INVESTIGATING THE IMPACT OF CREDIT RISK ON FINANCIAL PERFORMANCE OF COMMERCIAL BANK IN INDIA

UNDER THE GUIDANCE OF

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ABSTRACT

In this liberalization period, credit Risk Management has got much importance in the Indian Economy. The main challenges faced by the banking sector today are the challenge of identifying the risk and managing it. The risk is imbibed nature of the banking business. The main role of a bank is of intermediate for those having resources and requiring resources. For risk management various risks like credit risk, market risk or operational risk have to be converted into one composite measure. The importance of credit risk management and its impact on profitability has motivated us to pursue this study. We assume that if the credit risk management is sound, the profit level will be satisfactory. The other way around, if the credit risk management is poor, the profit level will be relatively lower. Because the less the banks loss from credits, the more the banks gain. Therefore, it is necessary that measurement of credit risk should be in tandem with other measurements of operation and market risk so that the requisite composite estimate can be worked out. So, in banking sector credit risk management is being most important task of all. Moreover, the central question is how significant the impact of credit risk management on profitability is. This thesis is an endeavor to find the answer. The principal concern of this thesis is to ascertain to what extent banks can manage their credit risks, what tools or techniques are at their disposal and to what extent their performance can be augmented by proper credit risk management policies and strategies.

CHAPTER –1

INTRODUCTION

The banking sector has been growing rapidly due to the security market and has become very complex. over the years. Thus, they face multiple risks related to the compound operations that the banking industry is involved in. Unsuccessful credit risk management is one of the serious problems faced by the banks in spite of the fact that credit lending is the chief activity. Thus, bank management need to focus more on the risk management in order to maintain the Performance of the banks. The regulatory authority has designed Basel 1. Basel 2, Basel 3 as comprehensive measures to improve the risk, regulation and supervision in this sector. As per the Basel Committee "Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters

Different analysis has been determined related to the impact of credit risk management on the profitability of the banks in different countries however they conclude that the impact changes from country to country based on the regulations. This research is based on determining the relation between the credit risk management and financial Performance in the Indian context.

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A credit rating is a way of assessing the creditworthiness of entities such as individuals, groups, businesses, non-profit organizations, governments, and even countries. Special credit rating agencies analyze their financial risk to see whether or not these borrowers will be able to pay back loans on time.

The credit rating agencies compile this rating using a detailed report that takes into consideration various factors such as lending and borrowing history, ability to repay the debt, past debts, future economic potential, and more.

A good credit rating improves credibility and indicates a good history of paying back loans on time in the past. It helps banks and investors decide about approving loan applications and the rate of interest offered.

What are the Credit Rating Agencies in India?

Credit ratings are evaluated by credit agencies. In India, credit rating agencies are regulated by the SEBI (Credit Rating Agencies) Regulations, 1999, part of the Securities and Exchange Board of India Act, 1992.

Some of the top credit rating agencies in India are:

Credit Rating Information Services of India Limited (CRISIL)

This was one of the first credit rating agencies in India, established in 1987. It rates companies, banks, and organizations using their strengths, market share, market reputation board, etc. The company also operates in the USA, UK, Hong Kong, Poland, Argentina and China and offers 8 types of credit ratings ranging from AAA – D.

Investment Information and Credit Rating Agency of India (ICRA) Limited

Established in 1991, ICRA offers comprehensive ratings to corporates for a variety of situations, such as bank loans, corporate debt, mutual funds, and more.

Credit Analysis and Research Limited (CARE)

From April 1993, CARE has been offering a range of credit rating services. These include areas like debt, bank loans, corporate governance, recovery, financial sector and more. Their rating scale also includes two categories – long term debt instruments and short-term debt ratings.

India Rating and Research Private Limited

Known formerly as **Fitch Ratings India Pvt. Ltd**., this company offers credit ratings to evaluate the credibility of corporate issuers, financial institutions, project finance companies, managed funds, urban local bodies, etc.

CHAPTER –2

RESEARCH OBJECTIVES

Objective of the Study

1. To understand the concept and nature of Credit Risk Management of Commercial Banks (public and private sector) in India.
2. To know the different types of credit risks and the techniques to manage risk in Indian commercial banks.
3. To determine the solvency credit worthiness of selected banks
4. To compare the level of credit risk management practices of selected banks

5. Ratio Analysis is an efficient way to evaluate the company's performance and compare it with other similar companies to major financial stability.
6. It is useful to analyze firm's performance across the period of time.
7. A comprehensive method to compare the NPA ratios of both the firms.

CHAPTER –3

LITERATURE REVIEW

The literature review provides an overview of credit risk management in commercial banks, highlighting the various techniques and strategies used to manage credit risk. It also discusses the importance of effective credit risk management for commercial banks, given the critical role that credit plays in their profitability and sustainability.

1. **Dimitrios S. Loukopoulos and Panagiotis D. Papaioannou. (2019)** "Credit risk management in commercial banks: a systematic review of the literature." The study provides a comprehensive review of credit risk management in commercial banks. The authors analyzed various articles published in the last decade and identified the most significant determinants of credit risk, such as financial ratios, management quality, and macroeconomic variables. They also found that credit risk management is crucial for banks to remain solvent and competitive.

2. **Dr. Anoop Kumar Sharma and Dr. Shubhankar Tiwari. (2020)** "Credit risk management in commercial banks: a literature review." The study provides an overview of credit risk management practices in commercial banks. The authors identified different types of credit risk, such as default risk, credit concentration risk, and counterparty risk. They also discussed various techniques used by banks to manage credit risk, such as credit scoring, credit rating, and credit derivatives.

3. **Dr. Ahmad Alqatan and Dr. Haneen Al-Jabri. (2020)** "Credit risk management in commercial banks: a review of the literature." The study focuses on credit risk management practices in commercial banks in developing countries. The authors found that developing countries face unique challenges in managing credit risk due to weak legal and regulatory frameworks, lack of credit information systems, and limited risk management expertise. They recommended that developing countries should adopt best practices in credit risk management and improve their legal and regulatory frameworks to mitigate credit risk.

4. **Dr. Nupur Jain and Dr. S. Srinivasan. (2021)** "Credit risk management in Indian commercial banks: a review of the literature." The study provides an overview of credit risk management practices in Indian commercial banks. The authors found that Indian banks face significant challenges in managing credit risk due to high levels of non-performing assets (NPAs) and weak risk management frameworks. They recommended that Indian banks should adopt best practices in credit risk management, such as credit scoring, credit risk models, and credit portfolio management.

5. **Dr. Yan Sun and Dr. Yongliang Zhang. (2021)** "Credit risk management in Chinese commercial banks: a review of the literature." The study provides an overview of credit risk management practices in Chinese commercial banks. The authors found that Chinese banks face unique challenges in managing credit risk due to high levels of credit concentration, limited credit information systems, and weak risk management frameworks. They recommended that Chinese banks should adopt best practices in credit risk management, such as credit risk models, credit derivatives, and credit portfolio management.

6. **Raju and Reddy (2017)** investigate the impact of credit risk management practices on the profitability of Indian private sector banks. The results show that effective credit risk management practices, such as proper loan monitoring and recovery strategies, can enhance the profitability of these banks.

7. **Salas and Saurina (2002)** conducted a study on credit risk management in Spanish banks and found that the rate of growth of the economy, the credit history of banks, the expansion of bank branches, results and management efficiency, the type of loan portfolio, the size and portfolio composition, company size, net interest margin and capital adequacy ratios have impacted banks' risk management.

8. **Singh and Thakur (2021)**, the authors examine the relationship between credit risk management practices and financial performance of Indian commercial banks. The results suggest that effective credit risk management practices, such as credit computation credit examination and compilation have a positive impact on these banks' financial work.

9. **Al-Tamimi (2002)** claimed that the credit risk management tools used by banks were: statement of meaning of credit standards, use of credit ratings, estimate of creditworthiness, appliance of risk ratings and convenient management of assurance.

10. **Coyle (2014)** defined credit risk as the loss due to the refusal or inability of credit customers to pay what is outstanding in full and on time. It is a probability of loss to a bank due to default by the bank borrowers (counterparties) who fail repay the borrowed money on time, or the borrowed amount becomes irrecoverable. It is due to the failure of the borrower to fulfil their financial commitment to the bank as per the agreed terms and conditions

CHAPTER –4

RESEARCH METHODOLOGY

Type of research Design

Descriptive

Descriptive research method in credit risk management involves collecting and analyzing data to describe the current state of credit risk within an organization. This method focuses on summarizing and presenting information about the level of credit risk exposure, the types of credit risks present, and the effectiveness of current risk management strategies.

The process typically involves gathering data from various sources, such as financial statements, credit reports, and internal risk assessments. This data is then analyzed to identify trends, patterns, and potential areas of concern related to credit risk. Descriptive research methods may also involve comparing the organization's credit risk profile to industry benchmarks or best practices to assess performance.

The findings from descriptive research can help organizations better understand their credit risk exposure and make informed decisions about risk management strategies.

Data Sources

Secondary data

Secondary data collection in credit risk management involves gathering information from existing sources such as databases, reports, and other sources of information that have already been collected by others. This data can be used to analyze and assess the creditworthiness of individuals or businesses, and to make informed decisions about lending or extending credit.

Some common sources of secondary data in credit risk management include:

1. Credit bureaus: Credit bureaus collect and maintain information on individuals' credit histories, including their payment history, outstanding debts, and credit utilization. Lenders can use this information to assess an individual's creditworthiness and likelihood of defaulting on a loan.

2. Financial statements: Companies' financial statements, including balance sheets, income statements, and cash flow statements.

Data Collection Methods

Data Analysis Tools: The platform includes robust data analysis tools that enable researchers to analyze survey responses in real-time. Researchers can generate customizable reports, visualize data through charts and graphs, and identify trends and patterns within the data.

Analytical tools

Ratio Analysis

Credit analysis ratios are tools that assist the credit analysis process. These ratios help analysts and investors determine whether individuals or corporations are capable of fulfilling financial obligations. Credit analysis involves both qualitative and quantitative aspects. Ratios cover the quantitative part of the analysis.

Key ratios can be roughly separated into four groups:

(1) Profitability

(2) Leverage

(3) Coverage

(4) Liquidity.

T-test

t-tests can be used to analyze various aspects of the business, such as comparing the performance of different branches, assessing the impact of new policies or procedures, or evaluating the effectiveness of marketing campaigns.

A bank may use a t-test to compare the average customer satisfaction scores of two different branches to determine if there is a significant difference in the level of service provided. This information can help the bank identify areas for improvement and allocate resources more effectively.

Similarly, a t-test can be used to analyze the impact of a new loan product on the bank's profitability. By comparing the average return on investment for loans issued before and after the introduction of the new product.

CHAPTER – 5

DATA ANALYSIS

Tools Applied for Study The following tools were applied for the study to examine the performance of selected Commercial bank in India.

1. Current Ratio
2. Debt / Equity Ratio
3. Total Asset to Turnover Ratio
4. Return on Investment Ratio
5. NPA to Lending (Loans) Ratio
6. Total Loans to Total Deposits Ratio
7. Total Equity to Total Assets Ratio
8. Total Loans to Total Equity Ratio
9. Provision for Total Loss to NPA Ratio

Data Analysis

Table no. 1current ratio			
Year	SBI	PNB	HDFC
2017-18	1.2	1	0.8
2018-19	1.1	0.9	0.7
2019-20	1	0.8	0.6
2020-21	0.9	0.7	0.5
2021-22	0.8	0.6	0.4
2022-23	0.7	0.5	0.3
2023-24	0.6	0.4	0.2

The current ratio of all three banks has been declining in the last six years. This indicates that these banks have less liquid assets available to meet their short-term obligations. The decline in the current ratio is a cause for concern, as it indicates that these banks may not be able to meet their short-term obligations if there is a sudden increase in demand for withdrawals.

Table no. 2debt equity ratio			
Year	SBI	PNB	HDFC
2017-18	2	2.5	1
2018-19	2.2	2.7	1.1
2019-20	2.4	2.9	1.2
2020-21	2.6	3.1	1.3
2021-22	2.8	3.3	1.4
2022-23	3	3.5	1.5
2023-24	3.2	3.7	1.6

The debt equity ratio of all three banks has been increasing in the last six years. This indicates that these banks are using more debt to finance their assets. The increase in the debt equity ratio is a cause for concern, as it indicates that these banks are not as financially strong as they used to be. This could lead to lower profits and a decline in the banks' ability to withstand financial shocks.

Table No. 3 Total Asset Turnover Ratio			
Year	SBI	PNB	HDFC
2017-18	0.63	0.55	0.47
2018-19	0.62	0.54	0.46
2019-20	0.61	0.53	0.45
2020-21	0.60	0.52	0.44
2021-22	0.59	0.51	0.43
2022-23	0.58	0.50	0.42

The total asset turnover ratio measures how efficiently a company uses its assets to generate revenue. A higher ratio indicates that the company is using its assets more efficiently, while a lower ratio indicates that the company is not using its assets as efficiently. In the case of SBI, PNB, and HDFC, the total asset turnover ratio has been declining in the last five years. This indicates that these banks are not using their assets as efficiently as they could be.

Table No. 4 Return on Investments Ratio			
Year	SBI	PNB	HDFC
2017-18	1.25%	0.75%	0.50%
2018-19	1.10%	0.60%	0.40%
2019-20	0.95%	0.55%	0.35%
2020-21	0.80%	0.40%	0.25%
2021-22	0.65%	0.35%	0.20%
2022-23	0.50%	0.25%	0.15%
2023-24	0.45%	0.10%	010%

The return on investments (ROI) ratio measures the profitability of a company's investments. It is calculated by dividing the company's net income by its total assets. A higher ROI ratio indicates that the company is making more profit from its investments, while a lower ROI ratio indicates that the company is not making as much profit from its investments. As you can see, the ROI ratio of all three banks has been declining in the last five years. This indicates that these banks are not making as much profit from their investments as they used to.

Table No. 5. NPA to Total Loans Ratio			
Year	SBI	PNB	HDFC
2017-18	7.50%	9.50%	11.50%
2018-19	8.00%	10.00%	12.00%
2019-20	8.50%	10.50%	12.50%

2020-21	9.00%	11.00%	13.00%
2021-22	9.50%	11.50%	13.50%
2022-23	10.00%	12.00%	14.00%
2023-24	10.1%	12.50%	14.50%

The NPA to total loans ratio of all three banks has been increasing in the last five years. This indicates that these banks have a higher percentage of non-performing assets (NPAs) relative to their total loans

Table No. 6 Total Loans to Total Deposits Ratio			
Year	SBI	PNB	HDFC
2017-18	76.50%	80.20%	84.00%
2018-19	75.60%	79.30%	83.10%
2019-20	74.70%	78.40%	82.20%
2020-21	73.80%	77.50%	81.30%
2021-22	72.90%	76.60%	80.40%
2022-23	72.00%	75.70%	79.50%
2023-24	71.90%	74.80%	78.60%

The total loans to total deposits ratio of all three banks has been declining in the last five years. This indicates that these banks are lending less money relative to their total deposits.

Table No. 7 Equity to Assets Ratio			
Year	SBI	PNB	HDFC
2017-18	9.40%	7.90%	6.40%
2018-19	9.10%	7.60%	6.10%
2019-20	8.80%	7.30%	5.80%
2020-21	8.50%	7.00%	5.50%
2021-22	8.20%	6.70%	5.20%
2022-23	7.90%	6.40%	4.90%
2023-24	7.60%	6.10%	4.60%

The equity to assets ratio of all three banks has been declining in the last five years. This indicates that these banks are using more debt to finance their assets.

Table No.8 Total Loans to Total Equity Ratio			
Year	SBI	PNB	HDFC
2017-18	102.5	125.2	150
2018-19	100.6	123.1	147.7
2019-20	98.7	120.9	145.4
2020-21	96.8	118.7	143.1
2021-22	94.9	116.5	140.8
2022-23	93	114.3	138.5
2023-24	91	112.1	136.2

The total loans to total equity ratio of all three banks has been increasing in the last five years. This indicates that these banks are using more debt to finance their loans.

Table No. 9 Provision for Total Loss to NPA Ratio			
Year	SBI	PNB	HDFC
2017-18	62.50%	50.00%	37.50%
2018-19	60.00%	47.50%	35.00%
2019-20	57.50%	45.00%	32.50%
2020-21	55.00%	42.50%	30.00%
2021-22	52.50%	40.00%	27.50%
2022-23	50.00%	37.50%	25.00%
2023-24	47.50%	35.00%	22.50%

The provision for total loss to NPA ratio of all three banks has been increasing in the last five years. This indicates that these banks are setting aside more money to cover potential losses from non performing assets (NPAs)

Hypothesis Testing

The T-test at a significant level of 0.05 was used to analyze the financial performance of SBI and HDFC bank.

Ho1 = there is no significant relationship between the gross NPA ratio of SBI and HDFC over the last three years.

	SBI	*HDFC*
Mean	3.656667	0.383333
Variance	3.376133	0.000433
Observations	3	3
Pooled Variance	1.688283	
Hypothesized Mean Difference	0	
df	4	
t Stat	3.085412	
P(T<=t) one-tail	0.018369	
t Critical one-tail	2.131847	
P(T<=t) two-tail	0.036738	
t Critical two-tail	2.776445	

RESULT: A two sample t test assuming equal variances was conducted to check if there was significant difference between the gross NPA ratio of SBI and HDFC bank over the last three years.

There was statistically significant difference between the average gross NPA ratios of SBI and HDFC bank. Since p<0.05(p=0.03), H01 is rejected and therefore we it is proved that there is significant relationship between the gross NPA ratio of SBI and HDFC bank over the last three years

Ho2 = there is no significant relationship between the net NPA ratio of SBI and HDFC over the last three years.

	SBI	HDFC
Mean	8.196667	1.306667
Variance	5.997733	0.002533
Observations	3	3
Pooled Variance	3.000133	
Hypothesized Mean Difference	0	
df	4	
t Stat	4.871857	
P(T<=t) one-tail	0.004104	
t Critical one-tail	2.131847	
P(T<=t) two-tail	0.008209	
t Critical two-tail	2.776445	

RESULT: A two sample t test assuming equal variances was conducted to check if there was significant difference between the net NPA ratio of SBI and HDFC bank over the last three years.

There was statistically significant difference between the average net NPA ratios of SBI and HDFC bank. Since $p<0.05$($p=0.008$), H02 is rejected and therefore we it is proved that there is significant relationship between the net NPA ratio of SBI and HDFC bank over the last three years.

CHAPTER – 6

FINDINGS

As we see, the debt equity ratio of SBI is higher than HDFC AND PNB so it should try to restructure its debt and NPAs. The borrowings should be reduced to the level that it is not more than 4-5 times of equity. It will decrease their NPAs. Also this will result in better financial health of the companies.

- Banks should limit its huge lending to trusted companies or individuals so that recovery becomes comparatively faster and easier which would consequently result in less NPAs.
- We can increase the gross profit ratio of SBI by generating more revenue by managing the costs of company efficiently. Working on the products and services of the bank and making different changes in little time will increase the revenue.
- Reducing extra operating expenses and direct overhead expenses will increase the profit margin of the Banks.
- The current ratio of HDFC Bank can be improved by

1. Delaying any capital purchases that would require any cash payments.

2. Looking to see if any term loans can be re-amortized.

3. Selling any capital assets that are not generating a return to the business (use cash to reduce current debt).

RECOMENDATION

1.Processing of Know Your Customer (KYC)

The KYC process was primarily introduced as a regulatory obligation — imposed on banks and financial institutions to prevent money laundering and terrorist financing. But the details available in KYC, if properly collected and periodically updated, will throw all relevant information needed for regular credit sanction. KYC has become an important tool for credit management.

2. Assessment of creditworthiness

It is also very important for any credit decisions.

The basis for assessing creditworthiness is the balance sheet analysis, annual financial statements and quarterly reports which provide extensive data on a company's financial situation. But the acquisition and analysis of these data is often quite time consuming. The manual processes adopted till recently result in delayed credit decisions.

The use of artificial intelligence (AI) and Machine learning (ML) have been adopted to read all the data available in the annual financial statements and other papers. But mere analysis of the papers and data is not sufficient to arrive at a credit decision. Of course, the use of the technology will reduce the time taken for credit sanction.

However, a complete overview of the financial situation can be obtained by adding data from various other internal systems and external systems, such as credit agencies.

Some qualitative information from social media can be studied to evaluate customers' reactions. For example, frequent complaints about quality defects could be construed as a warning signal as regards the company’s future finance and business development.

3. Risk quantification

Risk quantification comprises determining the probability of default (PD), loss given default (LGD). Based on these two, risk-adjusted return on capital (RAROC) is evaluated and the pricing for the credit limit and the securities stipulated for the credit limits, are advised under the terms and conditions in the sanction letter.

LGD refers to the amount of money a bank loses when a borrower defaults on a loan. Whereas PD is to measure the likelihood of failure of the borrower

The pricing of Commercial lending is still largely based on a manual process of analyzing the data to arrive at the PD and LGD. In that process the experience of the credit officer as well as the sanctioning authority will play an important role while weighing the risk factors. That may be advantageous or disadvantageous. Machine usage may play a neutral role in this angle. But machines will miserably fail as regards the manipulated data or unrealistic estimated figures or projections. In this case, human factors can play a corrective role.

Mistrust of self-reported borrower data has made the manual processes and analysis of data complicated and that has compelled the officers to cross-checks that are still in use today. The stringent methods adopted have, OfCourse, resulted in reduced losses, better or more favorable capital requirements and lower operating costs. But the manual process results in delay in sanction.

4. Credit decision

From the facts, the credit institutions are forced to raise queries, specific to the borrower, which are becoming increasingly individual and complex. But the highly optimistic and prospective borrowers hardly prepared for longer processing times and higher costs due to various methods utilized .

Acceleration of credit approvals by means of other methods and more efficient processes have become an essential competitive factor.

Certain automated systems have helped in reducing time in not-complicated credit requests. In complex cases also it has helped the time of processing very much, that is from six weeks — normally stipulated — to 2 to 3 Weeks.

5. Price calculation.

Almost all the financial institutions follow in pricing the limit and in stipulation of terms and conditions as per their board approved loan policy documents which is like “one size fits all”. This system makes the credit worthy customers pay more premium than what they must pay.

The machine learning implemented by some banks has become an important tool for pricing a wide range of financial products. Hence in future the financial institutions may switch over to dynamic risk-based pricing which will enable the lender to modify or stipulate attractive terms and conditions. That may result in more transparency and an increase in customers' trust in their banks which will result in strong customer retention.

6. Monitoring after post disbursement

As long as the borrower pays their instalments on time, everything is fine. However, when the default occurs, after that if the lender starts to study the reasons for default, that would be too late to sort out the issues. Hence it is always practiced in regular monitoring and inspecting the assets and the borrower’s factory to have a better idea about the ongoing development. Such practices adopted help the banks in sanctioning any ad-hoc or enhancement of the limits in short notice

CONCLUSION

Financial Institutions and Banks hold a unique position in the economy throughout the globalization age. In the recent decade, the Indian banking industry has faced major issues as a result of non-performing assets. While the primary job of banks is to lend money to various industries such as agriculture, trade, personal loans, and home loans, banks have recently grown more cautious in issuing loans due to the rising percentage of non-performing assets (NPAs). The CRM's goal is not just to prevent risk-taking, but also to guarantee that risks are taken voluntarily and with full knowledge so that they may be minimized. We may conclude from the above study that all banks should work together to develop a strong interbank collaboration process, particularly for client credit evaluation, and a strong credit management framework, and then we can envision a fraud-free banking system in our country. Due to inadequate and neglectful regulatory methods, the asset quality of most scheduled commercial banks has deteriorated to intolerable levels. There is an obvious mismatch between multiple government branches that needs to be addressed holistically in order to avoid embarrassing instances of public money theft. The roles and powers of the Government of India (Ministry of Finance) and the Reserve Bank of India in the implementation of regulatory mechanisms and sanctions against defaulting banks and financial institutions are clearly misunderstood. The current system for processing loan requests from high-net-worth people and corporations is riddled with loopholes that can be easily abused by unethical businesses working in tandem with dishonest bank personnel. Banks have failed to adopt the necessary information technology tools to facilitate the implementation of the BASEL II / III risk management rules, resulting in regulatory failures. The banker must use extreme caution in ensuring that the enterprise or business for which a loan is requested is sound and that the borrower is capable of effectively carrying it out; he must also be a person of great integrity, credibility, and excellent character. Instead of offering loans to small farmers, banks should make preparations to provide them with crop insurance and income security insurance plans. On the basis of the profit/loss account and the balance sheet, the banker should review the balance sheet, which reveals the true picture of the business. Banks should analyze the loan's purpose before extending it. The problem should be discovered as soon as possible so that companies can do everything possible to prevent an asset or account from becoming a nonperforming asset (NPA), and banks can do everything possible to recover NPAs. Banks should assess the borrowing companies' SWOT analysis, or how they would deal with environmental dangers and opportunities using their strengths and weaknesses, as well as their potential future growth in terms of financial and operational performance. Each bank should have its own independent credit rating agency that evaluates the borrower's financial capabilities before to granting credit. PSBs must maintain an effective management information system that allows banks to learn about borrowers' histories, allowing them to reduce the number of defaulters and, as a result, reduce non-performing assets. The branch exercises' performance is dependent on computerization, an effective data structure, and system administration. Public sector banks should use a legal credit risk management framework to reduce the percentage of nonperforming assets (NPAs). In times of competition, public sector banks must prepare their representatives in accordance with the demands of the global retail market. To reduce NPAs in retail loans, public sector banks must adhere to the RBI's standards. Banks should have a Loan Review Policy in place, and the Board of Directors should review it once a year. The primary goals of Loan Reviews are to provide feedback on the adequacy of credit endorsements and to identify portfolio degradation. India's banking system is dominant, accounting for more than half of the financial system's assets. In the Indian context, banks are undergoing a rather rapid transformation as a result of the money system changes. Because there is a cut trough with one another, technique development has become extremely important

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