



An Investigation on How Credit Risk Management Techniques Affect Loan Performance In Ashwin Enterprises

Mr. Kaviyarasan. A, Mr. Jothilingam. D

*School of Management Studies
Karpagam College of Engineering
Coimbatore- 641032*

Date of Submission: 14-05-2024

Date of Acceptance: 29-05-2024

ABSTRACT: The study proposes a framework to choose the right non-performing loan (NPL) stock reduction strategy mix. Moving from these references, the study investigates the strategic options that banks can implement to reduce non-performing loans (NPLs), taking into account the evolution of the external context and the bank-specific situation. In this sense, our study proposes some possible operating rules banks should consider when they implement strategic planning procedures and make their decision in the selection of the most suitable NPL reduction options. Relevant materials on non-performing loan management practices will also be used in this study to review relevant information to this study. The study to establish the relationship of non-performing loan management practices to loan recovery performance. In addition, Descriptive statistics such as percentages, mean, standard deviation will be used to test the relationship of the dependent variables to the independent variables.

Keywords:

Non-performing loan reduction strategy, financial crises, Credit quality.

I. INTRODUCTION:

The concept of credit has a long history and can be traced back to ancient times. However, it was not until after the Second World War when it largely began to be appreciated. In the United States of America (USA) banks extended credit to customers with high interest rates which sometimes discouraged borrowers. Thus the concept of credit was not popular in USA until the economic boom of 1885 when banks had excess liquidity and wanted to lend the excess cash. In Africa the concept of credit was largely appreciated in the 1950's when most banks started opening the credit sections to extend loans to white settlers. In Kenya

credit was initially given to the rich and big companies and was not popular to the poor.

The ability to attract customers hinges on the ability to quickly and easily make well-informed credit decisions and set appropriate lines of credit. However, a firm's credit policy is greatly influenced by economic conditions. As economic conditions change, the credit policy of the firm may also change. Therefore MFIs must develop a credit policy to govern their credit management operations and since MFIs generate their revenue from credit extended to low income individuals in the form of interest charged on the funds granted the loan repayments may be uncertain.

Loan portfolio refers to the total amount of money given out in different loan products to different types of borrowers. This may be comprised of salary loans, group guaranteed loans, individual loans and corporate loans. Loan portfolio looks at the number of clients with loans and the total amount in loans. Survival of most MFIs depends entirely on successful lending program that revolves on funds and loan repayments made to them by the clients.

II. LITRATURE REVIEW:

Bragg (2017) The loan period or term of a loan is usually classified as either short-term or long-term. A short term loan in bank balance is one that is repayable within a period of one year. A long- term loan on the other hand, is any loan with payment terms extending beyond one year. asserted that the short time frame reduces the risk of non-repayment to the industry, which can be reasonably certain that the business's fortunes will not decline so far within such a short time period that it cannot repay the loan, while the MFIs will also be protected from long-term variations in the interest rate.



Zeller (2017) Credit is linked to savings, and in most cases loan sizes are related to the amount each borrower has saved. Saving can play a significant role in increasing levels of institutional sustainability and enhancing levels of outreach. Therefore, MFIs that offer savings facilities have a cheap source of funds for further lending to more sustainable operations. On the other side, voluntary saving builds the equity of poor households and protects them against unforeseen economic and personal crisis (AEMFI, 2010). also agree with the importance of saving to influence the repayment rate. It is expected that saving services offered by the program improves the repayment rate of the group. Saving may increase the financial discipline of group members and they can also serve as loan collateral.

Gestel and Baesens (2018) risk management is primarily concerned with reducing earnings volatility and avoiding large losses. In a proper risk management process, one needs to identify the risk, measure and quantify the risk and develop strategies to manage the risk. The highest concern in risk management is the most risky products. The prior concern for the risk management is those products that can cause the highest losses: high exposures with high default risk.

STATEMENT OF PROBLEM

The success of MFIs largely depend on the effectiveness of their credit management systems because these institutions generate most of their income from interest earned on loans extended to small and medium entrepreneurs. This trend not only threatens the viability and sustainability of the MFI's but also hinders the achievement of the goals for which they were intended which are to provide credit to the rural unbanked population and bridge the financing gap in the mainstream financial sector. While many researchers have carried out general studies on causes of poor loan performance and their effects on the worldwide banking crises in there have not been specific studies on the relationship between Credit risk management and loan performance on asset reconstruction e industry.

OBJECTIVES

- To determine effects of credit risk management techniques overall loan performance in Aswin enterprises in Chennai.
- To assess the factors that leads the improved loan performance and reductions in loss.

- To study the role of Micro finance Institutions on the Credit risk management.
- Provide insights and recommendations to Ashwin Enterprises on optimizing credit risk management strategies to improve loan performance and minimize credit risk exposure.

III. RESEARCH METHODOLOGY:

Research methodology is a way to systematically solve research problem. Research methodology is understood as a source of the study how to research is done scientifically. The various steps adopted by a researcher in studying the research problem along with the logic. The project work entitled "credit risk management practices on loan Performance in Aswin enterprises at Chennai". The Data was taken through primary data and also secondary data. However, institution and product profiles were taken for reference. A structured un-disguised interview schedule was designed to collect data source. The schedule method was opted since the method would help to concise amount of information. The aggregate elementary units in the survey are referred to as the population. Here it covers the entire customers of the Aswin enterprises at Chennai. Convenience sampling techniques have been used . I have chosen 2 district population. This includes the list of 150 respondents.

METHODS OF COLLECTION

The Data was taken through primary data and also secondary data. However, institution and product profiles were taken for reference. A structured un-disguised interview schedule was designed to collect data source. The schedule method was opted since the method would help to concise amount of information.

The commonly used statistical tools for analysis of collected data are:

- Simple percentage analysis
- Anova
- Chi-square test

SIMPLE PERCENTAGE ANALYSIS

Percentage refers to a special kind of ratio. Percentage is used in making comparison between two or more series of data. Percentage is used to describe relationship. Percentage can also use to compare the relationship.



ANOVA

ANOVA is a solid measurable method that is utilized to show distinction between at least two methods or segments through importance tests. It likewise shows us an approach to make various correlations of a few population implies.

CHI-SQUARE TEST

Rate estimation, connections are the measurable apparatuses utilized for examination on this task. There are momentarily clarified in the accompanying. A rate investigation is utilized to decipher information by the utilization of rate. The information are decreased in the norm from with base equivalent to 150 which actuality offices relative examination. Straightforward rate investigation.

CORRELATION

There are several different correlation techniques. The survey systems optional statistics module includes the most common type, called the person

or product moment correlation. The module also includes a variation on this type called partial correlation. The latter is useful when you want to look at the relationship between two variables while removing the effect of none or two other variables.

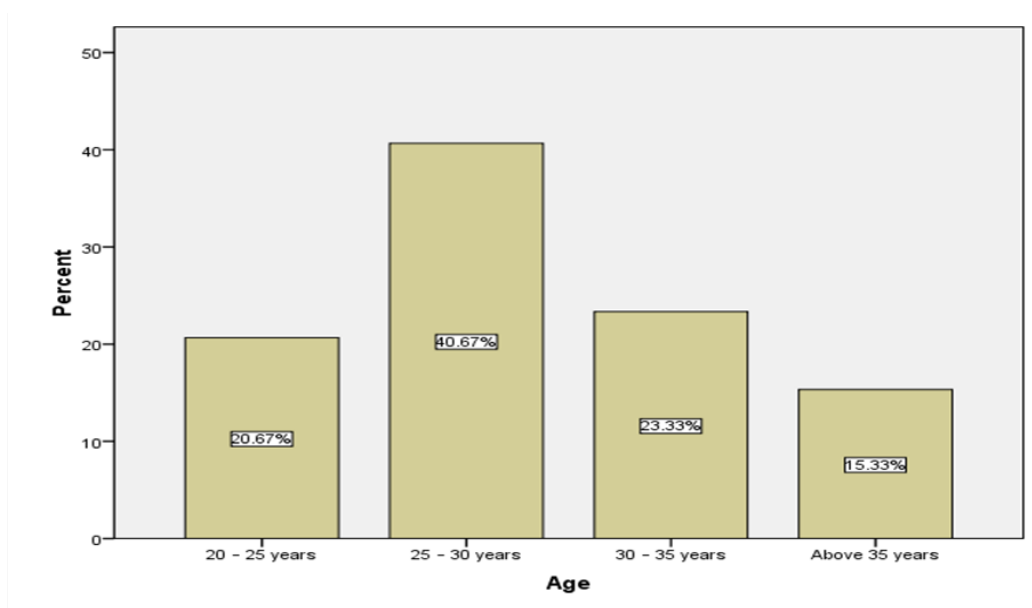
LIMITATIONS

- Lack of time and other resources as it was not possible to conduct survey at large level.
- Different job evaluators may reach different result, requiring validation last
- More complex system, such as point factor, may be difficult to explain to manager or employees.
- The loan takes a long time to install, requires specialised technical personnel and may be High interest.

IV. DATA ANALYSIS AND INTERPRETATION

PERCENTAGE ANALYSIS

Age of the respondents			
		RESPONDENTS	PERCENTAGE
Valid	20-25yrs	31	20.7%
	26-30yrs	61	40.7%
	31-35yrs	35	23.3%
	Above 35yrs	23	15.3%
	Total	150	100%



Interpretation:

The above table shows that 20.7% of the respondents come under the age group 20-25 years, 40.7% of the respondents come under the age group of 26-30 years, 23.3% of the respondents come under the age group of 31-35 years, 15.3% of the respondents come under the age group of above 35 years.

Thus the mostly 40.7% of the respondents come under the age group of 26-30 years.

ANOVA ANALYSIS

Income	Sum of Squares	df	Mean Square	F	Sig.
Between (Combined)	154.138	2	77.069	544.622	.000
Linear Term	152.235	1	152.235	1.076E3	.000
Unweighted					
Weighted	148.987	1	148.987	1.053E3	.000
Deviation	5.152	1	5.152	36.404	.000
Within Groups	20.802	147	.142		
Total	174.940	149			



Interpretation

From the above analysis, we find that calculated value of the F-value is a positive 529.795value, so H1 accept. Since the P value 0.000 is less than < 0.05 regarding there is a significant relationship between income and job improve risk management. The results are significant at 4 % level.

CHI-SQUARE TEST

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	2.847E2 ^a	12	.000
Likelihood Ratio	291.963	12	.000
Linear-by-Linear Association	131.162	1	.000
N of Valid Cases	150		

a. 5 cells (25.0%) have expected count less than 5. The minimum expected count is 2.17.

Interpretation

Since the calculated value is less than the table value. So, $P = 0.000 < 0.05$ less than value accept the Alternative hypothesis. There is relationship between Educational Qualifications and the risk of the employee.

V. FINDINGS, SUGGESTION AND CONCLUSION

FINDINGS

- The mostly 40.7% of the respondents come under the age group of 26-30 years.
- The P value 0.000 is less than < 0.05 regarding there is a significant relationship between income and job improve risk management. The results are significant at 4 % level.
- There is relationship between Educational Qualifications and the risk of the employee.

SUGGESTION

The study also recommends that there is need for credit risk management practices on loan performance s to enhance their client appraisal techniques so as to improve their financial performance. Through client appraisal techniques, the industry will be able to know credit worthiness

of clients and thus reduce non-performing loans. There is also need for asset reconstruction industry to enhance their credit risk control. This may help in decreasing loan default levels. This may help in improving their financial performance.

The study sought to determine the effect of credit risk management practices on the loan performance of asset reconstruction industry. Further research is recommended on the effect of client appraisal on loan performance. Further research should also be done on the relationship between credit risk management practices and nonperforming loans and on the reasons for loan default from the financial institution’s perspective.

CONCLUSION

The paper tries to identify the prevailing relationship between credit risk management and profitability performance as a specific case of loan performance. Previous studies were very few, and



studies, in general, were inconclusive. Motivated to fill this gap a descriptive statics and panel data we discussed in details for the importance of credit risk management towards the loan performance. Therefore, the result revealed that credit risk profile for a financial transaction or commercial market has been improving in the last one decade. The ratio of the nonperforming loan is sharply declining in recent past.

Moreover, the capital adequacy ratio of commercial banks was higher than regulatory requirement at local and international level, this analysis indicated commercial transactions have hold excessive capital which leads negative effect on profitable of commercial market and also has adverse impact on the economic growth of the countries. Credit risk management in financial institutions is a broad, a dynamic and crosscutting issue. So that, credit risk detection, isolations, and categorizations are not included in this study, which can be researching in the future.

REFERENCES

- [1]. AbdulazizAlrashidi& Omar Baakeel (2012) the Impact of Operational Risk Management on the Financial, London, UK.
- [2]. Adamuldama et al. (2014) Credit Risk Portfolio Management Banks: Conceptual and Practical Insights, Universal Journal of Applied Science 2(6): 111-119.
- [3]. Alfred Kesenwa et al (2014) Effects of Strategic Decision Making on Firm`s Performance: A Case Study of Safari.com Limited, Nairobi, Kenya, International Journal of Business and Social Science.