000 under its Chatrapati Shivaji Maharaj Shetkari Sanman Yojana 2017 has added to the plight of such banks.
4. Non-Performing Assets
The commercial banks at present do not have any machinery to ensure that their loans and advances are, in fact, going into productive use in the larger public interest. Due to a high proportion of non-performing assets or outstanding due to banks from borrowers they are incurring huge losses. Most of them are also unable to maintain capital adequacy ratio.
5. Advance to Priority Sector
As far as advances to the priority sectors are concerned, the progress has been slow. This is attributable to the poor and unsatisfactory loan recovery rates from the agricultural and small sectors.
6. Competition from Private sector banks
As far as deposit mobilization is concerned, commercial banks have been facing stiff challenges from Private sector banks and non-banking financial intermediaries such as mutual funds, housing finance corporations, leasing and investment companies. All these institutions compete closely with commercial banks in attracting public deposits and offer higher rates of interest than are paid by commercial banks. At present Bank Of Maharashtra offers 6.25% rate of interest on fixed deposit which is relatively low in market. Private sector banks offer better customer service.
7. Competition with Foreign Banks
Foreign banks have registered higher increase in deposits. One reason seems to be that non-nationalized banks offer better customer service. This creates the impression that a diversion of deposits from the nationalized banks to other banks has probably taken place.

Suggestions

1. The banks should concentrate on the modern methods of banking like internet banking, ATM, etc.
2. Bank should start own credit card.
3. The banks should plan to introduce new schemes for attracting new customers and satisfying the present ones.
4. The banks should plan for expansion of branches in northern, southern and eastern part of India. Also plan to open branches other than India.
5. The banks should improve the customer services of the

bank to a better extent. It helps to mobilize deposits.

6. Bank should more focus on marketing of their products specially products related to advances.
7. Bank should increase staff to increase profitability and efficiency of work.
8. Bank should increase its personal loan limit.
9. Bank staff who are working in rural areas should tell to farmers about importance of regular repayment of loan.
10. Bank should start credit monitoring from day one.
11. There should be good training programs on lending, appraisal, monitoring, follow up or even curtailing NPA to staff who are working in credit portfolio.

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