INVESTIGATING LOAN DEFAULTS AND THEIR EFFECTS ON THE PROFITABILITY OF BANKS

Dr. Ruchi Atri , Jatin Sharma

MASTER OF BUSINESS ADMINISTRATION
School of Business Galgotias University

CHAPTER 1 INTRODUCTION

INTRODUCTION

Over the last 10 years, the quality of the loan and its portfolios across many economies worldwide stayed comparatively stable until the emergence of 2007-08 financial crises. Since then, the quality of the bank assets declined quickly because of the world economic downturn. The reality is that loan performance is closely associated with the economy of any country and decline in the loan performance was not yet standardized across the world economies (Gerstel and Baesens, 2008).

The crucial problem faced by financial institutions in Cameroon is credit risk because of defaulters not repaying credits. The failure to manage bad debts leads to insolvency and losses among financial institutions (Abiola & Olausi, 2014). The growing trend of loan defaults is becoming a concerning issue notonly for the banking sector but also for the national economy of Cameroon; It hinders the financing capacityof the banks and, therefore, harms the overall socio-economic development of the country. Among the various services provided by the bank, lending has been the primary activity for a decade.

Default loans can be described in an actual sense as bad loans, which banks are not proficient to earn from, it is uncertain in determining whether the debtors would be able to make their instalments in regardsto the amount owed or borrowed. Customers of banks in Cameroon consist of businesspersons and women, civil servants, contractors and even the state itself and all are accountable for the poor performanceof loans in the banking system.

Kofi and Dadzie (2012) found that some reasons for default include poor sales, sickness, lack of planning by clients, spending on unnecessary things by clients, poor record-keeping and inadequate monitoring by loan officers. Moreover, it was observed that implication of loan default to banks includes the inability to disburse more loan in future, reducing operating profits, loan-able funds and undermining the liquidity.

Von-Pischke (1980) as in Mungure (2015) states that some of the impacts associated with default includethe inability to recycle funds to other borrowers; unwillingness of other financial intermediaries to serve theneeds of small borrowers; and the creation of distrust.

As noted by Baku and Smith (1998), the costs of loan delinquencies would be felt by both the lenders and the borrowers. The lender has costs in delinquencysituations, including lost interest, the opportunity cost of principal, legal fees and related costs. For the borrower, the default decision is a trade-off between the penalties in lost reputation from default versus the opportunity cost of forgoing investments due to working out the current loan.

Objectives of the study:

The main objective of this study is to assess the present situation of non-performing loans in the banking sector and effects of non-performing loans (NPAs) on bank's specific factor that related to the twenty- two commercial banks in the India, while the secondary objective of this study are as follow:

I. To study and analyze the common cause for loans to become non-performing in banks. Furthermore, it explored and identify specific steps that bank officers have to deal with the problems.
II. To identify and explore the significance the current situation of profitability of the banks for the year 2018-2022.
III. To raise some issue and observation those need to be looked upon for ensuring financialsoundness.
IV. To give suggestion based on findings of the study and set of remedial controlling measure through logical argument

For the purpose of presenting clear and precise used of concepts as well as eliminating ambiguities, the following terms are defined in the context of this work.

1. **Commercial Bank:** Commercial bank is a profit seeking institution that accepts, demand and savings deposit give loans and acquire other earning asset.
2. **Commercial Bank Loan:** Commercial bank loan is the loan bankers give to their local business customers plus holding of open market commercial papers and bank acceptances.
3. **Default:** It is failure to pay debt.
4. **Security:** It is either a certificate which gives the owner certain right to the portion of the asset of a company issuing the security or it is a certificate showing the ownership of a property.
5. **Saving:** It can be defined as refraining from spending income or consumption. In other words, it can also be regarded as income which is not spent on the purchase of goods and services.

6. **Liquidity:** The liquidity of an asset means the ease with which it can be converted to cash with certainty. In portfolio management ability of a firm to meet it short-term obligation as at when due for payment.
7. **Overdraft:** This is a lending facility to current account holder on an agreed condition. It is rather a short-term credit. It is used in financing the working capital requirement of a firm.
8. **Interest:** This simply the cost of acquiring capital mainly investment. Interest is expressed as a rate. It is also regarded as the price which has to be fore liquid capital.
9. **Debtors:** Is one who owes money or other value done through purchase or lending.
10. **Pledge:** A pledge is an arrangement in which the bank lend to a customer and the security it deposits with bank pledge also means something of value left as security for a loan or as a guarantee that an obligation will be met.

SIGINIFICANCE OF THE STUDY

The overall objective of the study is to determine the effects of commercial banks non-performing loans on banks performance. Specifically, it tends to:

1. To evaluate the effect of loan and default and bank liquidity.
2. To ascertain the extent of relationship between loan default and bank operational efficiency.
3. To examine the relationship between loan default and commercial bank distress.

LIMITATIONS OF THE STUDY

The main limitation of this study has been the unwillingness of each bank to disclose and discuss the actual figures declared and classified as bad/non-performing loans. Annually, one to this secretive nature of banks operation, it has not been possible for extensive research to be carried out in this field within the banking industry.

Other limitations include;

1. Finance.
2. Short time frame of execution
3. The availability of few numbers of few numbers of literature in the area of non-performing asset management.

The Concept of Loans and Loan Default

A loan is usually available on a fixed and spot basis and can be secured or unsecured. Loans are offered for specified amounts for specified periods. Mabvure et.al, (2012), describes loans, in general, are part of the major component of the total assets of every bank. The lender cannot seek repayment before the expiryof the period unless there has been some default.

Default refers to a situation where a borrower failed to repay a loan. It occurs when a borrower cannot or will not repay the loan and the MFI no longer expects to receive payment (Maina and Kalui, 2014). Technical default refers occurs when an affirmative or a negative covenant is violated and mainly applies to banks.

Non-Performing Loans / Bad Loans / Loan Default

A Non-performing loan is a loan that is in default or close to being in default. Many loans become non-performing after being in default for 90 days, but this can depend on the contract terms.

the IMF defines NPLs as “the sum of borrowed money upon which the debtor has not made his scheduledpayments for at least 90 days. A nonperforming loan is either in default or close to being in default. Once aloan is nonperforming, the odds that it will be repaid in full are considered to be substantially lower.” (Investopedia, N.D)

By bank regulatory definitions, non-performing loans consist of:

• Loans that are 90 days or more past due and still accruing interest, and

• Loans which have been placed on nonaccrual, that is loans for which interest is no longer accrued and posted to the income statement)

Factors leading to Loan Default

So many researches have focused on what causes loan default and so to say there are few reasons wouldbe an understatement, but the following reasons can be advanced for in the case of this study.

I. Loan supervision: Recent studies into loan default have pointed out that most cases of default happen as a result of inadequate supervision from loan officers and supervisors when loans are granted to clients. This aspect has caused the tendency for default to increase dramatically in the past decades.

II. Monitoring and control: At times, when loans are granted to customers, they are not monitored asto be used for what they were intended for and as such there exist no control and this turns to increase the rate of default in institutions involved in creditprovision.

III. Grace Period: Several lending practices showed that grace periods have been too short to serve their intended purposes. Especially this can be left in the start-up phase of the business. The graceperiod also affects the repayments of loans although it is intended to protect the lending institution.(Lassort & Clavier, 1989).

IV. Insider Lending: According to Brown Bridge (1998), bad loans accounted for most banks which were in distress and the major causes of these bad loans were insider lending, macro-economic instability and lending to the high-risk borrower. Insider lending was identified as one main factor of bad loans that led to the collapse of localbanks.

Ahmad, (1997), mentioned some important factors that cause loan defaults, which include:

I. Voluntary unwillingness to pay: Lack of willingness to pay loans coupled with the diversion of fundsby borrowers.

II. There is willful negligence and improper appraisal by Credit Officers.

III. Also, Hurt and Fesolvalyi (1998), cited by Kwakwa, (2009) found that, corporate loan default increases as real gross domestic product decline, and that the exchange rate depreciation directlyaffects the repayment ability of borrowers.

Effects of Loan Default

Default loans cost a lot on a bank on the way of its progress. It-

i. Diminishes Asset Quality: Default loan diminishes the asset quality of a bank. Loans are the assetsfor a bank. When a loan becomes default, the asset loses its value and become a liability. This decreases the total asset amount of a bank.

ii. Increases the Cost of Funds: For NPL, banks have to maintain some provisions for ensuring the future payments of the depositors. This increases the cost of fund of thebank.

iii. Decreases the Profitability of the Bank: If a bank cannot manage to get a loan repaid, it becomesbad debt. The bank still has to repay the depositors when they demand to withdraw their money. In this case, the bank needs to pay the deposited amount from its profit, which decreases the totalprofit of the bank.

iv. Decreases the Overall Credit Rating of the Bank: If a bank cannot manage to collect its loan amounts it will face a tremendous problem as it will lose its credibility to repay the depositors properly, moreover, its profit will decrease continuously. It will face challenges to do business withforeign banks. All of which will lead to the poor credit rating of the bank.

v. Decrease the Capacity of Loan Sanctioning: When a loan becomes non-performing, provisions are to be kept against the said loan; as a result, the option of farther sanctioning loan hampered since the provision to be kept from the profit portion which could be farther invested by keeping retained earnings.

Ways of Minimizing Loan Default / Remedies

i. Proper Management and Control Mechanisms: Many managements of financial institutions do notconsider the need to put in place a proper loan repayment mechanism even though it is one area of possibility in avoiding the incidence of impairment charges, Rouse (1989) have pinpointed to thisas the most effective way to avoid these menaces. These measures, which he identified as frequentvisits and interviews and an efficient audited and management accounts, could be adopted as a form of monitoring and control mechanism. Some of the effective mechanism, which could also beadapted to reduce the incidence of bad debts, is ensuring that the loan acquired is used for the intended purposes.

ii. Security or Collateral: Demand for security as a prerequisite for granting of the loan is very essential as it tends to serve as a form of cushion for banks in the event of loan default. Due to the doubtfulfinancial statements, which are sometimes presented to acquire, credit, various banks these daysinsist on security before granting of the loan facility. Every effort must, therefore, be taken in termsof legality of every facility by managers of these financial institutions to help reduce the incidence of bad loans. Borrowers who could not afford the provision of security mostly do not avail themselves at all to apply for a loan which serves as a way of reducing loan default. As a regulatoryand a legal requirement for lending in business operations, banks ought to be careful in their consideration of such security to help lessen the incidence of loan default

Measurement of Commercial Bank`s Profitability

To determine the profitability of banks, simply looking at the earnings per share isn't quite enough. It's alsoimportant to know how efficiently a bank is using its assets and equity to generate profits. Financial statements of banks demonstrate some ratios and some can be calculated based on requirements if needed. Koch and MacDonald stated that relatively appropriate measures for measuring the bank`s profitability level are Return on Assets (ROA) and Return on Equity (ROE) and also Net Interest Margin. This study focuses on ROA.

Return on Assets (ROA)

ROA is calculated as a percentage of net income and total assets. ROA is used as main profitability measure in most of the organizations including banks and financial institutions. It demonstrates the level ofnet income produced by the bank and also determines how the assets utilized by banks to generate profit over the years. The competence and proficiency of banks in transforming their assets into profits is also indicated by it. Hence, to improve the performance of banks, they always attempt to achieve higher ROA. The ranking of banks is usually based upon the higher ROA ratio and total assets. As a general view, particularly in the banking sector, ROA is known as good profitability multiplier for the reason that equity multiplier does not influence it.

To calculate return on assets, simply divide the net income by the total assets. It can be multiplied by 100to express it as a percentage.

Equation 1: Return on Assets Equation

$$Return\ on\ Assets = \text{Net Income / Total Asset}$$

Theoretical Review

i. Indirect Financial Intermediation Theory

No single explanation of the phenomenon of financial intermediation has emerged. In the 1960s, RaymondGoldsmith (1969) gave stylized facts on financial structure and economic development. He found that in the course of economic development, a country's financial system grows more rapidly than national wealth. Since the early 1990s, there has been growing recognition for the positive impact of financial intermediationon the economy. Financial intermediation can affect economic growth by acting on the saving rate, on the fraction of saving channeled to investment or on the social marginal productivity of investment. In general,financial development will be positive for economic growth. But some improvements in risk-sharing and thecredit market for households may decrease the saving rate and, hence, the growth rate (Pagano, 1993).

Indirect finance is where borrowers borrow funds from the financial market through indirect means, such asthrough a financial intermediary. Also, it can be described as a situation where a borrower borrows moneyfrom a third party, such as a bank, rather than directly from investors. The borrower pays the third-party interest, which in turnpays interest to its investors or depositors.

Indirect financing is often a quicker way for businesses to raise funds than direct financing because the intermediary takes care of gathering investors and performingdue diligence.

In the intermediation process, the financial intermediary transforms savings, given the preferences of the saver concerning liquidity and risk, into investments according to the needs and the risk profile of the investor. It might be clear that for these reasons the views of Bryant (1980) and Diamond and Dybvig (1983)on the bank as a coalition of depositors, of Akerlof (1970) and Leland and Pyle (1977) on the bank as an information-sharing coalition, and of Diamond (1984) on the bank as delegated monitor do not reflect at allthe view of bankers on their role.

A financial intermediary is an institution or individual that serves as a middleman among diverse parties tofacilitate financial transactions. A financial intermediary is typically an institution that facilitates the channeling of funds between lenders and borrowers indirectly. That is, savers (lenders) give funds to an intermediary institution (such as a bank), and that institution gives those funds to spenders (borrowers). This may be in the form of loans or mortgages.

But it is important to realize that efficient financial intermediation confers two important benefits: it raises the level of investment and savings, and it increases the efficiency in the allocation of financial funds in theeconomic system.

The essence of financial intermediation is the interposition of a third party between the ultimate borrower and ultimate lender in the savings-investment process. The simplest form of the intermediary is the brokerwho facilitates transactions between lenders and borrowers without acquiring the debt of the borrowers orissuing claims to the lenders. In contrast, the 'true' financial intermediary becomes a party to the financingactivity by simultaneously holding claims on the borrower and issuing claims to the lender.

There are two essential advantages of using financial intermediaries, which include cost advantage over direct lending/borrowing and Market failure protection; the conflicting needs of lenders and borrowers are reconciled, preventing market failure.

The cost advantages of using financial intermediaries as advocated by the theory include; reconciling conflicting preferences of lenders and borrowers, risk aversion intermediaries help spread out and decrease the risks, Economies of scale - using financial intermediaries reduces the costs of lending and borrowing and Economies of scope - intermediaries concentrate on the demands of the lenders and borrowers and can enhance their products and services (use same inputs to produce different outputs)

To summarize, Financial intermediaries are meant to bring together those economic agents with surplus funds who want to lend (invest) to those with a shortage of funds who want to borrow. In doing this, they offer the benefits of maturity and risk transformation. Specialist financial intermediaries are ostensibly enjoying a related (cost) advantage in offering financial services, which not only enables them to make a profit but also raises the overall efficiency of the economy. Their existence and services are explained by the "information problems" associated with financialmarkets.

The Asymmetric Information Theory

The theory of asymmetric information was developed in the 1970s and 1980s as a plausible explanation for common phenomena that mainstream general equilibrium economics couldn't explain. The theory proposes that an imbalance of information between buyers and sellers can lead to inefficient outcomes in certain markets.

Asymmetric information refers to the degree of knowledge or information a buyer or sellerholds concerning particular financial security. Pioneered and influenced by George Akerlof, Michael Spence, and Joseph Stiglitz, the “informational asymmetry” studies focus on the bank/borrower and the bank/lender relation in particular. In bank lending, one can distinguish transaction-based lending (financialstatement lending, asset-based lending, credit scoring.

Asymmetrical information means markets are imperfect, according to this paradigm, because the ultimateparties who operate in the markets have insufficient information to conclude a transaction by themselves.

The key assumption in the model is that lead arrangers cannot credibly commit to doing the proper due diligence because their effort is unobservable. If lead arranger effort were perfectly observable, participantlenders (or the borrower) would compensate the lead arranger for its monitoring and due diligence effort. The amount held by the lead arranger would be irrelevant, and one could imagine a situation in which the monitor of the loan held none of the loans at all. Therefore, in broader terms, the Holmstrom and Tirole (1997) framework describe why a lender with monitoring duties must retain a stake in the loan.

Information asymmetry between firms and their investors and the resulting agency problems are key aspects of models that explain macroeconomic fluctuations (Bernanke and Gertler (1989), Holmstrom andTirole (1997)), external financing constraints (Bernanke, Gertler, and Gilchrist (1996)), and the fragility of the small business sector (Rajan (1992), Kashyap, Stein, and Wilcox (1993)). Models of information asymmetry in corporate finance, such as Diamond (1991) and Boot and Thakor (2000), have been used empirically to explore the differences between relationship-driven bank loans (where an informed lender retains the entire loan), and public debt issues (where an informed lender/underwriter sells the entire loan).

Central themes in the bank/borrower relation are the screening and monitoring function of banks (ex-ante information asymmetries), the adverse selection problem (Akerlof, 1970), credit rationing (Stiglitz and Weiss, 1981), the moral hazard problem (Stiglitz and Weiss, 1983) and the ex-post verification problem (Gale and Hellwig, 1985). Central themes in the bank/lender relation are bank runs, why they occur, how they can be prevented, and their economic consequences (Kindleberger, 1989; Bernanke, 1983; Diamondand Dybvig, 1983). Another avenue in the bank/lender relationship are models for competition between banks for deposits concerning their lending policy and the probability that they fulfil their obligations (Boot,2000; Diamond and Rajan, 2001).

As a way to remedy this situation of asymmetric information, financial intermediaries position themselves as agents ("middlemen") between savers and investors, alleviating information asymmetries against transaction costs to a level where total savings are absorbed by real investments at equilibrium real interestrates.

To summarize this theory, if the borrower has less information in the market than the lender, he cannot know if the loan interest is relatively high or low, the repayment modalities and sanctions for loan default while on the lenders part, if he should have less information, he will have inadequate knowledge of the borrower's credit history, various loans the borrower has contracted and whether the borrower is undercharged or overcharged. This lack of knowledge creates an imperfect market and leads to negative externalities. But should they both possess knowledge of the various lending services, sanctions of loan default and history then it will help them make informed decisions

A Justification of Theories to the Relationship between Loan Default and Commercial Bank`s Profitability

Briefly, the process of banking is to collect idle money and invest this money in the economy. In this process, one party who has the idle money deposits in a bank and the other party who needs the money borrowed from the bank. The depositors get some interest on their deposited money and the borrowers pay some interest payment on the amount of money they borrowed. Bank has no money of its own, it just works as an intermediary between two parties, and so if the borrower cannot pay the money back to the bank, the bank must repay the money to the depositors from bank's profit. Therefore, there is always a risk in loans if the loan will be repaid to the bank or not.

It will be fallacious to say that when loan default happens, banks do not witness a dramatic fall in their operations; this is because:

First, the amount of money in their possession meant for borrowing reduces, secondly their interest, in turn,reduces, as they can no longer borrow, furthermore, they witness a drop in finances further as they have got to pay back interest to depositors and they have to do this from their profits. Without enough finances and profits, their whole operation starts to break down and we see to certain extent banks declaring insolvency and bankruptcy.

Research Hypothesis

Past studies mostly focused on loan default and the relationship it has with the profitability of banks in general. So, our study focuses on the effects of loans default on commercial banks profitability in specific,taking into account the factors from the borrowers of loans plus the non-business factors of loan default that affect commercial bank`s profitability. Hence, this is our contribution and as such our hypothesis is stated thus:

H1: Character, capacity, collateral and condition from loan default by the borrowers affect IDBI banksprofitability.

H2: Monitoring, screening, repayment maturity, interest rate as defaulted factors theirprofitability.

Independent Variable -

1. **Bank specific factors:**

   - **i.** Return on Assets (ROA)
   - **ii.** Capital Adequacy Ratio (CAR)
   - **iii.** Liquidity (BLIQ)
   - **iv.** CRISK
   - **v.** SIZE

2. **Macroeconomics factors:**

   i. Gross domestic product

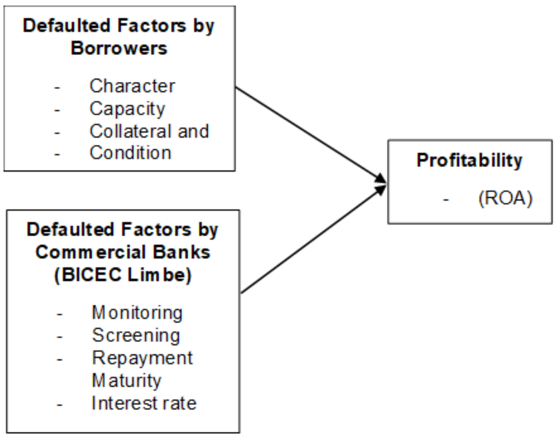
   ii. Inflation during the study

Dependent Variable –

1. **Non-performing assets**

   Conceptual Model

Diagrammatical description of variables below indicates relationship existing between loan default and commercial bank`s profitability.



CHAPTER 2 INDUSTRY PROFILE

OVERVIEW

Development Banking emerged after the Second world war and the Great Depression in the 1930s. The demand for reconstruction funds for the affected nations compelled in setting up of national institutions for reconstruction. At the time of Independence in 1947, India had a fairly developed banking system. The adoption of bank dominated financial development strategy was aimed at meeting the sectoral credit needs, particularly of agriculture and industry. Towards this end, the Reserve Bank concentrated on regulating and developing mechanisms for institution building. The commercial banking network was expanded to cater to the requirements of general banking and for meeting the short-term working capital requirements of industry and agriculture. Specialized Development Financial Institutions (DFIs) such as the IDBI, NABARD, NHB and SIDBI were set up to meet the long-term financing requirements of industry and agriculture.

The Industrial Development Bank of India (IDBI) was established in 1964 under an Act of Parliament as a wholly-owned subsidiary of the Reserve bank of India. In 1976, the ownership of IDBI was transferred to the Union government and it was made the principal financial institution for coordinating the activities of institutions engaged in financing, promoting and developing industry in India. IDBI provided financial assistance, both in rupee and foreign currencies, for green-field projects and also for expansion, modernization, and diversification purposes. In the wake of financial sector reforms unveiled by the government since 1992, IDBI also provided indirect financial assistance by way of refinancing of loans extended by State-level financial institutions and banks and by way of rediscounting of bills of exchange arising out of the sale of indigenous machinery on deferred payment terms. After the public issue of IDBI in July 1995, the government shareholding in the bank came down from 100% to 75%.

IDBI played a pioneering role, particularly in the pre-reform era (1964–91), in catalysing broad-based industrial development in India in keeping with its Government-ordained 'development banking' charter.

Some of the institutions built with the support of IDBI are the Security exchange Board of India (SEBI), National stock exchange of India (NSE), the National Securities Depository limited (NSDL), the Stock Holding Corporation of India Limited (SHCIL), the Credit Analysis & Research Ltd, the Exim Bank (India), the Small Industries Development Bank of India (SIDBI) and the Entrepreneurship Development Institute of India.

A committee formed by RBI recommended the development financial institution (IDBI) to diversify its activity and harmonize the role of development financing and banking activities by getting away from the conventional distinction between commercial banking and developmental banking. To keep up with reforms in financial sector, IDBI reshaped its role from a development finance institution to a commercial institution. With the *Industrial Development Bank (Transfer of Undertaking and Repeal) Act*, 2003, IDBI attained the status of a limited company viz., IDBI Ltd. Subsequently, in September 2004, the Reserve Bank of India incorporated IDBI as a 'scheduled bank' under the *RBI Act, 1934*. Consequently, IDBI formally entered the portals of banking business as IDBI Ltd. from 1 October 2004.[

Services

- **Phone Banking**: At IDBI Bank, we always endeavour to raise the bar to meet the rising requirements of our customers, by providing quality services to suit their varied banking needs. IDBI Bank phone banking service is yet another technology and customer centric step in that direction

- **Mobile Banking**: IDBI Bank's new **"Go Mobile+"** App greatly enhances the customer's banking experience through an exciting and user-friendly interface and also provides a wide range of features and services. The Mobile App gives a user, the flexibility to operate and transact on your account wherever you are and whenever you need it 24x7. A user can view their account statements or make a remittance on the go at their convenience, when at work or even while commuting. Personalize home screen, Checking the balance in your account, managing and scheduling utility bill payments, adding a top-up in your prepaid mobile phone or DTH account, paying Visa Credit Card bills or instantly transferring money from one bank account to another through IMPS (Immediate Payment Service), Control on your Debit Card and requesting for cheque book and much more is now possible at the click of just a few buttons on your phone.

- **Internet Banking**: With the rapid digitalization that is happening around and with Internet becoming an essential part of our routine lives, Banking on Internet Platform assumes a special significance. IDBI Bank provides its customers, 24 hours online banking services - anytime, anywhere with its Internet Banking. Now, your bank has a new address. Perform all your banking transactions like Account Information, Demat Account Information, Online instructions, Requests, Bill payments and other merchant payments, from the comfort of your home or office.

- **Account Alert**: IDBI Bank's Account alert service allows you to monitor your Bank account/s on the go. We understand the value of your time and hence, we deliver the information related to the important activities happening on your bank account to your E-mail ID or mobile phone.
  Now, you need not visit the branch or ATM to enquire about the routine transactions in your account. Instead, just register your email id and/or mobile number with us, and we will send you account alerts through E-mails and/or SMS.

- **Paymate**: With the increasing popularity of cashless shopping and advent usage of mobile phones, IDBI Bank provides a revolutionary Mobile Phone based payment service in association with PayMate. The aim of the service is to make your shopping experience more convenient and joyful. You can now shop with any of Paymate's associated merchants and pay simply through your Mobile Phone. With Paymate, your mobile phone can now be used as a payment medium, similar to a credit or a debit card.

- **Positive Pay System (PPS):** Positive Pay System enables an additional security layer to the cheque clearing process wherein the issuer (drawer) of the cheque shares cheque details with the Bank. When the beneficiary submits the cheque for clearing, the presented cheque details will be compared with the details provided to the Bank through Positive Pay.

Subsidiaries of the bank

- IDBI Capital Markets & Securities Limited (ICMS)
- IDBI Intech Limited (IIL)
- IDBI Asset Management Limited (IAML)
- IDBI MF Trustee Company Limited (IMTCL
- IDBI Trusteeship Services Ltd (ITSL)
- Ageas Federal Life Insurance Company Limited (Ageas Federal) (previously known as IDBI Federal Life Insurance Co. Limited)

Recognition

- IDBI's long term foreign currency debt was given Baa2 rating by Moody's reflecting strong government ownership and control.
- IDBI Bank was assigned 'BBB' rating by Standard's & Poor and Fitch, which represents strong market position.
- IDBI's long-term bonds, fixed deposits and short-term borrowing are rated by CRISIL, ICRA and Fitch, reflecting high safety in respect to timely payment ofinterest and principal.

Shareholding

IDBI Bank's equity shares are listed on Bombay Stock Exchange and the National Stock Exchange of India. As on march 2021, 94.71% stakes are hold by promoters of bank, and4.98% by Public.

The 94.71% stakes are split into two major part. 45% of stake is held by President of India, and the rest holding, i.e., 49% is held by LIC.

COMPETITORS

Competitors and other players in the field:

Top Performing Public Sector Banks

1. Andhra Bank
2. Allahabad Bank
3. Punjab National Bank
4. Dena Bank
5. Vijaya Bank

Top Performing Private Sector Banks

1. HDFC Bank
2. ICICI Bank
3. AXIS Bank
4. Kotak Mahindra Bank
5. Centurion Bank of Punjab

Top Performing Foreign Banks

1. Citibank
2. Standard Chartered
3. HSBC Bank
4. ABN AMRO Bank
5. American Express

Strength/ Opportunities:

1. The strength of IDBI bank is it's CASA ratio, which is approx. 50.45% as per 2022.
2. Other Income is also 23.1% to its total income, means bank is heavily investing into other project or maybe in instrument.
3. The capital Adequacy ratio of IDBI is also fantastic, nearly 15.59%
4. The profit delivery percentage of IDBI and growth is nearly 29.37%

Weakness/ Threats:

The risks that could ensue to IDBI in time to come are as under:

- Company has a low ROE of -34.57% over the last 3 years.
- The Bank has a high NPA ; Average NPA of the last 3 years stands at 5.42%.
- High Cost to income ratio of 46.05%.
- The company has delivered poor Income growth of -4.70% over the past 3 years.
- Poor Advances growth of -9.30% in last 3 years.

DIFFERENT PRODUCTS OF IDBI:

Accounts	Cards	Loans	Investments
Advisory	Credit Card	Home Loan	Advisory
Fixed Deposit	Debit Card	i_zoomdrive Auto loan	Capital Market
Salary Account	Prepaid Card	I_Learn Education loan	Capital Gain Account Scheme
Flexi Current Ac	Cash at POSFacility	Personal Loan	Pradhanmantri Social SecurityScheme
Kutumb Family Banking	Debit card, Green Pin Generation	Loan against Property and its Variants	Small Saving Scheme
	Abhay- card control app	Loan against securities	IDBI SavingScheme
	Registration for card for online payment service		IDBI Samridhiportal

Introduction to AdvanceProduct:

Now a day not all the people have the capacity to fulfill their requirement by their own earning, that's why they need help from others. For this so many government & private sector banks provide them money to fulfill their requirement, that's call the Advance Product (loan product) of the bank. All the banks have so many different types of advance product as per the requirement of the people or customers. In Bhubaneswar also there are so many banks those provide loan to the people for different causes.

Types of Advance Product

- Home Loan
- Educational Loan
- Car Loan
- Personal Loan
- Property Loan
- Loan Against Shares\Debentures
- Etc.

Now a day a large no. of people are taking loan form different banks. It helps people to fulfill their need and it really easy to repayment the loan amount with a longer repayment period.

IDBI Advance Product

IDBI Home Loans:

Purpose

Purchase/ Construction of House/ Flat

Purchase of a plot of land for construction of House

Extension/ repair/ renovation/ alteration of an existing House/ Flat

Purchase of Furnishings and Consumer Durables as a part of the project cost. Takeover of an existing loan from other Banks/ Housing Finance Companies. **Eligibility**

Minimum age 18 years as on the date of sanction

Maximum age limit for a Home Loan borrower is fixed at 70 years, i.e. the age by which the loan should be fully repaid.

Availability of sufficient, regular and continuous source of income for servicing the loan repayment.

Loan Amount

40 to 60 times of NMI, depending on repayment capacity as % of NMI as under –

Net Annual Income	EMI/NMI Ratio
Upto Rs.2 lacs	40%
Above Rs.2 lac to Rs. 5 lacs	50%
Above Rs. 5 lacs	55%

To enhance loan eligibility you have option to add:

1. Income of your spouse/ your son/ daughter living with you, provided they have a steady income and his/ her salary account is maintained with IDBI.
2. Expected rent accruals (less taxes, cess, etc.) if the house/ flat being purchased is proposed to be rented out.
3. Depreciation, subject to some conditions.
4. Regular income from all sources

Margin (Special Festival Season Offer)

- Purchase/ Construction of a new House/ Flat/ Plot of land: 15% for loans up to Rs. 1 cr., 20% for loans above Rs. 1 cr.
- Repairs/ Renovation of an existing House/ Flat: 15%

Interest Rates w.e.f 27.2.2008

Floating interest rates(linked to IDBI Rate)

(12.25% p.a.)

Loan Tenor ->	Upto 5 years	Above 5 years and upto 15 years	Above 15 years and upto 25 years
Upto Rs.30 Lacs	2.25% below SBAR, 10.00% p.a.	2.00% below SBAR, 10.25% p.a.	1.75% below SBAR, 10.50% p.a.
Above Rs.30 Lacs	2.00% below SBAR, 10.25% p.a.	1.75% below SBAR, 10.50% p.a.	1.50% below SBAR, 10.75% p.a.

Fixed interest rates

Tenure	**Rate of Interest**
(p.a.)*Upto 10 years	12.75%

* Fixed rate loans will be subject to: 'force maejure' clause and **interest reset** at the end of every **two** years on the basis of fixed interest rates prevailing then.

CAR LOAN:

Purpose

You can take finance for:

A new car, jeep or Multi Utility Vehicles (MUVs)

A used car / jeep (not more than 5 years old). (Any make or model).

Take over of existing loan from other Bank/Financial institution (Conditions apply)
http://www.sbi.co.in/viewsection.jsp?id=0,1,20,117

Eligibility

To avail an IDBI Car Loan, you should be:

- Individual between the age of 21-65 years of age.
- A Permanent employee of State / Central Government, Public Sector Undertaking, Private company or a reputed establishment or
- A Professionals or self-employed individual who is an income tax assesses or
- A Person engaged in agriculture and allied activities.
- Net Annual Income Rs. 100,000/- and above.

Loan Amount

There is no upper limit for the amount of a car loan. A maximum loan amount of 2.5 times the net annual income can be sanctioned. If married, your spouse's income could also be considered provided the spouse becomes a co-borrower in the loan. The loan amount includes finance for one-time road tax, registration and insurance!

No ceiling on the loan amount for new cars.

Loan amount for used car is subject to a maximum limit of Rs. 15 lacs.http://www.sbi.co.in/viewsection.jsp?id=0,1,20,117

Type of Loanhttp://www.sbi.co.in/viewsection.jsp?id=0,1,20,117
1. Term Loan
2. Overdraft - a) For New vehicles only
b) Minimum loan amount: Rs. 3 lacs.

Documents required

you would need to submit the following documents along with the completed application form if you are an existing IDBI account holder:

1. Statement of Bank account of the borrower for last 12 months.
2. 2 passport size photographs of borrower(s).
3. Signature identification from bankers of borrower(s).
4. A copy of passport /voters ID card/PAN card.
5. Proof of residence.
6. Latest salary-slip showing all deductions
7. I.T. Returns/Form 16: 2 years for salaried employees and 3 years for professional/self-employed/businessmen duly accepted by the ITO wherever applicable to be submitted.
8. Proof of official address for non-salaried individuals.

If you are not an account holder with IDBI you would also need to furnish documents that establish your identity and give proof of residence.
http://www.sbi.co.in/viewsection.jsp?id=0,1,20,117

Margin

New / Used vehicles: 15% of the on the road price.

http://www.sbi.co.in/viewsection.jsp?id=0,1,20,117

Repayment

You enjoy the longest repayment period in the industry with us.Repayment period:
For Salaried: Maximum of 84 months For Self-employed & Professionals: Maximum 60 months

Repayment period for used vehicles :Up to 84 months from the date of original purchase of the vehicle (subject to maximum tenure as above).

Prepayment Penalty:

Prepayment fee of 2% of the amount of the loan prepaid will be levied subject to certain conditions

FLOATING RATES:

A. for Term Loans

1. New Vehicles (Term Loan) Floating only W.E.F. February 27, 2008

Repayment Period	All Centers (SBAR - 12.25%)
Upto 3 years (for loans Rs. 7.5 lac & above)	0.75% below SBAR i.e. 11.50% p.a.
Upto 3 years (for loans below Rs. 7.5 lac)	0.50% below SBAR i.e. 11.75%p.a.
Above 3 yrs up to 5 yrs (for all loans)	0.50% below SBAR i.e. 11.75% p.a.

Above 5 yrs up to 7 yrs (for all loans)	0.25% below SBAR i.e. 12.00% p.a.

2. Used Vehicles: Floating only W.E.F. February 27, 2008

Repayment Period	All Centers (SBAR-12.25%)
Upto 3 years	3.00% above SBAR i.e. 15.25% p.a.
Above 3 yrs up to 7 yrs	3.25% above SBAR i.e. 15.50% p.a.

B. For Overdrafts: For New Vehicles only W.E.F. February 27, 2008

Repayment Period	All Centres (SBAR 12.25%)
Upto 3 years (for loans Rs. 7.5 lac & above)	0.25% below SBAR i.e. 12.00% p.a.
Upto 3 years (for loans below Rs. 7.5 lac)	At SBAR i.e. 12.25% p.a.
Above 3 yrs up to 5 yrs (for all loans)	At SBAR i.e. 12.25% p.a.
Above 5 yrs up to 7 yrs (for all loans)	0.25% above SBAR i.e. 12.50% p.a.

EDUCATION LOAN:

A term loan granted to Indian Nationals for pursuing higher education in India or abroad where admission has been secured.

Eligible Courses

All courses having employment prospects are eligible.

- Graduation courses/ Post graduation courses/ Professional courses
- Other courses approved by UGC/Government/AICTE etc.
  http://www.sbi.co.in/viewsection.jsp?id=0,1,20,118

Expenses considered for loan

- Fees payable to college/school/hostel
- Examination/Library/Laboratory fees
- Purchase of Books/Equipment/Instruments/Uniforms
- Caution Deposit/Building Fund/Refundable Deposit (maximum 10% tution fees for the entire course)
- Travel Expenses/Passage money for studies abroad
- Purchase of computers considered necessary for completion of course
- Cost of a Two-wheeler upto Rs. 50,000/-

Any other expenses required to complete the course like study tours, project work etc.

Amount of Loan

- For studies in India, maximum Rs. 10 lacs
- Studies abroad, maximum Rs. 20 lacs

Interest Rates

(with effect from 1st June 2008)

For loans up to Rs.4 lacs - 11.75 % p.a. Floating
For loans above Rs. 4 lacs and upto Rs.7.50 lacs - 13.25 % Floating
For loans above Rs.7.50 lacs - 12.25% p.a. Floating http://www.sbi.co.in/viewsection.jsp?id=0,1,20,118

Processing Fees

- No processing fee/ upfront charges
- Deposit of Rs. 5000/- for education loan for studies abroad which will be adjusted in the margin money

Repayment Tenure

Repayment will commence one year after completion of course or 6 months after securing a job, whichever is earlier.

Place of Study	**Loan Amount**	**Repayment in Period Years**
Studies in India	Rs. 10.0 lacs	5-7
Studies Abroad	Rs. 20.0 lacs	5-7

Security

Amount	**For loans upto Rs. 10.00 lacs for Studiesin India and upto Rs. 20.00 lacs for studies abroad**
Upto Rs. 4 lacs	No Security
Above Rs. 4 lacs to Rs. 7.50 lacs	Collateral security in the form of suitable third party Guarantee. The bank may, at its discretion, in exceptional cases, weive third party guarantee if satisfied with the net-worth/means of parent/s who would be executing the documents as "joint borrower"

Above Rs. 7.50 lacs.	Tangible collateral security of suitable value, along with the assignment of future income of the student For payment of installments.

All loans should be secured by parent(s)/guardian of the student borrower. In case of married person, co-obligator can be either spouse or the parent(s)/ parents-in-law http://www.sbi.co.in/viewsection.jsp?id=0,1,20,118

Margin

- For loans up to Rs.4.0 lacs : No Margin
- For loans above Rs.4.0 lacs:
  - Studies in India: 5%
  - Studies Abroad: 15%

Documentation Required

- Completed Education Loan Application Form.
- Mark sheets of last qualifying examination
- Proof of admission scholarship, studentship etc
- Schedule of expenses for the specified course
- 2 passport size photographs
- Borrower's Bank account statement for the last six months
- Income tax assessment order, of last 2 years
- Brief statement of assets and liabilities, of the Co-borrower
- Proof of Income (i.e. Salary slips/ Form 16 etc)

IDBI SARAL PERSONAL LOAN:

Purpose

The loan will be granted for any legitimate purpose whatsoever (e.g. expenses for domestic or foreign travel, medical treatment of self or a family member, meeting any financial liability, such as marriage of son/daughter, defraying educational expenses of wards, meeting margins for purchase of assets etc.)

Eligibility

You are eligible if you are a Salaried individual of good quality corporate, self employed engineer, doctor, architect, chartered accountant, MBA with minimum 2 years standing.

Salient Features

Loan Amount

Your personal loan limit would be determined by your income and repayment capacity. Minimum:
Rs.24,000/- in metro and urban centres
Rs.10, 000/- in rural/semi-urban centres

Maximum: 12 times Net Monthly Income for salaried individuals and pensioners subject to a ceiling of Rs.10 lacs in all centres

Documents Required

Important documents to be furnished while opening a Personal Loan Account:

For existing bank customers

Passport size photograph

From salaried individuals

Latest salary slip and Form 16

Margin

We do not insist on any margin amount.

Interest Rates

3.25% above SBAR floating i.e. 15.50% p.a.

Repayment

The loan is repayable in 48 EMI. You are allowed to pay more than the EMI if you wish to, without attracting any prepayment penalty.

Security

Processing Fee

Processing charges are 1-2% of the loan amount. This is amongst the lowest fees in the industry. Processing fees have to be paid upfront. There are no hidden costs or other administrative charges.

PROPERTY LOAN:

Purpose

This is an all purpose loan, i.e., the loan can be obtained for any purpose whatsoever. If amount of loan is Rs.25.00 lacs and above then purpose of loan will have to be specified along with an undertaking that loan will not be used for any speculative purpose whatever including speculation on real estate and equity shares. http://www.sbi.co.in/viewsection.jsp?id=0,1,20,120

Eligibility

You are eligible if you are:

A. An individual who is;
a. An Employee or
b. A Professional, self-employed or an income tax assesse or
c. Engaged in agricultural and allied activities.

B. Your Net Monthly Income (salaried) is in excess of Rs.12,000/- or Net Annual Income (others) is in excess of Rs.1,50,000/-.

The income of the spouse may be added if he/she is a co-borrower or a guarantor.

C. Maximum age limit: 60 years.

Salient Features

http://www.sbi.co.in/viewsection.jsp?id=0,1,20,120

Loan Amount

Minimum: Rs.25, 000/-
Maximum: Rs.1 crore. The amount is decided by the following calculation:

- 24 times the net monthly income of salaried persons (Net of all deductions including TDS)OR
- 2 times the net annual income of others (income as per latest IT return less taxes payable)

http://www.sbi.co.in/viewsection.jsp?id=0,1,20,120

Margin

We will finance upto 75% of the market value of your property.

http://www.sbi.co.in/viewsection.jsp?id=0,1,20,120

Interest

Term Loan 0.75% above SBAR. i.e.13.00% p.a. Floating

Repayment

http://www.sbi.co.in/viewsection.jsp?id=0,1,20,120
Maximum of 60 equated monthly installments, upto 120 months for salaried individuals with check-off facility. You could opt to divert any surplus funds towards prepayment of the loan without attracting any penalty.

http://www.sbi.co.in/viewsection.jsp?id=0,1,20,120

Security

As per banks extant instructions.

LOAN AGAINST SHARES \ DEBENTURES:

Eligibility

This facility is available to our existing individual customers enjoying a strong relationship with IDBI. This loan could be availed either singly or as a joint account with spouse in 'Either or Survivor'/ 'Former or Survivor' mode. It is offered as an Overdraft or Demand Loan.

The facility is available at 50 select centers.

Salient Features:

Purpose

For meeting contingencies and needs of personal nature. Loan will be permitted for subscribing to rights or new issue of shares / debentures against the security of existing shares / debentures.
Loan will not be sanctioned for (i) speculative purposes (ii) inter-corporate investments or (iii) acquiring controlling interest in company / companies.

Loan Amount

You can avail of loans up to Rs 20.00 lacs against your shares/debentures.

Documents Required

You will be required to submit a declaration indicating:

- Details of loans availed from other banks/ branches for acquiring shares/ debentures.
- Details of loans availed from other banks/ branches against security of shares/ debentures

Margin

You will need to provide a margin amount of 50% of the prevailing market prices of the shares/ non-convertible debentures being offered as security. (The market prices refer to the prices in the Stock Exchanges as reported in the Economic Times.)

Interest

At SBAR Floating i.e. 12.25% p.a.

Repayment Schedule

To be liquidated in maximum period of 30 months through a suitable reducing DP programme.

In case of a default or if the outstanding is over Rs.20.00 lacs, the shares/debentures will be transferred in the name of the Bank.

Security:
Pledge of the demat shares/debentures against which overdraft is granted.

Statement of problem

- To find out the amount of NPA is standing over
- To find out how NPA of IDBI is affecting it's business.
- To find out the reason behind the increase in the percentage of NPA
- Major incident, which have any link to increase in the NPA percentage
- How to reduce NPA percentage

Research objectives:

Summer Internship Project gives a practical exposure and helps in acquiring the on-road skills.

- First and foremost, objective is to find out the reasons choosing IDBI bank in the first place
- To find out the comparison of NPA with another public sector bank
- To do financial analysis comparison of two banks

Significance and scope:

- To perform the analysis, we have picked few financial ratios, which will indicate the performance of IDBI bank.
- And to perform ratio analysis, I have used 5-year financial report of IDBI bank
- All the outcome is based on the 5-year financial data, and published data on website.

CHAPTER 3 LITERTURE REV IEW

According to Comptroller's Handbook (2000), Lending is the principal business activity for most commercial banks. The loan portfolio is typically the largest asset and the predominate source of revenue; thus, it is one of the greatest sources of risk to a bank's safety and soundness. Whether due to lax credit standards, poor portfolio risk management, or weakness in the economy, loan portfolio problems have historically been the major cause of bank losses and failures.

Credit risk refers to the risk that a borrower will default on any type of debt by failing to make payments which it is obligated to do. The risk is primarily that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs.

Takang and Ntui (2008) opined that adequately managing credit risk in financial institutions (FIs) is critical for the survival and growth of the FIs. In the case of banks, the issue of credit risk is of even of greater concern because of the higher levels of perceived risks resulting from some of the characteristics of clients and business conditions that they find themselves in. Banks are in the business of safeguarding money and other valuables for their clients. They also provide loans, credit and payment services such as checking accounts, money orders and cashier's checks. Banks also may offer investment and insurance products and a wide whole range of other financial services (in accordance with the 1999 Financial Services Modernization Act by the US congress) which they were once prohibited from selling (by the Glass-Steagall or Banking Act of 1933 in the USA).

One of the important functions of commercial bank is the creation of credit. Credit creation is the multiple expansions of banks demand deposits. It is an open secret now that banks advance a major portion of their deposits to the borrowers and keep smaller parts of deposits to the customers on demand. Even then the customers of the banks have full confidence that the depositor's lying in the banks is quite safe and can be withdrawn on demand. The banks exploit this trust of their clients and expand loans by much more time than the amount of demand deposits possessed by them. This tendency on the part of the commercial banks to expand their demand deposits as a multiple of their excess cash reserve is called creation of credit.

The single bank cannot create credit. It is the banking system as a whole which can expand loans by many times of its excess cash reserves. Further, when a loan is advanced to an individuals or a business concern, it is not given in cash. The bank opens a deposit account in the name of the borrower and allows him to draw upon the bank as and when required. The loan advanced becomes the gain of deposit by some other bank. Loans thus make deposits and deposits make loans.

Credit creation is the main income generating activity for the banks. But this activity involves huge risks to both the lender and the borrower. The risk of a trading partner not fulfilling his or her obligation as per the contract on due date or anytime thereafter can greatly jeopardize the smooth functioning of a bank's business. On the other hand, a bank with high credit risk has high bankruptcy risk that puts the depositors in jeopardy. Among the risk that face banks, credit risk is one of great concern to most bank authorities and banking regulators. This is because credit risk is that risk that can easily and most likely prompts bank failure.

Dam (2010) citing OECD (2008 and The Renegade Economist (2009) indicated that the global economic depression that knocked almost all big economies throughout the world down in the past few years is still kept in many people's minds. It was triggered by the United States financial sector. One key reason for the collapse or nearly-collapse of the financial institutions is the badly-functioned subprime mortgage lending to companies/people with bad and unreliable credit. When the prices of houses used as securities for the loans slumped, those loans became non-performing loans or bad debts.

Further citing Wall Street Journal (2010); Dam (2010) revealed that as soon as the world begins to see the signs of a recovery period, the financial sector, this time in the Euro-zone, suffers another great distress at the serious debt crisis in Greece that poses risk to the European Central Bank (ECB) and many other institutions in the industry. A number of European banks have made investments in Greek government bonds and other securities and use them as collaterals to obtain loans from ECB. And now when Greece defaults, the collateral subsequently loses its value and the ECB.s balance sheet is put at risk as it fails to recollect the loans. Greek banks are not the only ones in danger. French and German banking business are on the same boat with respectively $80 billion and $45 billion exposure to the troubled country.

Recently, the Basel Committee on Bank Supervision demands a jump in both tier 1 and tier 2 capital levels as a response to the crises these days. These incidents raise a question for all financial institutions in general and banks in particular: What could they have done in order to prevent or at least lessen the bad impact of this happening? It urges the significance of a sound credit risk management in lending organizations. Credit risk is a popular type of risk that both non-financial and financial institutions must deal with. Credit risk occurs when a debtor/borrower fails to fulfill his obligations to pay back the loans to the principal/lender. In banking business, it happens when "payments can either be delayed or not made at all, which can cause cash flow problems and affect a bank's liquidity"(Greuning & Bratanovic 2009, 161).

According to Greuning & Bratanovic (2009), "more than 70% of a bank's balance sheet generally relates to this aspect of risk management". Therefore, credit risk management is crucial to any bank'ssuccess.

Okigbo (1980 Pg. 63 – 70) viewed that the role of commercial bank and other financial institution in Nigeria cannot be over emphasized. They have a channel of funds and area of surplus. Swells so as to ensure that no sector of the economy is neglected. To achieve this established guideline and policy geared toward effective utilization of scare funds.

Oyejide and Soyode (1984 Pg. 68 – 69) noted that the study of loan management in Nigeria commercial bank is crucial at the time when the economic fortunes of the nation cannot be predicted. This research will conduct from the angel of deposit received by bank and how banks can manage those deposit in the form of disbursements, under different heading such as loan, advance and overdraft. It also includes the provision of bad and doubtful debts.

According to Adeniy (1982 Pg 208) the principal obligation of borrowing is the obligation to repay the loan. The bank responds to the avoidance of repayment by insisting in their lending policy that security is to be obtained in hope that a man who takes a valuable property or other assets into a transaction be expected to have a greater sense of commitment to it and greater sense of responsibility for the repayment of the loan failure to pay the lain is referred to as default in repayment.

Saeed MS and Zahid N (2016) aimed to analyze the impact of credit risk on the profitability of five big UK commercial banks. For measuring profitability, two dependent variables ROA and ROE were considered whereas two variables for credit risks were net charge off (or impairments), and nonperforming loans. Multiple statistical analyses were conducted on bank data from 2007 to 2015 to cover the period of the financial crisis. It was found that credit risk indicators had a positive association with the profitability of the banks. This means that even after the deep effects of the credit crisis in 2008, the banks in the UK are taking credit risks, and getting benefits from interest rates, fee, and commissions. The results also reveal that the bank size, leverage, and growth were also positively interlinked with each other, and the banks achieved profitability after the financial crisis and learned how to tackle the credit risk over theyears.

In their study titled Non-Performing Loans and Universal Bank's Profitability, Isaac et al (2016) sort to determine the impact of NPLs on Universal Banks profitability based on a quarterly data from 2000 to 2014.The study employed the ARDL bounds test of co-integration as an estimation technique to show the evidence of long-run relationship among the variables. The study found that NPLs had a significant negative impact on Universal Banks profitability in both the short run and long run. The study recommends that Universal Banks should revise their lending policy depending on the situation and economic condition of the country as well as minimizing their periodic loans targets by not engaging inrisky loaning practices.

Kwabi Atta Amoako`s study (2015) examined the effect of NPLs (bad loans) on the profitability and lendingpotential of selected rural banks in the Ashanti Region of Ghana. Secondary data spanning the period of six years (2008-2013) was sourced from the annual report of the selected banks. Besides, primary data was collected from the selected banks through questionnaires to help examine the main causes of bad loans in the rural banking industry. Descriptive statistics, Pearson's Moment Correlation Analysis and Regression analysis was conducted to examine trends and relationships. The result found that the selectedbanks are witnessing a steady rise in their Non-Performing Loan Ratios (NPL), which raises a concern about their effectiveness in managing credit risk. The study further found that NPL (bad loans) has a significant negative effect on the lending potential of the selected banks. Also, it was discovered that thoughNPL harms the banks" profitability, the effect is not significant. The study further discovered that the main causes of bad loans within the selected banks include laxity in credit monitoring, poor appraisal system and lack of effective credit management policy to govern the disbursement of funds to borrowers. The study recommends that rural banks must take steps to reduce their bad loans since it affects their lending abilities and financial performance. Besides, effort must be made by these banks to empower their credit staff with the necessary skills and tools to enhance credit administration within the bank.

Mosses Eliud Mungure (2015), conducted a study to find out the impacts and causes of loan default to MFIs activities using PRIDE Tanzania ltd- Pamba branch in Mwanza as a case study; his study specifically focused on finding out the impacts of loan default on MFIs operational costs, income, profit and lending. Also examining extent in which loan supervision, monitoring and control affects loan repayment, identifying whether multiple borrowing by clients leads to loan default, finding out whether the use of funds by clients for unintended purpose contribute to loan default. The research design used was case study design and the study was carried out in Mwanza region in Nyamagana and Ilemela district, sample size comprised of 100 clients who benefit from PRIDE Tanzania ltd services and 10 loan officers of PRIDE Tanzania Ltd. It adopted the Simple random sampling technique for loan officers and purposive sampling technique was used in sampling MFIs clients; Data was processed through Statistical Package for Social Scientist, analyzed and presented in the form of frequencies, percentages and tables. The study findings revealed that interest rates charged on loans, diverting funds from its intended use, multiple borrowing has a direct impact on repayment. The research also revealed some of the causes that contributed to the default by some customers such as lack of collateral and high-interest rates. The study also concluded that the formation of strong solidarity groups is key to preventing high arrears. MFIs should also provide appropriate training and supervision to clients regarding the use of their loans. Furthermore, MFIs should have clear and effective credit or lending policies and procedures and must be regularly reviewed.

CHAPTER-4 RESEARCH METHODOLOGY

RESEARCH DESIGN OF THE STUDY:

Marketing research can be defined as the systematic design, collection, analysis, and reporting of the data and finding relevant to a specific marketing situation facing the company.

Research design is the basic plan which guides the researchers in the collection and analysis of data required for practicing the research product. In fact the research design is the conceptual structure with which research is conducted. It consist the blue print for the collection, measurement and analysis of the data that was followed completing the study to ensure that study is relevant to the problem and will follow the predetermined and set data.

The main data feature of "Research Design" is that it specifies population to be studied. The main them of the chapter is to know the source of the data the researcher hascollected. Data are raw facts of observation, typically about physical phenomenon.

The study is a descriptive and an analytical one; it is based on the secondary data collected from various resources such as the private bank ' financial statements, reports and previous empirical studies. The sample of the study included all banks operating in the India. The scope of the study purposively covered the period from 2009 to 2022 post to the global financial crises that took place in the year 2008 to test the effect of non-performing loans on selected banks specific factors i.e. (Liquidity, Return on Assets, and Capital Adequacy Ratio) during that period. The investigation is done by adopting a causality research design and deductive research strategy. The research uses Descriptive Statistics, Correlation, Regression and tools to test the relationship, OLS and Granger casualty tests.

Descriptive research:

The research design selected for this research is descriptive research design.

METHODOLOGY:

Collection of the data for the study can be drawn from following methods forstudy.

Sources of the data:

After determining the objectives of study and research design, the next important step is data is step collection method. The information has to be collected from the company's website and other financial website. Data is collected from Secondary data

Secondary data:

These data are collected from published sources such as Magazines, NEWSpapers, several books, and also from the help of web site www.idbibank.in

Research limitations

Although the study was carried out with extreme enthusiasm and careful planning there are several limitations which handicapped the research viz.,

- All the information is collected from websites and financial paper, so there are changes that some of the data can we wrong interpreted.
- Second limitation is we cannot say that all the information and data which have been gathered is reliable
- Time Constraints: The time stipulated for the project to be completed in less time and thus there are chances that some information might have been left out, however due care is taken to include all the relevant information needed.
- In a rapidly changing industry, analysis on one day or in one segment can change very quickly. The environmental changes are vital to be considered in order to assimilate the findings.

CHAPTER-5 DATAANALYSIS AND INTERPRETATION

GRAPHICAL REPRESENTATION OF DATA

Balance Sheet of IDBI Bank from 2017-2021

ARTICULARS	MAR 2017	MAR 2018	MAR 2019	MAR 2020	MAR 2021
Equity and Liabilities					
Share Capital	2,058.82	3,083.86	7,736.29	10,380.59	10,752.40
Total Reserves	20,504.83	18,125.87	29,875.40	23,643.77	26,058.67
Deposits	2,68,538.10	2,47,931.61	2,27,371.72	2,22,424.13	2,30,898.41
Borrowings	56,363.98	63,185.53	45,287.72	36,748.86	15,908.05
Other Liabilities	14,408.75	17,758.85	10,013.35	6,730.75	14,146.55
Total Liabilities	3,61,874.47	3,50,085.72	3,20,284.49	2,99,928.10	2,97,764.08
Assets					
Balance with RBI	13,346.92	13,163.69	12,730.47	10,538.83	13,012.80
Balance with Banks	19,337.16	20,522.40	8,503.23	19,891.57	22,209.39
Investments	92,934.41	91,606.06	93,072.63	81,780.42	81,022.56
Advances	1,90,825.93	1,71,739.95	1,46,790.44	1,29,841.79	1,28,149.94
Net Block	6,808.94	6,269.10	7,763.37	7,642.15	7,357.42
Other Assets	38,081.27	46,282.64	50,956.74	49,746.31	45,541.97
Total Assets	3,61,874.47	3,50,085.72	3,20,284.49	2,99,928.10	2,97,764.08

Profit and loss of IDBI bank from 2017- 2021

ARTICULARS	MAR 2017	MAR 2018	MAR 2019	MAR 2020	MAR 2021
Interest Earned	27,791.37	23,026.53	22,071.24	20,825.11	19,931.76
Other Income	4,007.83	7,013.58	3,300.30	4,470.36	4,625.18
Interest expended	22,039.71	17,386.21	16,165.62	13,847.30	11,414.21
Operating Expense	5,140.81	4,744.69	5,153.79	6,336.16	6,051.95
Total Provision	13,236.71	20,501.75	26,879.29	14,079.44	4,722.16
Profit before Tax	-8,618.02	-12,592.53	-22,827.16	-8,967.43	2,368.62
Taxes	-3,459.88	-4,354.61	-7,710.87	3,919.90	1,009.16
Net Profit	-5,158.14	-8,237.92	-15,116.29	-12,887.33	1,359.46
Adjusted EPS	-25.05	-26.71	-19.54	-12.41	1.26

Quarterly Result

PARTICULARS	MAR 2021	JUN 2021	SEP 2021	DEC 2021	MAR 2022
Interest Earned	5,781.48	4,916.13	4,154.44	4,624.94	4,599.67
Other Income	1,113.38	1,638.82	846.20	1,147.92	844.41
Interest Expended	2,541.68	2,410.40	2,300.79	2,242.42	2,179.20
Operating Expenses	1,537.18	1,368.48	1,490.85	1,762.79	1,751.67
Total Provisions	2,393.36	1,751.80	434.47	801.81	669.23
Profit Before Tax	422.64	1,024.27	774.53	965.84	843.98
Tax	-89.56	420.97	207.41	387.59	153.38
Net Profit	512.20	603.30	567.12	578.25	690.60
Net NPA %	1.97	1.67	1.62	1.70	1.27
Gross NPA %	22.37	22.71	20.92	20.56	19.14
Return on Assets %	0.70	0.83	0.78	0.81	0.95
NPM %	8.86	12.27	13.65	12.50	15.01

Ratio Analysis

1. **Return on Equity-** It measure the ability of a firm to generate profit from its stakeholders' investments in the company.

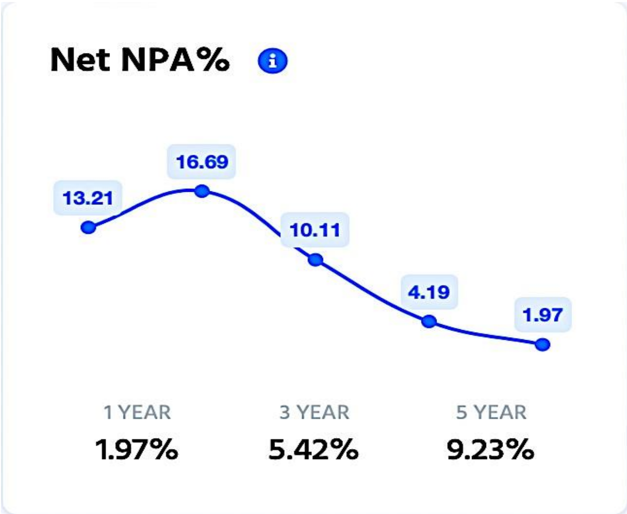
Formula: *Net Income / Shareholder's Equity*

2. **Return on Assets** – It indicates how profitable a company relative to its total assets & also explains how efficiently company using its assets to generate earnings.

Formula: *Net Income / Total Assets*

3. **Net NPA %** It shows proportion of loan or advances that are in default or arrears after adjusting for provision. Lesser the Net NPA, better it is.

Formula: *Non performing assets / Loans Given*

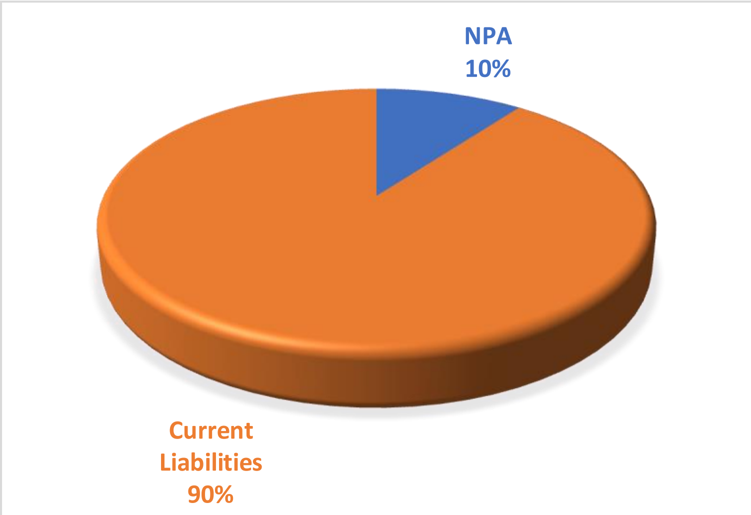


4. **Net Interest Margin:** This ratio depicts the difference between interest income generated by banks and amount paid to their lenders.

Formula: *(Interest received – interest paid) / Average Invested asset*

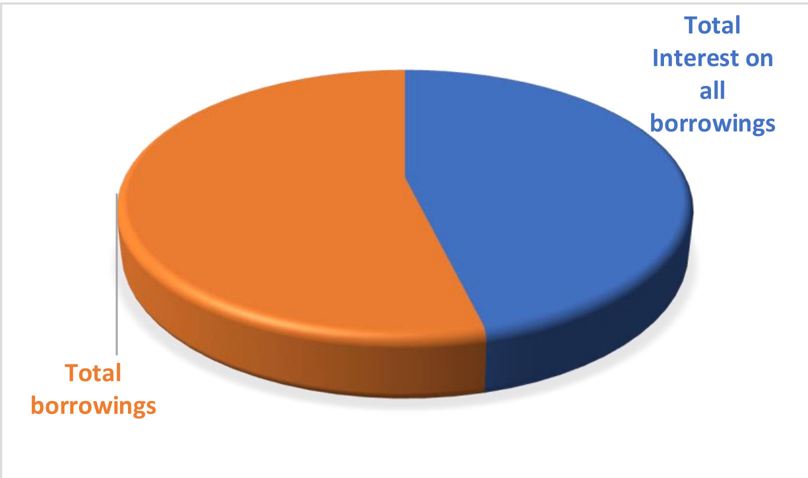
5. **Capital Adequacy Ratio:** This ratio helps bank to make sure that they have enough capital to protect depositors' money.

Formula: *Tier 1 Capital + Tier 2 Capital / Risk Weighted Assets*



6. **Cost of Liabilities%:** It is the cost that is the interest which they have to pay on the liabilities (Banks liabilities = Deposits)

Formula: *(Total interest on borrowings and deposits / Total borrowings and deposits) * 100*



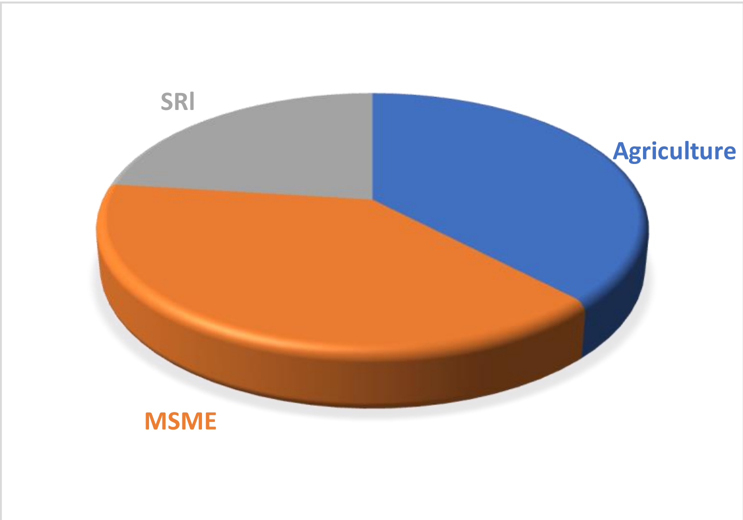
7. **PEG (Price earning to growth ratio)** – This ratio measures the value of company based on current earning and potential future growth. When PEG ratio is more than 1, i.e., PE > Earning growth, it implies that the company is overvalued and vice versa.

Formula: *(Price / Earnings Per share) / Earning per share growth*

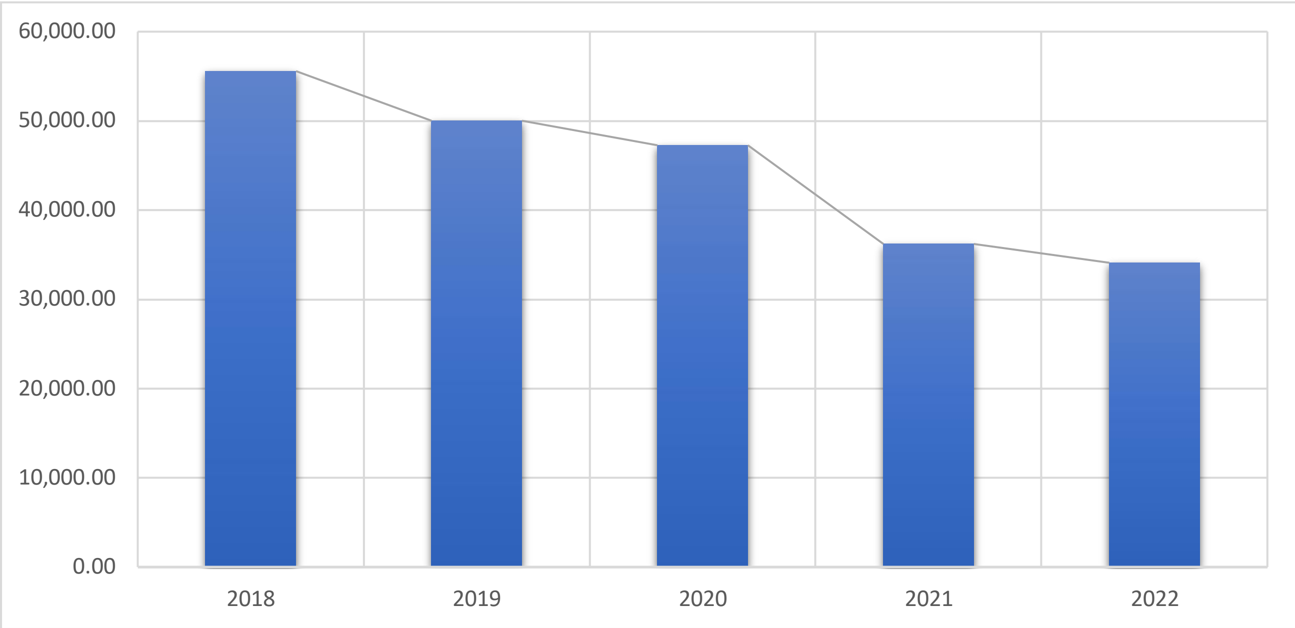
The current PEG ratio of IDBI is ***.15*** which is way low, it means that IDBI bank is undervalued.

8. **Sector Wise NPA of IDBI bank:**

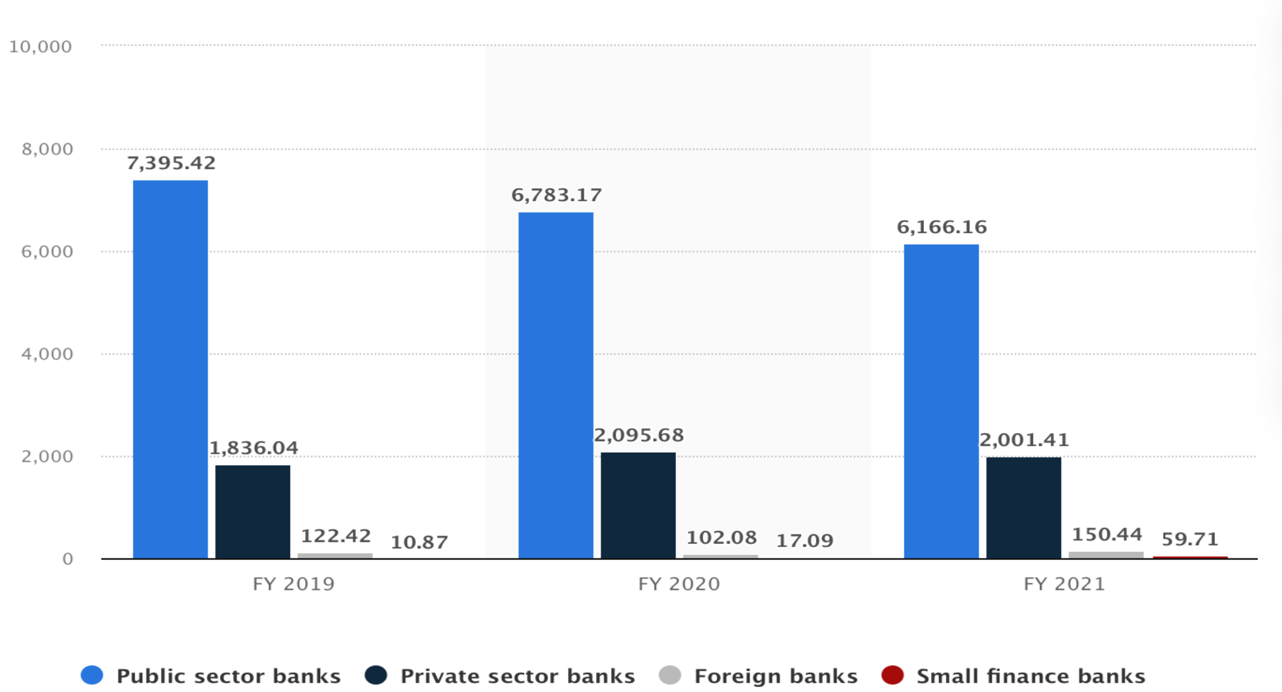
Type	Amount
Agriculture Loan	12,40,000
MSME loan	12,81,000
Structural Retail Loan	07,53,000
Total Amount	**32,74,000**



9. Year wise NPA of IDBI:



10. Gross NPA of Scheduled banks in India from financial year 2019 to 2021:



Project Findings:

- From this project it is found that IDBI have 345 defaulters. Including Vijay Mallya, and Nirav Modi.

- For Banking companies, The primary source of Income is interest earned on various loans given to individuals and corporates. IDBI has earned Rs **19,931.76** Cr. revenue in the latest financial year. It has posted **Poor** revenue growth of **-4.70** % in last 3 Years.

- In terms of advances, the bank reported **-1.30** % YOY, **fall** . If you see 3 years advance growth, it stands at **-9.30** %.

- Currently the company has a CASA ratio of **50.45** %. It's overall cost of liability stands at **4.62** %. Also, the total deposits from these accounts stood at Rs **2,30,898.41** Cr.

- The Bank has a **Poor** ROA track record. The ROA of IDBI is at **0.45** %.

- The Lender is **inefficiently** managing it's overall asset portfolio. The Gross NPA and Net NPA stood at **27.53** % and **1.97** % respectively as on the latest financial year.

- One other important measure of banks' financial health is provisioning coverage ratio. The YoY change in provision and contingencies is **negative** at **-66.46** % which means it has **decreased** from the previous year.

- Non-Interest income or other incomes are very important for banks as it gives a regular source of income for bank with no additional risk. Other income of IDBI **surged** and is currently at Rs **4,625.18** Cr.

- The company has a **Good** Capital Adequacy Ratio of **15.59** .

- The best metric which provides insights about bank's valuation is P/B ratio. Currently IDBI is trading at a P/B of **1.30** . The historical average PB was **1.11**.

REASONS BEHIND HIGH RATE OF NPA AND LOANDEFAULT

- IDBI bank need to ensure that only genuine proposal is accepted and projects having inherited weakness are to be rejected at the first instances. It needs to upgrade the credit appraisal skills which are highly inadequate. Economic viability, technical feasibility, quality of management and financial position of the borrower should be evaluated properly
- Corrective measures are required to recover the money out of assets, which have already fallen into NPA category. Normally, after sanctioning and disbursement of loans the bank should have an effective follow-u, and supervision over the credit.
- The following are the legal measures for recovering non-performing assets initiate by Reserve bank of India.

1. Debt recovery tribunal (DRT)
2. Corporate Debt restructuring (CDR)
3. Asset Reconstruction company India limited (ARCIL)
4. Credit information bureau (CIB)
5. Securitization and Reconstruction of financial Asset

Suggestion & Recommendation

Recommendation:

- The ratio of amount of loan sanction corporate to retail should be reduced that it should be maintained 30:70.
- The project of corporate sector which comes for sanctioning of loan should be properly scrutinized whether it’s feasible or not then only it should be sanctioned for loan.
- Help of recovery tribunal should be taken for recovery of amount of NPA.
- So many acts have been passed like SARFESI ACT 2002 (SECURITISATION AND RECONSTRUCTION OF FINANCIAL ASSETS AND ENFORCEMENT OF SECURITY INTEREST ACT)

Conclusion

From the analysis part it can be conclude that customers have a good respond towards IDBI advance products in Bhubaneswar. IDBI is in 1st position having large number of customers & providing good services to them. The bank has a wide customer base, so the bank should concentrate on this to retain these customers.

In present scenario IDBI is the largest advance product issuer in India. Within a very short period of time the achievement made by IDBI is excellent, what a normal bank cannot expect, but it is being done by IDBI. It happens due to employee dedication towards the organization, fastest growing Indian economy, & brand image.

To be the largest advance product issuer, IDBI should focus on-

- Launch Innovative product
- Customized advance products
- Better customer services
- Fastest customers problem solving techniques
- Customer retention

Apart from all the above, IDBI believe in providing good customer services to their customers which is a key factor for success in future.

Bibliography:

Text Books:

Solomon, Michael R. (2002), Consumer Behavior: Buying, Having, Being. 5th Ed.New Jersey: Prentice Hall

Wilson A. (2003), Marketing Research: An Integrated Approach

Naresh Ku. Malhotra, Marketing Research: An Applied Orientation, Fifth Edition

Internet:

- www.google.co.in
- www.IDBI.com
- www.IDBI.co.in
- www.bnet.com