International Journal of Commerce Research and Development (IJCRAD)
Volume 4, Issue 2, July-Dec 2024, pp. 1–9, Article ID: IJCRAD_04_02_001
Available online at https://iaeme.com/Home/issue/IJCRAD?Volume=4&Issue=2
Journal ID: 0364-7784
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A STUDY ON CREDIT RISK MANAGEMENT AND PROFITABILITY OF STATE BANK OF INDIA

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ABSTRACT

"Credit risk management refers to how banks manage their advances and investments; it helps banks understand the risk they can afford to take when extending credit to borrowers. In this study, the SBI bank's credit risk management was examined; descriptive research methods were employed, and secondary data was collected; tools for analysis included the Karl Persons coefficient, capital adequacy ratios, and asset quality ratios; data from 2018 to 2023 was taken into consideration; the results showed that the SBI bank manages its capital and assets well over the previous five year".

Key words: CAR, NNP and ENPA

Cite this Article: Dr V. Prashanth Kumar, R. Chandraiah, G. Ashok, A Study on Credit Risk Management and Profitability of State Bank of India, International Journal of Commerce Research and Development (IJCRAD), 4(2), 2024, pp. 1–9. https://iaeme.com/Home/issue/IJCRAD?Volume=4&Issue=2

INTRODUCTION TO CREDIT RISK MANAGEMENT

Banks can better understand the risk they can accept when giving borrowers credit by using credit risk management. It is an essential procedure for all lending organizations. The main benefits of credit risk management include capital stabilization through the mitigation of negative returns. It also helps interact with quality borrowers and reduces the likelihood of financial fraud. Credit risk management is somewhat necessary to handle a variety of situations.

Need of the study:

The need of the study to know about the credit risk management of SBI.

Scope of the study:

The study is limited to the advance, loans, payables, receivables and income and credit risk management of SBI and capital adequacy, non performing asset and asset quality

Objectives the study:

- To study about the concept of credit risk management.
- To study about the credit risk management operations of SBI.
- To study about the capital adequacy of SBI from 2019-2023.
- To study about the Asset quality of SBI from 2019-2023.

Limitations of the study:

- The research data collected from the secondary data from the published information.
- The study is limited to sbi bank only

REVIEW OF LITERATURE

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 impacton these banks' financial work.

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.

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.

RESEARCH AND METHODOLOGY

For doing research a Descriptive statistics were used

Data collection method: secondary sources of data were used in this study.

Tools used

Karl person's correlation

$$r = \frac{\Sigma(X-\overline{X})(Y-\overline{Y})}{\sqrt{\Sigma(X-\overline{X})^2}\sqrt{(Y-\overline{Y})^2}}$$

Where, $\overline{X}$ = mean of X variable

$\overline{Y}$ = mean of Y variable

Capital adequacy ratio

CAR= capital risk /weighted assets

Asset quality ratio

Data analysis and interpretation

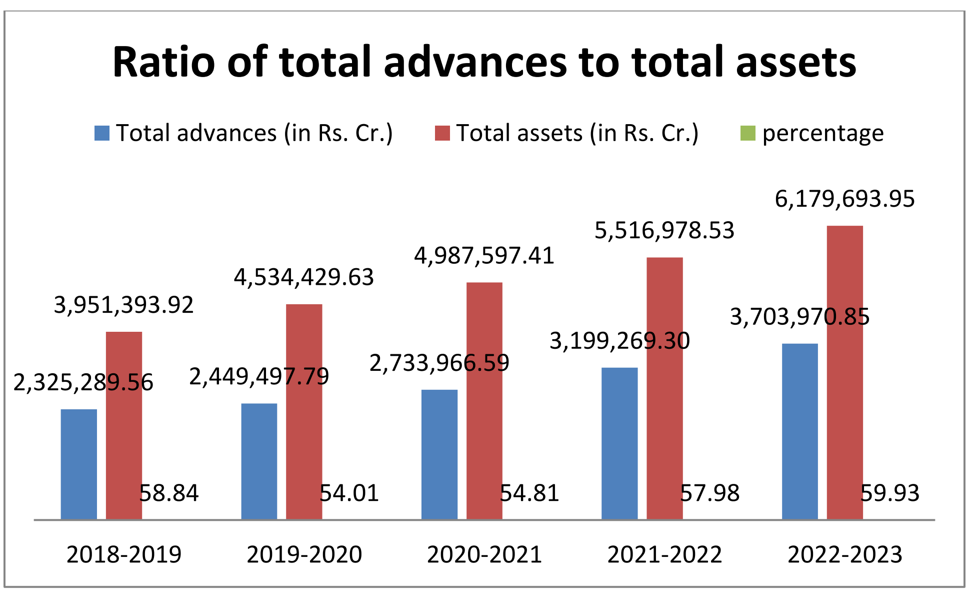
CAR= capital risk /weighted assets

Table: 01

a) Total advances to Total assets

Years	Total advances (in Rs. Cr.)	Total assets (in Rs. Cr.)	Percentage
2018-2019	23,25,289.56	39,51,393.92	**58.84**
2019-2020	24,49,497.79	45,34,429.63	**54.01**
2020-2021	27,33,966.59	49,87,597.41	**54.81**
2021-2022	31,99,269.30	55,16,978.53	**57.98**
2022-2023	37,03,970.85	61,79,693.95	**59.93**

Figure: 01



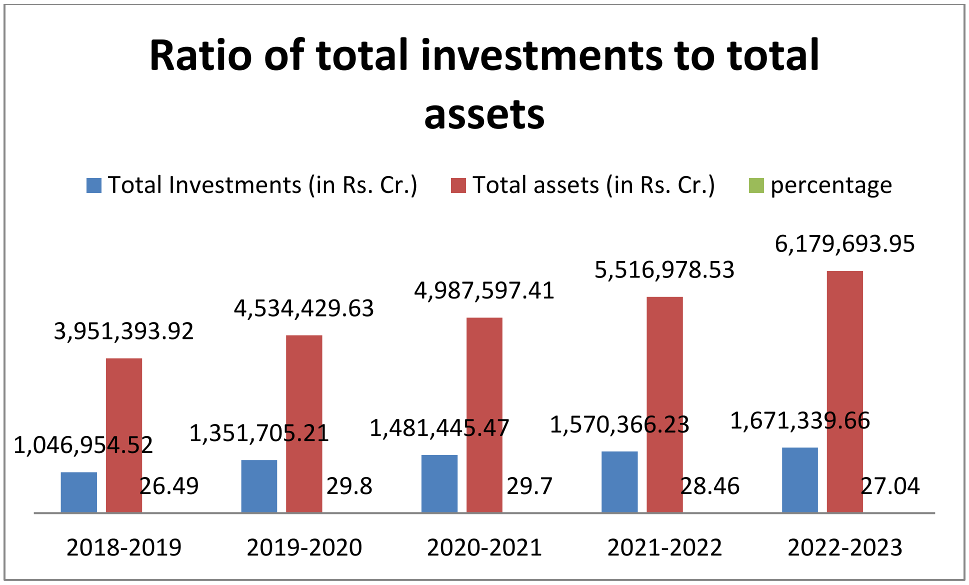
Interpretation: from the above graph it is found that there is an increase in total advances to total assets it shows that there is a proper balancing between total advances to total assets.

b) Total investments to Total assets

Table: 02

Years	Total Investments (in Rs. Cr.)	Total assets (in Rs. Cr.)	percentage
2018-2019	10,46,954.52	**39,51,393.92**	**26.49**
2019-2020	13,51,705.21	**45,34,429.63**	**29.8**
2020-2021	14,81,445.47	**49,87,597.41**	**29.7**
2021-2022	15,70,366.23	**55,16,978.53**	**28.46**
2022-2023	16,71,339.66	**61,79,693.95**	**27.04**

Figure: 02



Interpretation: from the above graph it is found that inefficiency in maintenance of total investment and total assets

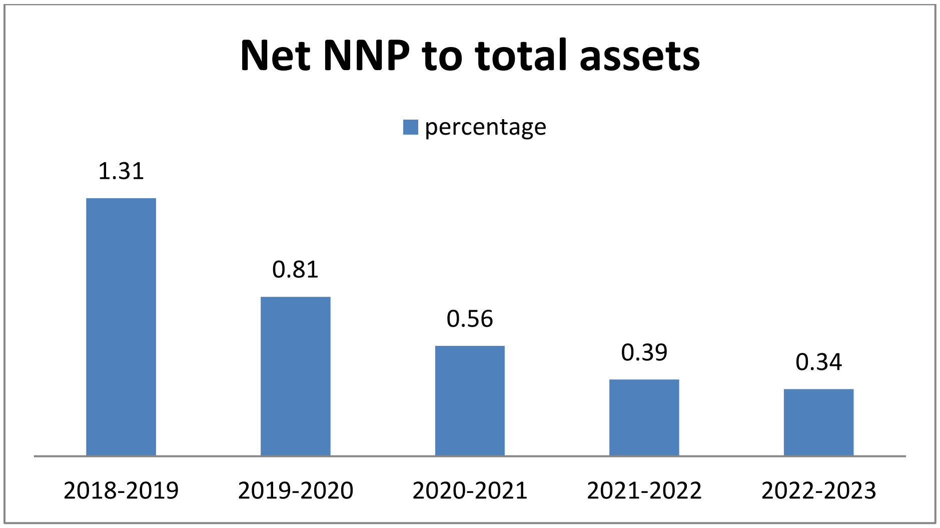
Asset quality ratios

Table: 03

a. Net NPA to Net Assets

Years	Net NNP (in Rs. Cr.)	Total assets (in Rs. Cr.)	Percentage
2018-2019	51,871.30	**39,51,393.92**	**1.31**
2019-2020	36,809.72	**45,34,429.63**	**0.81**
2020-2021	27,965.71	**49,87,597.41**	**0.56**
2021-2022	21,466.64	**55,16,978.53**	**0.389**
2022-2023	21,051.08	**61,79,693.95**	**0.3406**

Figure: 03



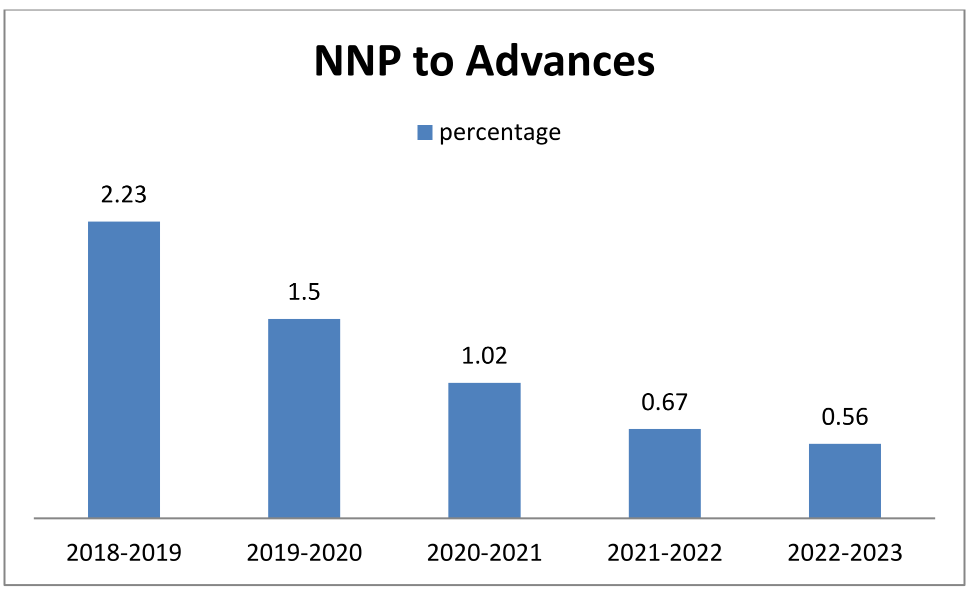
Interpretation: from the above graph it is found that there is a decline in the above ratio which means that a sound asset quality.

b. Total NPA to Total advances

Table: 04

Years	Total NNP (in Rs. Cr.)	Total Advances (in Rs. Cr.)	percentage
2018-2019	51,871.30	23,25,289.56	**2.23**
2019-2020	36,809.72	24,49,497.79	**1.5**
2020-2021	27,965.71	27,33,966.59	**1.02**
2021-2022	21,466.64	31,99,269.30	**0.67**
2022-2023	21,051.08	37,03,970.85	**0.56**

Figure: 04



Interpretation: from the above graph it is found that ratio is decline due to the good management

Earnings per nonperformance assets

Table: 05

Years	EBT (Rs crore)	**Total NNP (in Rs. Cr.)**	**percentage**
2018-2019	68,132.61	51,871.30	**0.76**
2019-2020	71,554.15	36,809.72	**0.51**
2020-2021	67,873.98	27,965.71	**0.41**
2021-2022	83,712.97	21,466.64	**0.26**
2022-2023	86,697.18	21,051.08	**0.24**

ENPA=(EBT/TA / NPA /TA)

EBT= Earnings before tax

TA= Total assets

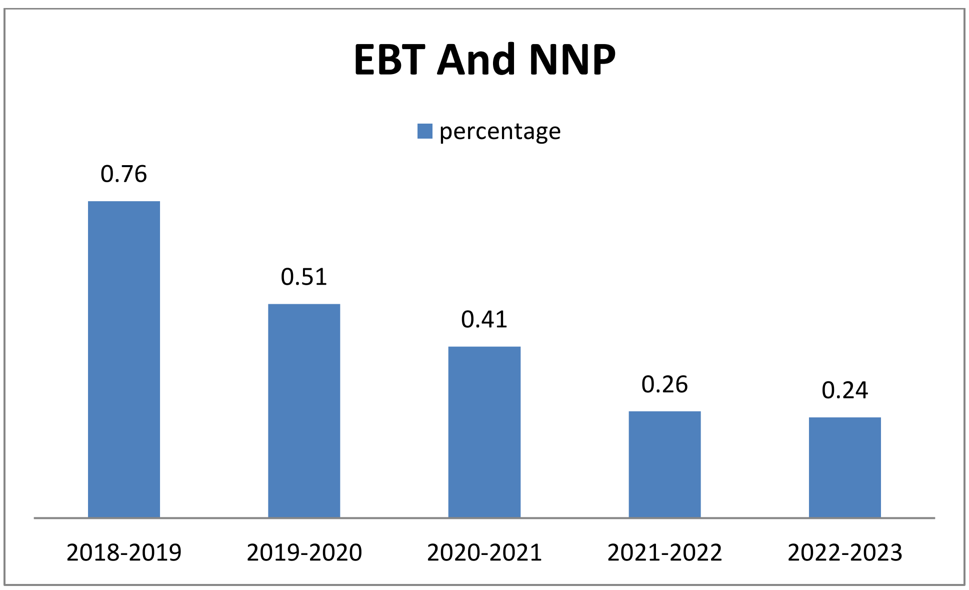
4. Correlation

Deposits and advances

Net profit and Deposits

Total net profit to Total advances

Figure: 05



Interpretation: from the above graph it is found that from the year 2018 to 2013 there is Decrease in ENPA which means that there is efficient maintenance of assets**.**

Table: 06

Correlation b/w Deposits and Advances		
Years	**Total Deposits (in Rs. Cr.)**	**Total advances (in Rs. Cr.)**
2018-2019	32,41,620.73	23,25,289.56
2019-2020	36,81,277.08	24,49,497.79
2020-2021	40,51,534.12	27,33,966.59
2021-2022	44,23,777.78	31,99,269.30
2022-2023	49,16,076.77	37,03,970.85

H (0): there is no significant difference between total deposits and total advances

H (1): There is a significant difference between total deposits and total advances

Interpretation: from the above infer it is found that there is a significance difference between total deposits and total advances

Correlation	0.976485

Interpretation: from the above it is found that there is a positive correlation between the total deposits and total advances.

Table: 07

Correlation b/w Deposits and total Net profits		
Years	**Total Deposits (in Rs. Cr.)**	**Total Net profit (in Rs. Cr.)**
2018-2019	32,41,620.73	14,488.11
2019-2020	36,81,277.08	20,410.47
2020-2021	40,51,534.12	31,675.98
2021-2022	44,23,777.78	50,232.45
2022-2023	49,16,076.77	61,076.62

H (0): There is a no significant difference between Deposits and net profits

H (1): There is a significant difference between Deposits and Net profits

Correlation	0.982564356

Interpretation: from the above infer it is find that there is a significance difference between Deposits and Net profits

Table: 08

Correlation b/w Advances and Net profit		
Years	**Total advances (in Rs. Cr.)**	**Total Net profit (in Rs. Cr.)**
2018-2019	23,25,289.56	14,488.11
2019-2020	24,49,497.79	20,410.47
2020-2021	27,33,966.59	31,675.98
2021-2022	31,99,269.30	50,232.45
2022-2023	37,03,970.85	61,076.62

H (0): There is no significant difference between Deposits and Net profit.

H (1): There is a significant difference between Deposits and Net profits.

correlation	0.991294

Interpretation: from the above it is finding that there is a significant difference between Deposits and Net profit.

FINDINGS OF THE STUDY

- From the study it is found that there is an increase in total advances to total assets it shows that there is a proper balancing between total advances to total assets.
- from the study it is found that inefficiency in maintenance of total investment and total assets
- From the study it is found that there is a decline in the above ratio which means that a sound asset quality.
- from the study it is found that ratio is decline due to the good management
- from the study it is found that from the year 2018 to 2013 there is Decrease in ENPA which means that there is efficient maintenance of assets.
- From the study it is found that there is a positive correlation between the total deposits and total advances.
- from the above infer it is find that there is a significance difference between Deposits and Net profits

CONCLUSION

This study concludes that credit risk management is the process by which banks oversee their investments and advances; it aids in their understanding of the risk they may bear when granting credit to debtors. This study looked at how the SBI bank manages credit risk; descriptive research methods were used, and secondary data was gathered; tools for analysis included asset quality ratios, capital adequacy ratios, and the Karl Persons coefficient; data from 2018 to 2023 was taken into consideration; the findings demonstrated that the SBI bank manages its capital and assets well over the preceding five years.

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Citation: Dr V. Prashanth Kumar, R. Chandraiah, G. Ashok, A Study on Credit Risk Management and Profitability of State Bank of India, International Journal of Commerce Research and Development (IJCRAD), 4(2), 2024, pp. 1–9.

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