International Journal of Engineering, Management, Humanities and Social Sciences Paradigms (IJEMHS)
Volume 35, Issue 01 and Publication Date: 25th January, 2023
An Indexed, Referred and Peer Reviewed Journal
ISSN (Online): 2347-601X
www.ijemhs.com

The Findings and Commitments of Credit Ratings in Rural Businesses

Dr. Abhishek

Assistant Professor, Department of Management,
Baba Mastnath University, Rohtak
Parasharabhishek5@gmail.com

Abstract

This fundamentally solid credit scoring model, based on history but unaffected by facts, capable of measuring default risk and yielding consistent findings across time and for a wide range of borrowers, would merely be an anchor of sound credit management. "Credit scoring is a set of scientific methodologies for estimating the credit risk of a new credit application. Statistical models that allocate points to characteristics indicative of acceptable repayment are used to construct scores. Models are empirically designed, which means they are built totally from data gleaned from prior experience. As a corollary, credit scoring presents a clear approach in evaluating rather than a subjective instrument as to which they believe or are informed. According to the findings, credit rating is extremely useful in the market.

Keywords: rural banking, economy, rural credit, rural oriented and credit requirement

INTRODUCTION

The commercial bank extends credit to different type of borrowers for much different purpose. Today the marketing is not possible without credit as source of finance. The fundamental objective of commercial lending is to make profitable loans with minimum risk. The management should target specific industries or markets in which lending officer have expertise.

The somewhat competing goals of loan volume and loan quality must be balanced with the bank's liquidity requirement s, capital constraints and rate of returns objectives .The Indian retail lending market is relatively unexplored with the per capita usage of retail product offerings such as housing finance, credit cards, auto loans, consumer finance, etc. lower as compared to Asian peers. Also the relative size of the Indian market, backed by factors such as growing population of bankable households low penetration rate of retails finance products and the increased propensity of the urban populace to take credit, offers scope for expansion .In retail finance most of the players trying to enter or consolidate their housing fiancé segment as housing loan market is perhaps the least risky segment in the financial sector. Housing finance companies generally target the retail borrower where the nature of the loan ensures that defaults are few and far between. The relatively small size of the housing loans also ensures the risk as spread out. Moreover pursuance to the government s policy to provide shelter to a large number of people and concessions provided in the finance act to boost housing and housing finance activities indicates great future potential for this segment. Interest paid on capital borrowed for the acquisition of construction of property is entitled to a deduction. Adequate availability of credit to support investment demand in the economy has been an important objective of monetary policy in India. At the same time, monetary policy had to contend with widening fiscal deficits. The higher borrowing requirements of the Centre as well as the State Governments in an environment of administered interest rate mechanism were essentially met through a phased increase in statutory pre-emptions of banks' deposits. Not only were the banks' lendable resources to be shared between the private sector and the government, the social concerns of society had also to be taken into account. This took the shape of directed lending in the form of priority sector lending targets. Thus, by the early 1980s, an elaborate and arduous system of credit planning was in place. With food credit for procurement operations as the first charge on credit demand, credit planning involved sectoral limits for credit deployment. The broad objective of the credit policy was to meet genuine credit needs for productive purposes without stoking inflation expectations. . Five main types of interventions have been used: lending requirements and quotas on banks, refinance schemes, loans at preferential interest rates, credit guarantees and lending by development finance institutions. Such programmes played an important role in the process of financial deepening and growth in the 1950s and 1960s in developing economies. Directed credit, for instance, was one of the ingredients that contributed to Korea's strong export growth. At the same time, the resultant segmentation of markets blunted the process of price discovery and limited the allocative efficiency of financial systems. With the increasing market orientation of monetary policy, direct instruments of monetary control are being progressively phased out in many developing countries. The old paradigm of supply-leading subsidised and targeted lending is being gradually replaced by the new demand-leading programme aimed at improving financial market efficiency.

REVIEW OF LITERATURE

Credit risk management is a process which begins with identifying the target markets and proceeds through a series of stages to loan repayment. Different types of risk management strategies need to be employed at each stage. Every activity is undertaken with the ultimate aim of protecting the loan quality, which is critical to the health of a bank. A healthy loan portfolio, in turn, leads to the maximization of profits and the shareholders wealth. The balancing of risk and returns presents a major challenge and banks are successful when the risks taken are reasonable, controlled and within their financial resources and competence.

Dr. S.V. Kaveri says that the small scales industries (SSI) have somehow managed to live with the problem of inadequate supply of bank credit despite several measures initiated by the government and reserve bank of India. Here we analysis the problems of SSI and offer s certain suggestion – with a hope that both banker – borrower would work together to ensure that no viable project from the SSI sector would suffer for want of bank finance . By now small scale industries have

somehow managed to live with the problem of inadequate supply of bank credit despite several measured initiated by the central government and reserve bank of India.

Krishna chaitony (2005) observed in this study that managing credit risk is a challenging task bank across the globe is facing today. Banks need to have cost effective credit risk management models and instruments. Credit linked notes in one such instrument s . He also throws s light on issues involved in developing the credit derivatives market in India besides their structures and features.

S.N. Ghosal (2005) analyzed in his study that the principal objective of inspection in banks is to ensure that operating units follow the rules and procedure changes in the methodology and strategy in inspection of bank advance control risks involved in advance. Remedial steps required to minimize the risk should be addressed quickly and timely. To improve the quality of assets, RBI has recently come up with a risk based inspection and audit models.

Need of the study:

This study provide an in –depth analysis of all the concepts associated with the credit management in any bank which will include credit process undertaken by bank to approve the loans, credit policy etc.The conclusion is also made study the behavior of banks in the rural marketing. The credit rating policy adopted and enhanced.

Scope of the study

Theoretical framework for the credit management in banks like credit process undertaken by the banks to approve the loans, credit risk assessments , credit rating system , credit culture, credit rating review credit policy , evaluation of the loan request , evaluation of the of loan procedure .

Objective of the study

To provide theoretical framework for the various aspects of the credit management in banks

To evaluate the credit procedure be adopted by the banks for granting the loans. All the steps of credit procedure will be evaluated.

To evaluate the risks which are involved in the granting of credit by the banks?

To enumerate all factors which are involved in the credit rating to analyze the credit worthiness of loan seekers?

To analyze a loan proposal to be sanctioned to small sector industries

To analyses the loan proposal to be sanctioned to the retailers in the rural markets

RESEARCH METHODOLOGY

The min tool which is used for the analysis of the data is ratio analysis. The methods which are followed are specific to the procedures which are illustrated by the banks in their rules. The procedures are specific to the assessment being made under the proposal to be analyzed for the sanctioning of the loan. The ratios are Debt service coverage ratio, current ratio PAT/ net sales, ROCE, PBIDT/INTT, INv.+REC./Sales.

Credit management:

On the basis of credit risk, the markets are in study shows favorable rating as per the rules and it is provided to the market which has very less credit risk. As per the maximum permissible banks finance also, the company's proposal suits the bank as the amount demanded by the company can be given accounting to the rules . while analyses the operating system it was 5 The actual experience indicates that notwithstanding the deregulation of interest rates and the significant reduction in the statutory pre-emptions during the 1990s, banks continued to show a marked preference for investments in Government securities vis-à-vis extending credit to the commercial sector. Thus, policies of liberalisation, deregulation and the enabling environment of comfortable liquidity at a reasonable price have not automatically translated into increased credit flows to various sectors. The banking system continues to charge interest rates to various categories of borrowers by their category per se - whether agriculture or small scale industry consistent with the legacy of the old administered interest rate regime rather than actual assessment of risks for each borrower. Moreover, significant divergence in lending rates between formal and informal markets still exists. Consequently, issues relating to information asymmetries that keep lending rates high for a large category of borrowers/sectors have come to the forefront. The Reserve Bank's endeavour has, therefore, been to reduce transaction and information costs so that adequate credit to such sectors is available at reasonable interest rates addresses the role of finance in contributing to investment and growth. The section begins with a brief overview of the theoretical literature and empirical studies on the interlinkages between finance and growth. This is followed by a discussion of the role of bank credit in the conduct of monetary policy. Section II dwells upon the Indian experience in regard to bank credit. Key measures taken by the Reserve Bank to improve the credit delivery mechanism in the country in the recent years are highlighted. Trends in the flow of credit to various sectors of the economy in the postreforms period are critically examined. With the gradual waning of the development finance institutions, the ability of banks to cater to the needs of long-term finance is assessed. Despite reductions in statutory liquidity ratio (SLR), banks' investment in Government securities remains significantly above the statutory requirements and reasons for this

CONCLUSION

The fundamental objective of commercial lending is to make lending is to make profitable loans with minimum risk. The management should target markets in which lending banks has detailed study and repayment mechanism.it is quite important to evaluate the credit procedure being adopted by the banks for granting the loans and evaluate the risk which are involved in the granting of credit by the banks

SUGGESTIONS

- The rural market is very poor in the competitive world needs to more expertise.
- The rural markets could not function without the financing so finance is much important to the
- Proper credit rating is to be made that they should know which source of funds is better.

Based on the level of sophistication and the type of system, financial systems can be grouped into two categories, i.e., (a) the Anglo-American model of market-based finance where financial markets play an important role and (b) the Continental/Japanese model of bank-based finance, in which savings flow to their productive uses predominantly through financial intermediaries such as banks and other financial institutions. The market-based system is relatively impersonal as the sources of funds are atomistic household savers, directly or indirectly through mutual funds, pension funds or insurance funds. The bank-based systems are more relationship-based, because the lenders are few and large. Generally, bank-based systems often tend to be stronger in countries where governments have taken a direct role in industrial development, such as Germany, in the 19th century, and Japan and India, in the later half of the 20th century. At the same time, a number of EMEs, especially the South Asian tigers, follow a marketbased system. Within the credit view, two alternative channels are stressed. The "bank lending" channel holds that a contractionary monetary policy decreases bank reserves, which cannot be offset by the banks (say, by issuing certificates of deposit) thereby reducing bank lending, investment demand and output. The credit view also proposes a "balance sheet" channel of monetary transmission. According to the "balance sheet" channel, a tight monetary policy reduces net worth of the borrowers as well as lenders. The reduction in the net worth of the borrowers, for instance, reduces the collateral available with them which, in turn, increases the EFP. This inhibits investment demand in the economy and the affects may get magnified through a financial accelerator mechanism. The effect may also depend upon the size of the firms and their access to credit markets. Small firms that have relatively poor access to credit markets will be forced to curtail their production relatively more compared to large firms with better access to credit markets." In order to maintain their output, the latter could be in a better position to look to new sources of funding, including commercial paper. As a result of monetary tightening, enterprises that are proportionally more credit-constrained will experience a greater degree of production contraction.

References

[1] Alba P;Claessens, and Djankov , s. (1998) Thailand's corporate financing and governance structure (no 2003)

worldbank publications.

[2] Balsubramanian, B., Black B.and Khanna, V. (2008). Firm level corporate governance in emerging markets :A casestudy of India

[3] Bebchuk ,L ., Cohen ,A., and Ferrell ,A., (2009)what matters in corporate governance ?, Review of financial studies.22(2),783-827.

[4] Beeks, w., and Brown, P. (2006) Do better governed Australian firms make more informative Disclosure? journal of Business finance and accounting .33(3-4), 422-450

[5] Bhasin, M., and Manama, A. (2008) Corporate governance disclosure practices in India: An empirical study.

[6] Wooldridge, J. (2002) Economic analysis of cross section and panel data. Mit Press.

[7] Moody's investor service (2003) US and Canadian corporate governances assessment.Available on www.moody's.com