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A STUDY ON CREDIT RISK MANAGEMENT IN EMERGING MARKETS CHALLENGES AND SOLUTIONS WITH REFERENCE TO ULTRATECH CEMENT

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ABSTRACT

All throughout the world, banks are focussing on one central idea: credit risk management. The research looked at the credit analysis of several industries that have been approved by the SBI bank. The research technique used in the study was a quantitative approach. All of the receivables are safeguarded by credit risk management, which is crucial since it provides additional protection and may cover losses of up to 90% in the event of client defaults. Examining State Bank of India's credit risk management initiatives and learning about the various credit rating and process methodologies now in use are the study's stated goals. The research study used the percentage technique as its instrument. The most important results of Based on the data presented in the study, it appears that the bank is shifting its lending priorities away from private companies and towards other sectors. Additionally, the study found that bank employees rated potential limits as the most preferred technique for managing credit. Among the study's most important recommendations is that the bank consider opportunities in indirect agriculture and the joint stock sector. Credit Administration and the Early Warning System (EWS) are the two most critical areas that need development inside the bank.

Concepts such as Early Warning System, Credit Administration, Receivables, Security, Credit Rating, and Credit Risk Management are essential.

I. INTRODUCTION

The problem of credit risk management, as well as carrying out a quantitative assessment and analysis of the credit risk and rating of borrowers, is relevant to all banks involved in lending to individuals and legal entities. In general, when commercial banks grant loans to individuals and legal entities, the credit risk involved is characterized by the following quantitative parameters: risk as the probability of the borrower's failure to repay the loan; acceptable risk; average risk; possible losses given loan default; the average value of losses; the maximum allowable losses; the number of loans given by the bank; the possible number of different loans the bank can give; the number of problem loans

Banks are in the business of risk and banking is all about managing risk and return. The balancing of risks and returns presents a major

challenge and banks are successful when the risks taken are reasonable, controllable and within their financial resources and credit competence. Banks, in the course of their business, are confronted with various kinds of risks, which all these risks are interrelated, interdependent and overlapping in their cause and effects.

This is referred to as credit risk. To illustrate, credit risk is virtually non-existent for securities issued by the any government of countries. Credit risk is higher for fixed-income securities issued by corporations. The degree of credit risk is reflected in credit ratings described below. Securities with higher credit risks (and lower ratings) often referred to as high yield securities; generally pay a higher interest rate to compensate investors for the additional risk. In other word credit risk is the risk of a certain security does not honor its commitments within

the agreed maturity. Consequently, the fund that holds this security in its portfolio will have a loss equivalent to its investment. Normally, this risk may be evaluated by the rating of the security. Also Credit Risk is simply defined as the probability that a bank borrower will fail to meet its obligations in accordance with agreed terms and involves inability or unwillingness of a customer to meet commitments in relation to lending, trading, hedging, settlement and other financial transactions. Credit Risk is generally made up of (a) transaction risk or default risk and (b) portfolio risk

Credit risk is the risk of financial loss arising from the failure of a borrower or other financial counterparty to meet its contractual obligations to the Bank. The pursuit of the Bank's development objectives renders substantial credit risk an unavoidable and necessary consequence of its business operations. Credit risk is the major part of the Bank's overall risk, and, in ensuring that the institution remains financially sustainable and is therefore able to achieve its objectives, managing this risk takes precedence.

OBJECTIVES OF THE STUDY

The objectives of the credit risk management encompasses of certain objectives. They are:

1. To study the concept of Credit Risk Management.
2. To study the complete structure and history of organization.
3. To know the different methods available for credit rating and understanding credit rating procedure used in company.
4. To examine the credit risk management activities of the organization.
5. To analyze the present credit risk schemes of company.

II. CREDIT RISK MANAGEMENT:

CREDIT:

The word 'credit' comes from the Latin word 'credere', meaning 'trust'. When sellers

transfer his wealth to a buyer who has agreed to pay later, there is a clear implication of trust that the payment will be made at the agreed date. The credit period and the amount of credit depend upon the degree of trust.

Credit is an essential marketing tool. It bears a cost, the cost of the seller having to borrow until the customers payment arrives. Ideally, that cost is the price but, as most customers pay later than agreed, the extra unplanned cost erodes the planned net profit.

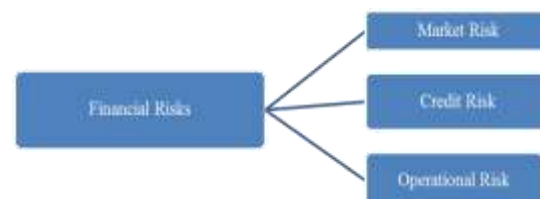
RISK:

Risk is defined as uncertain resulting in adverse outcome, adverse in relation to planned objective or expectation. It is very difficult to find a risk free investment. An important input to risk management is risk assessment. Many public bodies such as advisory committees concerned with risk management. There are mainly three types of risk they are follows

- Market risk
- Credit Risk
- Operational risk

Risk analysis and allocation is central to the design of any project finance, risk management is of paramount concern. Thus quantifying risk along with profit projections is usually the first step in gauging the feasibility of the project. Once risk has been identified they can be allocated to participants and appropriate mechanisms put in place.

TYPES OF FINANCIAL RISKS:



MARKET RISK:

Market risk is the risk of adverse deviation of the mark to market value of the trading portfolio, due to market movement, during the period required to liquidate the transactions.

OPERTIONAL RISK:

Operational risk is one area of risk that is faced by all organization s. More complex the organization more exposed it would be operational risk. This risk arises due to deviation from normal and planned functioning of the system procedures, technology and human failure of omission and commission. Result of deviation from normal functioning is reflected in the revenue of the organization, either by the way of additional expenses or by way of loss of opportunity.

CREDIT RISK:

Credit risk is defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms, or in other words it is defined as the risk that a firm's customer and the parties to which it has lent money will fail to make promised payments is known as credit risk.

The exposure to the credit risks large in case of financial institutions, such commercial banks when firms borrow money they in turn expose lenders to credit risk, the risk that the firm will default on its promised payments. As a consequence, borrowing exposes the firm owners to the risk that firm will be unable to pay its debt and thus be forced to bankruptcy.

CONTRIBUTORS OF CREDIT RISK:

- Corporate assets
- Retail assets
- Non-SLR portfolio
- May result from trading and banking book
- Inter bank transactions
- Derivatives
- Settlement, etc

KEY ELEMENTS OF CREDIT RISK MANAGEMENT:

- Establishing appropriate credit risk environment
- Operating under sound credit granting process
- Maintaining an appropriate credit administration, measurement & Monitoring
- Ensuring adequate control over credit risk
- Banks should have a credit risk strategy which in our case is communicated throughout the organization through credit policy.

III. RESEARCH DESIGN

METHOD:

I would like to collect the data or information by using Quantitative method.

DATA COLLECTION:

The study is concerned with the improvement of the bank which collected from the bank's website, internet, and publications of the bank. These are some of the sources for collection of secondary data.

IV. CONCLUSION

This study has been very useful in expanding my understanding of "Credit Risk Management" at nationalised banks, particularly State Bank of India. The bank's credit risk policy is now critical to the efficient running of the bank's operations. As expected, our understanding of how the banking industry handles "Credit Risk Management" has been expanded thanks to this project.

• There is no way to do justice to the breadth of "Credit Risk Management" in the allotted time. Nevertheless, we have done our best to address the majority of the critical points that will directly affect the banking industry's bottom line.

In conclusion, it is worth noting that the State Bank of India has provided unique insights into "Credit Risk Management.". The State

Bank of India is providing and increasing credit to all industries in accordance with the directives and standards given by the Reserve Bank of India.

With the combined efforts of the company's management and employees, the bank has made impressive strides in almost all key metrics.

State Bank of India recovered 85% of its loans in 2018, a positive sign that the bank's recovery operations are working as intended.

The bank's policy on managing credit risk determines the credit risk strategy. These policies include the methods for measuring, monitoring, and regulating credit risk, as well as the levels of acceptance and avoidance of risk, tolerance for risk, and the preferred levels of concentration and diversification. The Bank's competitive advantage in the market will be a direct outcome of the ever-improving risk management methods that lead to the Bank's eventual strength.

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