

IMPACT FACTOR
2.86

ISSN 2249-4081




National Registered & Recognized
Research Journal Related to Higher Education for Economics & Commerce

GLOBAL

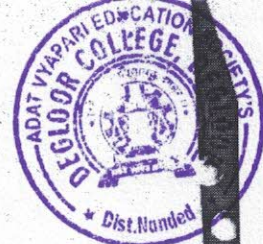
ECONOMIC RESEARCH

REFEREED & PEER REVIEWED RESEARCH JOURNAL

<p>Issue - XI, Vol. - II Year - VI, (Half Yearly) (April 2016 To Sept. 2016)</p>	CHIEF EDITOR	
<p>Editorial Office : 'Gyandev-Parvati', R-9/139/6-A-1, Near Vishal School, LIC Colony, Pragati Nagar, Latur Dist. Latur - 413531. (Maharashtra), India.</p>	<p>Dr. Balaji G. Kamble Research Guide & Head, Dept. of Economics, Dr. Babasaheb Ambedkar College, Latur, Dist. Latur. (M.S.) India.</p>	
<p>Contact : 02382-241913 09423346913 / 09503814000 07276305000 / 09637935252</p>	MEMBER OF EDITORIAL BOARD	
<p>Website www.irasg.com</p>	<p>Dr. T. Prasanna Koppa, Dist. Chikmagalur, (Karnataka)</p>	<p>Dr. Rajendra Dhane Dhanwad, Dist. Dhanwad (Karnataka)</p>
<p>E-mail : interlinkresearch@rediffmail.com visiongroup1994@gmail.com mbkamble2010@gmail.com</p>	<p>Dr. Santosh Kute Amravati, Dist. Amravati (M.S.)</p>	<p>Dr. Suhas Avhad Pune University Pune (M.S.)</p>
<p>Published by : JYOTICHANDRA PUBLICATION Latur, Dist. Latur - 413531 (M.S.) India</p>	<p>Dr. Rajendra D. Ganapure Munim, Dist. Osmanabad (M.S.)</p>	<p>Dr. Balasaheb S. Patil Panvel, Dist. Raigad (M.S.)</p>
<p>Price : ₹ 200/-</p>	<p>Dr. Rajendra R. Gavhale Khangaon, Dist. Buldhana (M.S.)</p>	<p>Memon Sohel Yusuf Nizwa, (Oman, U.A.E.)</p>
	<p>Dr. Y. K. Thombre Dodamarg, Dist. Sindhudurg (M.S.)</p>	<p>Dr. Subhash J. Deshmukh Ahmadnagar, Dist. Ahmadnagar (M.S.)</p>
	<p>Dr. Karamsingh Rajput Vani, Dist. Yavatmal (M.S.)</p>	<p>Dr. Anil N. Barbole Solapur University, Solapur (M.S.)</p>
	<p>Dr. Suresh B. Dhake S.H.D.T. University, Mumbai (M.S.)</p>	<p>Dr. Arun R. Kumbhar Nesari, Dist. Kolhapur (M.S.)</p>
	<p>Dr. T. K. Udgirkar Kolhapur, Dist. Kolhapur (M.S.)</p>	<p>Dr. M. Selva Kumar Sivakasi (T.N.)</p>
	<p>Dr. Vikas V. Sukale Nanded, Dist. Nanded (M.S.)</p>	<p>Dr. Kumar Prabhakar Lakhisarai (Bihar)</p>
	<p>Dr. Eknath Helge Buldhana, Dist. Buldhana (M.S.)</p>	<p>Dr. R. N. Gangasagare Purna, Dist. Parbhani (M.S.)</p>
	<p>Dr. Deelip D. Mane Ranapur, Dist. Latur (M.S.)</p>	<p>Dr. N. B. Gosai Nandurbar, Dist. Nandurbar (M.S.)</p>

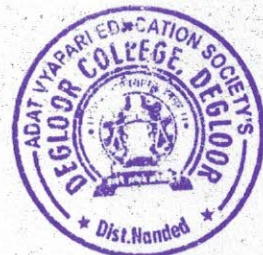

Dr. Anil Chidrawar
I/C Principal
A.V. Education Society's
Degloor College, Degloor Dist. Nanded

205



INDEX

Sr. No.	Title of Research Paper	Author(s)	Page No.
1	Green Marketing and Sustainable Development	Dr. V. R. Gavhale	1-6
2	Water Scarcity and Agricultural Sustainability	Arun Kale	7-21
3	Analysis of Sugar Industry in India	Manashri M. Kasralikar	22-29
4	Credit Rating of Customer's in Bank Lending	Dr. Ashok Tipparshe	30-33
5	A Research Study on the Status of Lending Efficiency, Land Holdings and Loan Utilization Given by Primary Agricultural Cooperative Credit Societies (A Comparative Study of Sindagi and Basavan Bagewadi, Talukas, Vijayapur District)	Nanagouda P. Biradar	34-45
6	The Trend and Pattern of Household Migration in India : A Case Study Based on Nsso (64 Thround) Unit Level Date	Somnath Choudhury	46-65



Issue : XI, Vol. II
GLOBAL ECONOMIC RESEARCH

IMPACT FACTOR
2.86

ISSN 2249-4081
April 2016 To Sept. 2016 30

CREDIT RATING OF CUSTOMER'S IN BANK LENDING

Dr. Ashok Tipparshe
Head, Dept. of Economics,
Degloor Mahavidyalaya,
Degloor, Dist. Nanded

RESEARCH PAPER - ECONOMICS

4

Introduction :

The need for a strong banking system emanates from the fact that a strong banking system is the backbone of a strong and vibrant financial system. Empirical evidence shows that economies with a weak banking system lag in economic development. The East Asian Crisis has resulted largely from bad banking system, rather than pegged exchange ratios or capital account convertibility.¹ The Indian banking sector's minimal reliance on external borrowings to fund domestic capital requirements, minimal exposure to property and stock markets reflect the conservative approach to banking. For instance, the exposure of scheduled commercial banks to sensitive sectors such as capital market and real estate accounted for just 2.7 percent of the total advances of Rs. 4430 billion at the time of the crisis.² Despite the positive features, the Indian banking system needs to be toned up to fall in line with the best international practices especially, the non-performing assets (NPAs) of the Indian banks. At the operational level, RBI has already insisted on the implementation of risk management systems to monitor credit risks in banks.

207



NPAs of Public Sector Banks

The Indian banking industry operated in a regulated and protected environment until 1991. Following the financial sector reforms since 1991, the forces of competition have entered into the banking sector. The commercial banks in India had been working in an environment which was highly regulated. Guidelines from RBI were simply used for fixing credit limits and the rates of interest were also administered. As a result, decision making was simple and the bankers had only to comply with regulatory requirements with respect to security margins, minimum current ratio, minimum turn-over of inventory and book debts. The result is that Indian commercial banks now faces serious problems of recoveries and write-offs and growing non-performing assets (NPAs). The major cause of decline in the quality of the loans and advances portfolio has been the lack of professional approach at the credit risk appraisal stage.³

At present, as is evident from the above analysis, most of the public sector banks and term lending institutions are heavily loaded with the problem of huge amount of NPAs. This is mainly attributed to the fact that lending decisions in the past placed undue emphasis on need based bank credit, instead of using the better criteria of risk and credit worthiness of the borrowers. Therefore, bank lending in future has to focus towards the better criteria i.e. risk and credit worthiness. In short, the weak capital position of the Indian banking system is largely due to the result of poor credit management system.

Role of (Internal and External) Ratings in Pricing of Bank loans.

The major cause of decline in the quality of the loans and advances of banks has been the lack of professional approach at the credit appraisal stage. Hence, Indian Banks should have to use credit rating both internal as well as external for determining the pricing of loans on the basis of risk premium criteria.

Banks should develop the practice of charging different rates with different borrowers depending on their credit rating. Similarly, strict prudential norms should be observed while fixing the maximum limit per party, according to the credit rating. Depending upon the credit rating of the borrower, bank lending can be priced at various interest rates. A proposed model of such lending is presented in Table 1.

A bank can formulate its own policies of lending in accordance with the rating



grades presented in Table 1. The best rated borrowers such as 'AAA' rated blue chip corporates can be charged the lowest rate of interest, say prime rate and successively lower rated ones should be charged increasingly higher rate of interest due to loading of risk premium, which would be within the maximum prescribed band of interest from the prime rate of interest.

Table 1 Rating Scales and Lending Rates

Borrower's Category	Interest Rate	Maximum loan limit per party	Per party exposure limit
A1 (AAA Rated)	PLR	Rs. 20 Crore + 60 %	= Rs. 32 Crore
A2 (AA+ Rated)	PLR +1 %	Rs. 20 Crore + 50 %	= Rs. 30 Crore
A3 (AA Rated)	PLR + 2 %	Rs. 20 Crore + 40 %	= Rs. 28 Crore
A4 (AA- Rated)	PLR + 3 %	Rs. 20 Crore + 20 %	= Rs. 25 Crore
A5 (A+ Rated)	PLR + 4 %	Rs. 20 Crore + 0 %	= Rs. 20 Crore
A6 (BBB Rated)	PLR + 5 %	Rs. 20 Crore - 20 %	= Rs. 15 Crore
A7 and Below	Lack Credit-worthiness	Nil	--

Note : A Proposed Model.

In the liberalised and competitive regime of lending, the functional difference between banks and financial institutions (FIs) are likely to vanish gradually. In other words, FIs may start financing the short term working capital needs of borrowers besides providing term loans, while banks may also set up their own project appraisal departments and start financing capital projects in a big way, in addition to providing working capital finance. So each bank has to spell out its own policy in this regard.

It is concluded from the above analysis that commercial banks as well as financial institutions should have to develop their own lending criteria by using internal as well as external credit ratings to reduce the high level of NPAs as per the norms of BIS and Basle Committee recommendations. Big banks can develop their own internal risk assessment mechanism in addition to the external ratings whereas small banks can use the bank loan

209



ratings and other rating services offered by India CRAs in this regard.

References

1. Murthy Vivek, "From East Asian Miracle to Debacle - Bad Banking and Moral Hazard", Vikalpa, Vol. 23, No. 4, Oct-Dec, 1998, P-19.
2. CRISIL, Profile of Indian Financial System, Rating Scan, April 2001, P-1.
3. Singh S.P., Singh S., "Financial Analysis for Bank lending in a Liberalised Economy", Himalaya Publishing House, Mumbai, 1999, P-259.
4. Singh S.P., Singh S., "Financial Analysis for Bank lending in a Liberalised Economy", Himalaya Publishing House, Mumbai, 1999, P-268.

ज्योतिचंद्र पब्लिकेशन, लातूर.

ISBN नंबर नुसार पुस्तक प्रकाशनाची सुवर्ण संधी

वैशिष्ट्ये :-

- १) विद्यार्थी, संशोधक, प्राध्यापक व इतर लेखकांचे पुस्तक 'ना नफा ना तोटा' या तत्त्वावर ISBN नंबर नुसार प्रकाशित करणे.
- २) संशोधक, प्राध्यापक यांच्या M.Phil, Ph.D. संशोधनात्मक पुस्तकांना विशेष प्राधान्य यु.जी.सी. च्या नवीन मार्गदर्शक तत्वानुसार उच्च शिक्षणामध्ये कार्यरत संशोधनार्थी व प्राध्यापक यांना आपले पुस्तक ISBN नुसारच प्रकाशित करणे आवश्यक आहे. तरी, संशोधनार्थी व प्राध्यापक यांनी आपले मौलिक साहित्य ISBN नुसार प्रकाशित करून घ्यावे, ही विनंती.

- संपर्कासाठी पत्ता -

प्रकाशक,

ज्योतीचंद्र पब्लिकेशन

"ग्यानदेव-पार्वती", R-9/139/6, विशाल शाळेजवळ,

एल.आय.सी. कॉलनी, प्रगती नगर, लातूर.

ता. जि. लातूर - 413531.(महाराष्ट्र), भारत

ऑफिस फोन नं. - 02382 - 241913

मो. नं.9423346913, 9503814000, 9637935252, 7276301000

Jr. Anil Chidrawar
I/C Principal
A.V. Education Society's
Degloor College, Degloor Dist.Nanded

210