PRE SANCTION CREDIT APPRAISAL AT PUNJAB NATIONAL BANK

Summer Training Project Report submitted in partial fulfillment of the Requirements for the Diploma of

Post Graduate Diploma in Management

Jaipuria Institute of Management, Lucknow

By

PANKHURI SARAN (JIML –PGDM- 110)

◆ TABLE OF CONTENTS

ACKNOWLEDGEMENT

I express my sincere gratitude to my respected project guide **MR. SHIV SHANKAR (SENIOR MANAGER , CREDIT SECTION , CIRCLE OFFICE, LUCKNOW)** who helped me in clarifying my concepts by sharing his valuable experiences during the training which have thereby become an unconscious part of my ideas and thought while analyzing the fundamentals for this project report.

I would like to thank the staff of PNB for their guidance, support and encouragement throughout the preparations of this report.

I would also like to express my sincere thanks to **Mr. DEEPAK SHARMA, (BRANCH MANAGER, RETAIL BANKING LENDING BRANCH, VIPUL KHAND , LUCKNOW)** for giving me an opportunity to work with this prestigious organization.

PREFACE

As a part of the syllabus of PGDM Programme, I was assigned some practical and theoretical project work. In partial fulfilment of the PGDM course, I have prepared a comprehensive project report on **PRE SANCTION CREDIT APPRAISAL.**

Study of management will be immaterial if it is not coupled with practical learning aspect of the business. It gives the student an opportunity to learn the connection between comparison and execution to test and verify application of theories and help the comparison of management theories and practice.

EXECUTIVE SUMMARY

Banks extend loan facilities by way of fund based and non fund based facilities. Fund based facilities include term loans, cash credit, bills discounted and bills purchased, demand loans and overdrafts. Non fund based includes inland and foreign letters of credit, issuance of guarantees, deferred payment guarantees, bills acceptance facility etc.

Efficient management of loans and advances portfolio has assumed greater significance as it is the largest asset of the bank having direct impact on its profitability.

Credit appraisal is an important function of the bank. It is the process of appraising the credit worthiness of a loan applicant and to evaluate the economic viability of the project.

I have undertaken a study at PUNJAB NATIONAL BANK, which is a nationalized bank. The study is on “PRE SANCTION CREDIT APPRAISAL”.

The main focus of my project is on the appraisal of loans and to keep a check on the credit worthiness of the borrower and the financial & economic viability of the loan proposed. The whole credit appraisal process has been explained in various steps that are taken by banks in evaluating a borrower.

OBJECTIVES OF THE STUDY

The main objective is to study the chain of events of processing a loan proposal– from receiving the Application from the borrower doing credit rating of the borrower and the company, and Analyzing the financial statements, sanctioning to disbursement and the post sanction reviews.

1. To study the credit appraisal.
2. To study the loan policies of the Bank.
3. To study the various types of loans and advances.
4. To study the documents required for loan sanctioning procedure.
5. To study the loan sanction producers.
6. To study the various types of borrowers.
7. To study the various types of security

RELEVANCE OF THE STUDY

The project work deals with the study of applicant's capability to repay the credit and to appraise the economic and financial viability of the credit undertaken. The loan proposal is appraised financially, economically and technically so as to confirm the financial soundness of the borrower. It gives a practical insight of the procedures followed by the banks in ascertaining the credit worthiness of the borrower.

In today's market scenario, one of the most critical areas to focus on is to protect the bank from bankruptcy. In such conditions Credit and Risk Department plays a key role in growth of banks. Any delay in realizing the receivables would adversely affect the working capital, which in turn effects the overall financial management of a firm. No firm can be successful if it's over dues are not collected, monitored and managed carefully in time.

CHAPTER 1

A SNAPSHOT OF THE BANKING INDUSTRY

1) History of Indian Banking

Phase I

The establishment of the General Bank of India in the year 1786 marked the development of a structured banking system in India. It was set up as a joint stock company. The East India company established three banks. The Bank Of Bengal in the year 1809, The Bank Of Bombay in 1840 and Bank Of Madras in 1843. The three banks were amalgamated in the year 1920 to form the New Imperial Bank of India. The Imperial bank was nationalized and was renamed as State Bank of India with the passing of the State Bank of India Act 1955. The Reserve Bank of India was constituted as shareholder's bank in 1935 and is now the Central Bank of the country. After independence, the RBI bill was introduced in the Parliament to give public ownership to the bank. Since January 1, 1949, it has been operating. It exercises the power to control the Indian Banking Industry.

Phase II

Nationalization:

The major aim for nationalization was to give priority to meet the credit requirement of the neglected sectors. Further this credit facility was supposed to be extended at subsidized rates i.e rate of interest were to be lower than those charged to larger business units. Wholesale Banking paved the way for retail banking resulting in an all round growth in the branch network, deposit mobilization, credit disbursals and employment. As a result profitability and competition took a back seat.

Nationalization of 14 major banks in 1969:

1. The Allahabad Bank
2. The Bank of Baroda
3. United Commercial Bank
4. The Bank of India
5. Bank of Maharashtra
6. Canara Bank
7. Central Bank of India
8. Dena Bank
9. Indian Bank
10. Indian Overseas Bank
11. Punjab National Bank
12. Syndicate Bank
13. Union Bank of India
14. United Bank of India

The nationalization of six more banks took place in 1980

1. The Andhra Bank Ltd
2. Corporation Bank Ltd
3. The new bank of India
4. The Oriental Bank of commerce Ltd
5. The Punjab & Sindh Bank Ltd
6. Vijaya Bank Ltd

Impact of Nationalization:

The aggregate deposits of the banks increased from Rs. 4,669 crores in 1969 to Rs.2,33,753 crores in 1992. Tremendous growth in the agricultural loans took place. The quality of credit assets deteriorated as the sanctioning process became more mechanical instead of in-depth credit assessment.

2) Classification of Banks

The Indian banking industry, which is governed by the Banking Regulation Act of India 1949 can be broadly classified into two major categories, non-scheduled banks and scheduled banks. Scheduled banks comprise commercial banks and the co-operative banks. In Terms of ownership, commercial banks can be further grouped into nationalized banks, the State Bank of India and its group banks, regional rural banks and private sector banks. The Indian banking industry is a mix of the public sector, private sector and foreign banks. The private sector banks are again spilt into old banks and new banks

REFER ANNEXURE 1

3.)The current state and the road ahead

Recent time has witnessed the world economy develop serious difficulties in terms of lapse of banking & financial institutions and plunging demand. Prospects became very uncertain causing recession in major economies. However, amidst all this chaos India's banking sector has been amongst the few to maintain resilience.

A progressively growing balance sheet, higher pace of credit expansion, expanding profitability and productivity akin to banks in developed markets, lower incidence of nonperforming assets and focus on financial inclusion have contributed to making Indian banking vibrant and strong. Indian banks have begun to revise their growth approach and re-evaluate the prospects on hand to keep the economy rolling. The way forward for the Indian banks is to innovate to take advantage of the new business opportunities and at the same time ensure continuous assessment of risks.

The pace of development for the Indian banking industry has been tremendous over the past decade. As the world reels from the global financial meltdown, India's banking sector has been one of the very few to actually maintain resilience while continuing to provide growth opportunities, a feat unlikely to be matched by other developed markets around the world. FICCI conducted a survey on the Indian Banking Industry to assess the competitive advantage offered by the banking sector, as well as the policies and structures required to further stimulate the pace of growth.

A majority of the respondents, almost 69% of them, felt that the Indian banking Industry was in a very good to excellent shape, with a further 25% feeling it was in good shape and only 6% of the respondents feeling that the performance of the industry was just average. In fact, an overwhelming majority (93.33%) of the respondents felt that the banking industry compared with the best of the sectors of the economy, including pharmaceuticals, infrastructure, etc

Most of the respondents were positive with regard to the growth rate attainable by the Indian banking industry for the year 2009-10 and 2014-15, with 53.33% of the view that growth would be between 15-20% for the year 2009-10 and greater than 20% for 2014.

On being asked what is the major strength of the Indian banking industry, which makes it resilient in the current economic climate; 93.75% respondents feel the regulatory system to be the major strength, 75% economic growth, 68.75% relative insulation from external market, 56.25% credit quality, 25% technological advancement and 43.75% our risk assessment systems.

Change is the only constant feature in this dynamic world and banking is not an exception. The changes staring in the face of bankers relates to the fundamental way of banking-which is going through rapid transformation in the world of today. Adjust, adapt and change should be the key mantra.

REFER ANNEXURE 2

3.) Challenges faced by the banking industry

The major challenge faced by banks today is the ever rising customer expectation as well as risk management and maintaining growth rate. Following are the results of the biggest challenge faced by the banking industry as declared by our respondents (on a mode scale of 1 to 7 with 1 being the biggest challenge):

REFER ANNEXURE 3

4.) Global expansion of Indian banking

The idea of creating bigger banks to take on competition sounds attractive but one must realize even the biggest among Indian banks are small by global standards. The lack of global scale for Indian banks came into sharp focus during the recent financial crisis which saw several international banks reneging on their funding commitments to Indian companies, but local banks could not step into the breach because of balance sheet limitations.

In this light, 93.75% of all respondents to their survey are considering expanding their operations in the future. They further asked participants on the methods that they consider suitable to meet their expansion needs. They divide them into organic means of growth that comes out of an increase in the bank's own business activity, and inorganic means that includes mergers or takeovers.

We see from the above graph that amongst organic means of expansion, branch expansion finds favor with banks while strategic alliances is the most popular inorganic method for banks considering scaling up their operations. On the other hand, new ventures and buyout portfolios are the least popular methods for bank expansion

REFER ANNEXURE 4

.

5.)Scope for New Entrants

81.25% also felt that there was further scope for new entrants in the market, in spite of capital management and human resource constraints, as there continue to remain opportunities in unbanked areas. With only 30-35% of the population financially included, and the Indian banking industry unsaturated with CAGR of well above 20%, participants in their survey felt that the market definitely has scope to accommodate new players.

While there has been prior debate, they questioned banks on NBFCs and Industrial houses being established as banking institutions and find opinion to be marginally against the notion, with 35.71% in favour while 42.86% were against them being established as banks

6.) Industrial analysis of banking sector

Michael porter five forces model indicates the current position of Indian banking industry.

REFER ANNEXURE 5

7.) Emergence of credit risks in banks:

There have been a number of factors that can be attributed to the stabilization of the banking environment in nineties. Prior to that period, the industry was heavily regulated. The regulators were concerned by the safety of the industry and the control of its money creation power. Among the main driving forces that played a crucial role in the changes were the inflating role of the financial markets, deregulation of the banking sector and the increase in the competition among the existing and emerging banks.

Monetary policies favouring high levels of interest rates and stimulating their intermediation was by far the major channel of financing the economy, disintermediation increased at an accelerated pace.

NEED TO MANAGE CREDIT RISK

For most banks loans are the largest and most obvious source of credit risk; loans and advances constitute almost 60 per cent of the assets side of the balance sheet of any bank. As long as the borrower pays the interest and the principal on the due dates, a loan will be a performing asset. The problem however arises once the payments are delayed or defaulted and such situations are very common occurrences in any bank. Delays/defaults in payments affect the cash forecasts made by the bank and further result in a changed risk profile, as the bank will now have to face an enhanced interest rate risk, liquidity risk and credit risk

CHAPTER 2

PUNJAB NATIONAL BANK AT A GLANCE

Punjab National Bank (PNB) was established in 1895 in anarkali bazaar at Lahore, undivided India, Punjab National Bank (PNB) has the distinction of being the first Indian bank to have been started solely with Indian capital. The bank was nationalised in July 1969 along with 13 other banks. From its modest beginning, the bank has grown in size and stature to become a front-line banking institution in India at present. Today, the Bank is the second largest government-owned commercial bank in India with about 5000 branches across 764 cities. It serves over 37 million customers. The bank has been ranked 248th biggest bank in the world by the *Bankers Almanac*, London. The bank's total assets for financial year 2007 were about US$60 billion. It has Strong correspondent banking relationships with more than 217 international banks of the world. More than 50 renowned international banks maintain their Rupee Accounts with PNB. PNB has a banking subsidiary in the UK, as well as branches in Hong Kong, Dubai and Kabul, and representative offices in Almaty, Dubai, Oslo, and Shanghai. PNB's founders included several leaders of the Swadeshi movement such as Dyal Singh Majithia and Lala HarKishen Lal Lala Lalchand, Shri Kali Prosanna Roy, Shri E.C. Jessawala, Shri Prabhu Dayal, Bakshi Jaishi Ram, and Lala Dholan Dass. **Lala Lajpat Rai** was actively associated with the management of the Bank in its early years.

HISTORY

- **1895: PNB commenced its operations in Lahore.**

- 1904: PNB established branches in Karachi and Peshawar.
- **1940: PNB absorbed Bhagwan Dass Bank, a scheduled bank located in Delhi circle.**
- 1947: Partition of India and Pakistan at Independence. PNB lost its premises in Lahore, but continued to operate in Pakistan.
- **1951: PNB acquired the 39 branches of Bharat Bank (est. 1942); Bharat Bank became Bharat Nidhi Ltd.**
- **1961: PNB acquired Universal Bank of India**.
- 1963: The Government of Burma nationalized PNB's branch in Rangoon (Yangon).
- 1965: After the Indo-Pak war the government of Pakistan seized all the offices in Pakistan of Indian banks, including PNB's head office, which may have moved to Karachi. PNB also had one or more branches in East Pakistan Bangladesh.
- **1960s: PNB amalgamated Indo Commercial Bank (est. 1933) in a rescue.**
- **1969: The Government of India (GOI) nationalized PNB and 13 other major commercial banks, on July 19, 1969.**
- 1978: PNB opened a branch in London.
- **1988: PNB acquired Hindustan Commercial Bank** (est. 1943) in a rescue. The acquisition added Hindustan's 142 branches to PNB's network.
- 1993: PNB acquired New Bank of India, which the GOI had nationalized in 1980.
- 2004: PNB established a branch in Kabul, Afghanistan.
- 2005: PNB opened a representative office in Dubai.
- 2007: PNB established PNBIL - Punjab National Bank (International) - in the UK, with two offices, one in London, and one in South Hall. Since then it has opened a third branch in Leicester, and is planning a fourth in Birmingham.
- 2008: PNB opened a branch in Hong Kong.
- 2009: PNB opened a representative office in Oslo, Norway, and a second branch in Hong Kong, this in Kowloon.

- 2010: PNB received permission to upgrade its representative office in the Dubai International Financial Centre to a branch.

Punjab National Bank continues to maintain its frontline position in the Indian banking industry. In particular, the bank has retained its NUMBER ONE position among the nationalized banks in terms of number of branches, Deposit, Advances, total Business, Assets, Operating and Net profit in the year 2009-10. The impressive operational and financial performance has been brought about by Bank's focus on customer based business with thrust on CASA deposits, Retail, SME & Agri Advances and with more inclusive approach to banking; better asset liability management; improved margin management, thrust on recovery and increased efficiency in core operations of the Bank.
Backed by strong domestic performance, the bank is planning to realize its global aspirations. Bank continues its selective foray in international markets with presence in 9 countries, with branches at Kabul and Dubai, Hong Kong & representative offices at Almaty, Dubai, Shanghai and Oslo, a wholly owned subsidiary in UK, a joint venture with Everest Bank Ltd. Nepal and a JV banking subsidiary "DRUK PNB Bank Ltd." in Bhutan. Bank is pursuing up gradation of its representative offices in China & Norway and is in the process of setting up a representative office in Sydney, Australia and taking controlling stake in JSC Dana Bank in Kazakhstan.

Mission and Vision

VISION

"To be a Leading Global Bank with Pan India footprints and become a household brand in the Indo-Gangetic Plains providing entire range of financial products and services under one roof"

MISSION

"Banking for the unbanked"

“TO provide excellent professional services and improve its position as a leader in financial and related services; build and maintain a team of motivated and committed workforce with high work ethos; use latest technology aimed at the customer satisfaction and act as effective catalyst for socio- economic development”

Products and Services

- **Corporate banking**
- **Personal banking**
- **Industrial finance**
- **Agriculture finance**
- **Financing of trade**
- **International banking**
- **Home loan**
- **Auto loan**
- **ATM/Debit card**
- **Deposit interest rate**
- **Credit interest rate**
- **Other services: lockers facility, internet banking, EFT & Clearing services etc.**

Award & Achievements

	Best IT User in Banking & Financial Services Industry - 2004	by NASSCOM in partnership with Economic Times
	Golden Peacock Award	for Excellence in Corporate Governance - 2005 by Institute of Directors

	FICCI's Rural Development Award	for Excellence in Rural Development – 2005
	Golden Peacock National Training - 2004 & 2005	by Institute of Directors
	Banking Technology Awards 2004 Runner up in 'Best IT Team of the Year Award 2005'	Jointly Adjudged by IBA, Finacle & TFCI
	21st Amongst Top 500 Companies	by the leading Financial Daily The Economic Times, June 2005
	9th amongst India's Top 50 Most Trusted Service Brands	A.C Nielson Survey, The Economic Times Dec 2004
	3rd Rank amongst Banking Sector in India 323rd Rank in the World	The Bankers' Almanac, January 2006
	National Award for Excellence in Lending to Micro Enterprises	For Lending to Micro enterprises 2007
	Award for the use of Technology for Financial Inclusion.	Institute for Development and Research in Banking Technology (IDRBT), Hyderabad. 2008

REFER ANNEXURE 6

CHAPTER 3

TYPES OF LOANS AND ADVANCES

REFER ANNEXURE 7

◆Fund based facilities:

When bank places certain funds at the disposal of borrowers and borrowers avail these funds, such types of credit facilities are known as fund based.

- Demand loans
- Term loans
- Bills payable/ discounted
- Working capital -cash credit
-overdrafts

OVERDRAFT

When a customer maintaining a current account is allowed by the bank to draw more than the Credit balance in the account, such facility is called an overdraft facility. At the request and Requirement of customer temporary overdraft are allowed. However, against certain securities, Regular overdraft limits are sanctioned.

CASH CREDIT:

A cash-credit is an arrangement to extend short term working capital facility under which the bank establishes a credit limit and allows the customers to borrow money up to a certain limit. Under the system, bank sanctions a limit called the cash-credit limit to each borrower up to which he is allowed to borrow against the security of stipulated tangible assets i.e. stocks, books debts etc. the customer need not draw at once the whole of the credit limit sanctioned but can

Withdraw from his cash-credit account as and when he needs the funds and deposit the surplus cash/funds proceeds of safe etc. into the account.

DEMAND LOANS

A demand loan is a loan sanctioned for a period of less than 3 years repayable on demand. The loan is disbursed by way of single debit to the account. The amount may be allowed to be repaid in lump sum or in suitable installment, as per terms of sanction.

TERM LOAN

A term loan is an advance allowed for a fixed period either in lump sum or in installments and which is repayable according to a schedule of repayment as against on demand and at a time. Purpose of term loan are generally granted to meet the need of capital expenditure i.e acquitting of fixed assets like land, building, plant and machinery etc. for the purpose of setting up of new

units or expansion, modernization, renovation, replacement of existing units or rehabilitation of sick units

BILLS PURCHASE / DISCOUNTING

These represent advances against bills of exchange drawn by the customers on their clients. Bills are either purchased or discounted by bank. Demand bills are either purchased or discounted by banks. Demand bills are purchased and usance bills are discounted. Bills may be either clean or documentary. Bills without such documents are known as clean bills.

◆Non fund based facilities:

There are certain types of advances which do not involve deployment of funds at least the initial stage though in contingencies funds are also involved. These are called non-fund based advances.

GUARANTEE

Contract of guarantee have special significance in the business of banking as a means to ensure safety of funds lent to the customers. The safety of such funds is primarily ensured by securing a charge over the tangible assets owned by the borrower and by the personal security of the letter, but in case the borrower is unable to provide the security to tangible assets or the value of the latter falls below the amount of the loan and the borrowers personal security is not considered. sufficient an additional security is sought by the banker in the from of a 'guarantee' given by a third person. A guarantee is, in fact the personal security of the third person, who must command the confidence of the banker.

"Contract to perform the promise or discharge the liability of a third person in case of his default."

LETTER OF CREDIT

Modern banks facilitate trade and commerce by rendering valuable services to the business community. Apart from providing appropriate mechanism for making payments arising out of trade transactions, the banks gear the machinery of commerce, specially in useful like between the buyer and the seller who are often too far away from and too unfamiliar with cash other. Opening or issuing letter of credit is one of the important services provided by the banks for these purpose. The foundation of the banking business is the confidence reposed in the banking

institutions by the people in general and the mercantile community in particular. The standing, reputation and goodwill earned by a banking institution enables it to issue instruments, known as letter of credit, in favors of traders and banks to meet the needs of their customer. In fact a letter of credit carries a promise or an undertaking by the issuing banker which is valued and honored on a global basis. Letters of Credit are two types:

1) Travelers letter of credit

2) Letters of commercial credit

◆ TYPES OF BORROWERS:

1) INDIVIDUAL

There are various types of individuals to who bank grants various types of credit facilities. As per law every individual to whom a credit facility is sanctioned must be competent to contract, minors persons of unsound mind and undischarged insolvents are incompetent to enter into a valid contract.

2) JOINT ACCOUNT HOLDERS / BORROWERS

Advances can be granted to two or more individuals jointly provided all the joint account holders are individually competent to contract. All the joint account holders should sing the applicant as well as the documents for credit facilities. Unless all of them agree in writing, authority to either or any one of the joint accountholders to operate on credit balance in an account does not extend of the borrowings.

3) SOLE PROPRIETORSHIP FIRM

A sole proprietorship firm is one which comes on the business in the sole name of the individual owner (proprietor) or in the trade name of the him.

In case of a sole proprietorship firm, branches should obtain a declaration from the sole proprietor in his personal capacity that he is solely responsible for its liabilities. Other documents should be executed by him as the sole proprietor of the firm and also in his personal capacity.

4) PARTNERSHIP FIRMS

A partnership firm has no independent existence from the partners constituting the same. The number of partners in a partnership firm should not exceed ten, if it is engaged in banking business and twenty in other cases. There are no restrictions on the borrowing powers of a partnership firm. The firm need not be a registered one for granting advance facilities.

5) LIMITED COMPANIES

At the time of entertaining a proposal for advance facilities from a limited company branches should for all the credentials as are required for opening a current account duly certified by the authorized officer of the company. Further, they should scrutinize its Memorandum an Articles of Association which should specifically empower the company to borrow money And also charge its assets. It no restrictive clauses in this regard. If a company borrowers without a specific provision in the Memorandum of Association, the general body nor can the bank utilized the security held against such advance towards its adjustment.

◆ MODE OF CHARGING SECURITIES

REFER ANNEXURE 8

Name of charges	**meaning**

Hypothecation	Charge in or upon any movable property, exsisting or future , created by borrower , in favour of a secured creditor without delivery of possession of the movable property to such creditor, as security for financial assistance includes floating charge
Pledge	The possession of securities remains with the bank while ownership remains with the borrower. Delivery of goods is essential.
Assignment	Transfer of actionable claim which may be exsisting or future, as a security for loan. Eg: life insurance policy
Mortgage	Transfer of intrest in specific immovable for the purpose of securing the payment of money advanced or to be advanced by way of loan , an exsisitng or future debt or the performance of an engagement which may give rise to pecuniary liability.
Lien	Lien is the right of a creditor to retain in his possession the goods and securities owned by the debtor unit the debts has been discharged, but has no right to sell the goods and securities so retained.
Set off	Banker has right of set off between two or more accounts maintained by a customer, if one of them is in debit and their relationship in both the accounts is of debtor and creditor

CHAPTER 4

PRE SANCTION CREDIT APPRAISAL

Credit Appraisal is a process to ascertain the risks associated with the extension of the credit facility. It is generally carried by the financial institutions which are involved in providing financial funding to its customers. Credit risk is a risk related to non repayment of the credit obtained by the customer of a bank. Thus it is necessary to appraise the credibility of the customer in order to mitigate the credit risk. Proper evaluation of the customer is performed, which measures the financial condition and the ability of the customer to repay back the loan in future. Generally the credit facilities are extended against the security know as collateral. But even though the loans are backed by the collateral, banks are normally interested in the actual loan amount to be repaid along with the interest. Thus, the customer's cash flows are ascertained to ensure the timely payment of the principal and the interest.

Effectiveness of Credit Management in the bank is highlighted by the quality of its loan portfolio. Every Bank is striving hard to ensure that its credit portfolio is healthy and that Non Performing Assets are kept at lowest possible level, as both of these factors have direct impact on its profitability. In the present scenario efficient project appraisal has assumed a great importance as it can check and prevent induction of weak accounts to our loan portfolio. All possible steps need to be taken to strengthen pre sanction appraisal as always ***"Prevention is better than Cure".*** With the opening up of the economy rapid changes are taking place in the technology and financial sector exposing banks to greater risks, which can be broadly classified as under:

Industry Risks	Government regulations and policies, availability of infrastructure facilities, Industry Rating, Industry Scenario & Outlook, Technology Up gradation, availability of inputs, product obsolescence, etc.
Business Risks	Operating efficiency, competition faced from the units engaged in similar products, demand and supply position, cost of labor, cost of raw material and other inputs, pricing of product, surplus available, marketing, etc.
Management Risks	Background, integrity and market standing/ reputation of promoters, organizational set up and management hierarchy, expertise/competence of persons holding key position in the organization, delegation and decentralization of authority, achievement of targets, track record in execution of project, debt repayment, industry relations etc.

Financial Risks	Financial strength/standing of the promoters, reliability and reasonableness of projections, past financial performance, reliability of operational data and financial ratios, adequacy of provisioning for bad debts, qualifying remarks of auditors/inspectors etc.

In light of the foregoing risks, the banks appraisal methodology should keep pace with ever changing economic environment. The appraisal system aims to determine the credit needs/requirements of the borrower taking into account the financial resources of the client. The end objective of the appraisal system is to ensure that there is no under - financing or over - financing. Following are the aspects, which need to be scrutinized and analyzed while appraising:

◆ WHAT IS PRE SANCTION CREDIT APPRAISAL ?

- When a credit proposal is presented to a branch by a prospective borrower for sanction by an appropriate authority, the appropriate authority may either sanction or reject the proposal.

- The decision to sanction or reject the proposal has to be based on a careful analysis of various facts
  and data presented by the borrower concerning him and the proposal.

- Such an objective and in-depth study of the information and data should convince the sanctioning authority that the money lent to the borrower for the desired purpose will be safe and it will be repaid with interest over the desired period ,if the assumptions and terms and conditions on which it is sanctioned, are fulfilled.

- Such an in-depth study is called the pre-sanction credit appraisal. It provides the sanctioning authority with the reasons and justifications for either sanctioning or rejecting a credit proposal. It, thus, helps in the decision making process of the sanctioning authority.

- The entire gamut of credit appraisal can be segregated into 7 sections is under:

1) Borrower Appraisal.
2) Technical Appraisal.
3) Management Appraisal.
4) Financial Appraisal.
5) Economic Appraisal.
6) Market Appraisal.
7) Environmental Appraisal.

OBJECTIVES OF CONDUCTING PRE SANCTION CREDIT APPRAISAL

1) To establish the identity of the customer.
2) To validate market information with regard to means, standing, business integrity, experience and abilities of the parties concerned.
3) To verify the correctness of particulars given in the Credit Application Form and its enclosures
4) To understand the nature of activity.
5) To ensure Proper maintenance of records / accounts.
6) To verify adequacy of internal controls.
7) To inspect immovable property (location, area, ownership, encumbrance, payment of taxes and dues, approximate value etc.),

- **BORROWER APPRAISAL:**

KNOW YOUR CUSTOMER (KYC) GUIDELINES

The guidelines relating to Know Your Customer (KYC) principle are applicable to all borrower customers including Foreign Currency borrower customers / transactions. Guidelines are issued under Section 35(A) of the Banking Regulation Act 1949 and any contravention of the same attracts penalties under the relevant provisions of the Act. “Know Your Customer” (KYC) procedures should be the key principle for identification of an individual / corporate while opening an account. The customer identification / verification should be through an introductory reference from an existing account holder / a person known to the bank or on the basis of documents provided by the customer. The guidelines of KYC are not only for establishing the identity of the person but also satisfying about

his credentials by obtaining an introductory reference from a known person. The due diligence expected under KYC procedures involves going into details. It is not a responsibility, which ends with opening of the accounts and monitoring of transactions in the initial few months of opening of the account, but monitoring should be an on-going process.

Key Elements of the KYC Policy:

a) Customer Acceptance Policy

b) Customer Identification Procedures

c) Monitoring of Transactions and

d) Risk Management..

◆ **TECHNICAL APPRAISAL:**

In a dynamic market, the product, its variants and the product-mix proposed to be manufactured in terms of its quality, quantity, value, application and current taste/trend requires thorough investigation.

Location and Site

Based on the assessment of factors of production, markets, Govt. policies and other factors, Location (which means the broad area) and Site (which signifies specific plot of land) selected for the Unit with its advantages and disadvantages, if any, should be such that overall cost is minimised. It is to be seen that site selected has adequate availability of infrastructure facilities viz. Power, Water, Transport, Communication, state of information technology etc. and is in agreement with the Govt. policies.

Raw Material

The cost of essential/major raw materials and consumables required, their past and future price trends, quality/properties, their availability on a regular basis, transportation charges, Govt. policies regarding regulation of supplies and prices require to be examined in detail.

Plant & Machinery, Plant Capacity and Manufacturing Process

The selection of Plant and Machinery proposed to be acquired whether indigenous or imported has to be in agreement with required plant capacity, principal inputs, investment outlay and production cost as also with the machinery and equipment already installed in an existing unit, while for the new unit it is to be examined whether these are of proven technology as to its performance. The technology used should be latest and cost effective enabling the unit to compete in the market. Compatibility of plant and machinery, particularly, in respect of imported technology with quality of raw material is to be kept in view. Also plant and machinery and other equipments needed for various utility services, their supply position, specification, price and performance as also suppliers' credentials, and in case of collaboration, collaborators' present and future support requires critical analysis.

The selected process of manufacturing indicating the adequacy, availability and suitability of technology to be used alongwith plant capacity, manufacturing process needs to studied in detail with capacities at various stages of production being such that it facilitates optimum utilisation and ensures future expansion/ debottlenecking, as and when required.

- **MANAGEMENT APPRAISAL**:

Appraisal of project would not be complete till it throws enough light on the person(s) behind the project i.e. management and organisation of the unit. It is seen that some projects may fail not because these are not viable but because of the ineffectiveness of the management and the organisation in controlling various functions like production, marketing, finance, personnel, etc. The appraisal report should highlight the strengths and weaknesses of the management by commenting on the background, qualifications, experience, capability of the promoter(s), key management personnel, effectiveness of the internal control systems, relation with labour. In case it is not so, it should be ensured that professional managers are inducted to strengthen the organisation.

◆ FINANCIAL APPRAISAL:

The aspects which need to be analysed under this head should include cost of project, means of financing, cost of production, break-even analysis, financial statements as also profitability/funds flow projections, financial ratios, sensitivity analysis which are discussed as under:

1.) Cost of Project & Means of Financing

The major cost components of any project are land and building including transfer, registration and development charges as also plant and machinery, equipment for auxiliary services, including transportation, insurance, duty, clearing, loading and unloading charges etc. It also involves consultancy and know-how expenses which are payable to foreign collaborators or consultants who are imparting the technical know-how. Further, preliminary expenses, such as, cost of incorporation of the Company, its registration, preparation of feasibility report, market surveys, pre-operative expenses like salary, travelling, start up expenses, mortgage expenses incurred before commencement of commercial production also form part of cost of project. Also included in it are capital issue expenses which can be in the form of brokerage, commission, advertisement, printing, stationery etc. Further, these cost components should be supported by proper quotations, specifications and justifications of land, machinery and know-how expenses etc.

2) **Profitability Statement**

The profitability statement which is also known as `Income and Expenditure Statement' is prepared after considering the net sales figure and details of direct costs/expenses relating to raw material, wages, power, fuel, consumable stores/spares and other manufacturing expenses to arrive at a figure of gross profit. Thereafter, all other expenses like salaries, office expenses, packing, selling/distribution, interest, depreciation and any other overhead expenses and taxes are taken into account to arrive at the figure of net profit. The projections of profit/loss are prepared for a period covering the repayment of term loans. The economic appraisal includes scrutinizing all the items of cost, and examining the assumptions, if any, to ensure that these are realistic and achievable.

3) **Break-Even Analysis**

Analysis of break-even point of a business enterprise would help in knowing the level of output and sales at which the business enterprise just breaks even i.e. there is neither profit nor loss. A business earns profit if it operates at a level higher than the break-even level or break-even point. If, on the other hand, production is below this level, the business would incur loss. The break-even point in an algebric equation can be put as under:

- **Break-even point = Total Fixed Cost .**

(Volume or Units) (Sales price _ (Variable Cost

per unit) per unit)

- **Break-even point = Total Fixed Cost x Sales .**

(Sales in rupees) (Sales) - (Variable Costs)

The fixed costs include all those costs which tend to remain the same upto a certain level of production while variable costs are those costs which tend to change in proportion with the volume of production. The break-even analysis can help in making vital decisions relating to fixation of selling price, make or buy decision, maximising production of the item giving higher contribution etc.

4) **Fund-Flow Statement**

A fund-flow statement is often described as a 'Statement of Movement of Funds' or 'where got **:** where gone statement'. A critical analysis of the statement shows the various changes in sources and applications (uses) of funds to ultimately give the position of net funds available with the business for repayment of the loans. A projected Fund Flow Statement helps in answering the under mentioned points.

5) **Balance Sheet Projections**

The financial appraisal also includes study of projected balance sheet which gives the position of assets and liabilities of a unit at a particular future date. In other words, the statement helps to analyse as to what an enterprise owns and what it owes at a particular point of time. An appraisal of the projected balance sheet data of the unit would be concerned with whether the projections are realistic looking to various aspects relating to the same industry.

6.)Financial ratios

While analysing the financial aspects of project, it would be advisable to analyse the important financial ratios over a period of time as it may tell us a lot about a unit's liquidity position, managements' stake in the business, capacity to service the debts etc.

- **ECONOMIC APPRAISAL:**

The performance of a project is influenced by a variety of other economic, social and cultural factors. Even if a project is technically feasible and financially viable, it may not satisfy the economic needs viz. employment potential, development of industrially backward areas, environmental pollution etc.

Further as capital is a scarce resource, it is necessary that it must be allocated in such a way that it yields best possible return to the society in general and the investor in particular. As such a detailed appraisal of the project in terms of the return it generates to the investor and the lending institutions is necessary before a decision is taken to commit resources.

One of the most important methods of appraising this is the computation of the Internal Rate of Return of the project.

Internal Rate of Return (IRR):

IRR is defined as the discount rate at which the present values of all investments made in a project are equal to the present value of all future returns from the project over the assumed life period of the project. Thus (IRR) is an indicator of the earning capacity of the project. A higher IRR indicates a better prospect for the unit. The investment is treated as cash out flow and the return on the same is treated as cash inflow. The discounted values of the cash inflows and cash outflows shall be zero at a particular rate of discount. The task is to work out this rate which is called the Internal Rate of Return. Normally IRR is compared with the cost of capital and if IRR exceeds the cost of capital, the project is termed viable. IRR is worked out on a trial and error basis and interpolated to obtain the required rate.

Sensitivity Analysis:

The normal financial appraisal of a project is based on certain assumed values for certain critical variables/parameters viz. sales realization, unit value of product sold, cost of raw material, capacity utilization etc. However, any variation in the assumed values of these parameters may result in a more favorable or unfavorable IRR. The process of computing the IRR and the repaying capacity of the borrower for different values of each of these parameters is called the sensitivity analysis.

- **MARKET APPRAISAL**

While appraising a proposal it is not only necessary to find out whether it is technically feasible and financially viable, but also important to ascertain the marketability of the product manufactured/sold. If goods produced cannot be sold there would be no point in producing them. Hence the marketability or salability of goods is of great importance. Existence of a market for the product provides the rationale for its production. If the product sought to be manufactured is the only one of its kind for which there are no substitutes, the marketing of the same may not be a problem excepting when it can be freely imported and that too at a lesser cost. However, if there are many competitors, the entrepreneur may find the going tough. However a combination of the factors like man behind the show, the quality of the product and the strategy for its sale will result in its successful marketing.

CONCLUSION

To judge whether the project is viable, i.e. it can generate adequate surplus for servicing its debts within a reasonable period of time and still left with some funds for future development. This involves taking an over-all view to analyse the strengths and weaknesses of the project. It should also be analysed to see whether the management and organisation can prove effective for successful implementation of the project.

REFER ANNEXURE T1

◆ GENERAL INSTRUCTIONS ON LOANS AND ADVANCES

Efficient management of loans and advances portfolio has assumed greater significance as it is the largest asset of the bank having direct impact on its profitability.

With a view to ensure a healthy loan portfolio, our bank has taken various steps to bring its policies and procedures in line with the changing scenario which also aim at effective management & dispersal of credit risks, strengthening of pre-sanction appraisals and post-sanction monitoring systems.

Bank has been continuously endeavoring to strengthen the organizational set up by opening Specialized Branches to meet the credit requirements of specific types of borrowers, imparting intensive credit management training to staff RBI has laid down detailed guidelines to be followed while considering credit proposals, some of the important ones are listed as under:

All loan facilities be considered after obtaining loan applications from the borrower and compilation of Confidential Report on him and guarantors. The borrowers should have the desired background, experience to run their business successfully.

1) Project for which the finance has been granted should be technically feasible and economically viable i.e. it should be able to generate enough surplus as to service the debts within a reasonable period of time.
2) Cost of the project and means of financing the same should be properly assessed and tied up. Both under-financing and over-financing can have an adverse impact on the successful implementation of the project.
3) Borrowers should be financially sound, enjoy good market reputation and must have their stake in the business i.e. they should possess adequate liquid resources to contribute to the margin requirement.
4) Loan should be sanctioned by the competent sanctioning authority as per the delegating loaning powers and should be disbursed only after execution of all the required documents.
5) Projects financed must be closely monitored during implementation stage to avoid time and cost overruns and thereafter till the adjustments of the bank's loan.

6) Bank extends loan facilities by way of fund based facilities and/or non fund based facilities. The fund based facilities are usually allowed by way of term loans, cash credit, bills discounted/purchased, demand loans, overdrafts etc.

◆ PROCESS OF PRE SANCTION CREDIT APPRAISAL

Step 1: **Application form**
Step 2: **Personal Discussion**
Step 3: **Bank's Field Investigation**
Step 4: **Credit appraisal by the bank and loan sanction**
Step 6: **Submission of legal documents & legal check**
Step 7: **Technical / Valuation check**
Step 8: **Valuation**
Step 5: **Offer Letter**
Step 9: **Registration of property documents**
Step 10: **Signing of agreements and submitting post-dated cheques**
Step 11: **Disbursement**

Step 1: Application form:

Filling up the application form is the first step. The look of an application form may differ from bank to bank, but nearly 80 per cent of the information they need is similar. Most of this is basically your personal and professional information, details of your financial assets and liabilities.

Documents to be Submitted :

While submitting the application form, every bank asks for several documents. And most banks these days provide doorstep service, so that the customers don't have to spend time visiting their office to submit the documents. However, some banks still insist on the customer visiting their offices at least once.

Proof of income:

This will need to be backed up by proof such as copies of last three years Income Tax returns (along with copies of Computation of Income/Annual accounts, if any), Form 16/Form 16A, last three months salary slips, copies of the last 6 months statements of all your active bank accounts in which the salary/business income details are reflected, etc.

Age proof:

Copy of school leaving certificate/Driving license/Passport/ration card/PAN card/Election Commission's card/etc. are accepted as age proof.

Address proof:

Similar documents need to be provided to prove that one is actually staying there currently.

Identification proof:

Same as above, but with photograph. Sometimes, the same document if it contains a photograph, the current residential address and the correct age can be the proof for all 3 things.

E**mployment details**:

If company, where the prospect is working is not well-known, then a short summary about the nature of the company, its business lines, its main customers, its competitors, number of offices, number of employees, turnover, profit, etc may be needed.

Financial check:

All the income-related documents one submits like past Profit and Loss Account with the Balance Sheet and expected/ forecasted cash flow statement with Profit and Loss and Balance Sheet which serve a specific purpose.

The bank statements submitted are scrutinized for:

1.)Level of activity in the case of self-employed persons, this gives a very good clue about the extent of business activities.

2.)Average bank balance a cursory glance at the average bank balances maintained in a savings bank account speaks volumes about the spending/saving habits of any individual.

3.)Cheque returns a small charge debited by the bank in the statement indicates that a cheque issued by the customer was returned by the bank. Many such cheque returns can have a negative impact in the process of loan sanction.

4.)Cheque bounces if cheques deposited by customer are returned by the issuer's bank, they will be visible in the bank statement and again, banks have specific norms as to how many such returns are acceptable in a period of one year.

5.)Regular periodic payments the existence of periodic payments to other finance companies/banks etc. indicate an existing liability and you will need to provide full details to the lender.

6.)Customer's Investments also come under the scanner. This helps the bank to estimate your ability to pay the down payment as well as your savings habit.

7.)Processing Fee

Along with the application form and the credit documents, banks ask for a processing fee. This fee varies from bank to bank, but is usually around 0.25% to 0.50% of the total loan amount. Most banks have flexible fee structures, and it is advisable to negotiate hard to find out the bank's 's minimum possible fees though it is unlikely that a bank will agree to provide a loan without any upfront fee at all

Step 2: Personal Discussion

After formally and successfully completing the application process, one has to wait till the home finance institution evaluates the documents submitted. The wait normally lasts only a day or two or sometimes even less. However, some banks insist on meeting the applicant after receiving the application form, and before the loan sanction. This is to gather more details that may not be mentioned in the application form and to reassure them of the applicant's repayment capacity.

Again, this stage is insisted upon only in very few cases these days.

Step 3: Field Investigation:

Thousands of people apply for loans everyday. And however eager a bank is to complete its targets, every loan is a risk. So, it is only natural that it confirms or validates the details you provide. The bank checks all your information including existing residential address, place of employment, employer credentials (if the applicant works for a small organization), residence and work telephone numbers. Representatives are sent to workplace or residence to verify the details. Once the credentials are validated, it helps establish trust between the two.

Step 4 : Credit appraisal And Loan Sanction:

This is the make-or-break stage. If the bank is not convinced about the credentials, the application may get rejected. If it is satisfied, it sanctions the loan. The bank or the home financier establishes the applicant's repayment capacity based on his/her income, age, qualifications, experience, employer, nature of business (if self employed), etc, and based on these, works out the maximum loan eligibility, and the final loan amount is communicated.

Step 5: Submission of Legal Documents(Applicable for Property Loans):

Now, the focus of the bank's activities shifts from the applicant to the property he/she intend to buy. Once the property is selected, one needs to hand over the entire set of original documents pertaining to the property to the bank so that it can keep them as security for the loan amount given. These normally include The title documents of your seller, which prove the seller\'s title including the chain of title documents if he is not the first owner NOCs from the legal owners such as cooperative housing societies, statutory development authorities, the lessor of the land in the case of leasehold land, etc. NOCs are not required where the property is situated on freehold land and the entire land is being transferred along with the structure. These documents remain in the bank's custody until the loan is fully repaid.

Legal Check: Every bank conducts a legal check on the documents to validate their authenticity. Even the draft sale documents that the applicant will be entering into with his/ her seller will be scrutinized. The documents are sent to a lawyer in their panel (either in-house or outsourced) for a thorough scrutiny. The lawyer's report either gives a go-ahead if documents are clear, or it may ask for a further set of documents. In the latter case, you are expected to hand over the additional documents to the bank for a clear title.

Step 6: Technical/ Valuation Check:

Banks are extremely careful about the property they plan to finance. They send an expert to visit the premises you intend to purchase. This expert could either be a bank employee or he could belong to a firm of architects or civil engineers.

Site Visit: The site visits to your property are conducted to verify the following:

In case of under construction property

- Stage of construction is the same as that mentioned in the payment notice given to you by the builder.
- Quality of construction
- Satisfactory progress of work.
- Layout of flats and area of property is within permissions granted by the governing authority.
- The builder has the requisite certificates to start construction at the site.
- Valuation of the property in relation to other deals in the surrounding areas.

  In case of ready/resale :

- External / internal maintenance of the property.
- The age of the building.
- Will the building last the loan tenure? This has a direct bearing on your loan eligibility, since the loan tenure will be restricted to the maximum age of the property as decided by the bank's engineer and this will impact your loan eligibility.
- Whether the builder has received the requisite certificates for handing over possession of the flat. .
- Valuation of the property in relation to other deals in the surrounding areas.

These inspections are carried out to protect consumer interests in terms of construction quality, adherence to local laws, approved building plans, etc. A technical inspection also lets the bank understand the progress of construction so as to release the staggered disbursements.

Step 7: Valuation:

Since housing loans are cheaper than other loans, there have been cases where individuals have shown purchase of properties from related entities at inflated prices to obtain cheap loans. Since the risk associated with diversion of funds is higher than if the loan was used for genuine purposes, banks carry out an independent valuation to find out whether the transaction is in line with the existing market price of the area. In many cases, the valuer determines the value of the property at an amount that is lower than the documented cost of the property and this would result in the loan amount being lower, since the bank funds a certain percentage of the cost or valuation of the property, whichever is lower.

The valuation issue rarely arises when a property is purchased through a reputed builder directly or if the property is pre approved. In both the cases, the banks would have already completed the valuation and therefore, you can safely assume that there is no difference between the documented cost of the property and the bank's valuation amount.

Step 8: Offer Letter:

Once the loan is sanctioned, the banks sends an offer letter mentioning the following details:

- Loan amount
- Rate of Interest
- Whether fixed or variable rate oæ interest linked to a reference rate
- Tenure of the loan
- Mode of repayment
- If the loan is under some special scheme, then the details of the scheme
- General terms and conditions of the loan

- Special conditions, if any

Acceptance Copy:

If the applicant agrees with what is mentioned in the offer letter from the bank, he/she will have to sign a duplicate letter of the same for the bank's records. Earlier, banks used to charge administrative fees along with the offer letter. However, with rising competition, administrative fees have virtually disappeared from the home loan market.

Step 9: Registration of property documents:

After the legal and technical / valuation check, the draft documents as cleared by the lawyer need to be finalised and signed and the stamping and registration of the documents need to be done. Also, if any NOCs are pending, these need to be obtained in the format approved by the bank's lawyer.

Step 10: Signing of agreements and submitting post-dated cheques:

All borrowers need to sign the home loan agreement and need to submit post-dated cheques for the first 36 months (if that is the agreed mode of repayment). The original property documents have to be handed over to the bank at this stage. Some banks also create a document recording the handing over of the property documents to them as security for the due repayment of the home loan

This document is also called a memorandum of entry and attracts significant stamp duty depending on the amount of the loan in some states. Not all banks create this memorandum and hence the stamp duty may or may not be payable, depending on the practice of the specific bank. However, even where no such memorandum of entry is created, the state government concerned may, in the future, demand a stamp duty on the loan transaction, which naturally is recoverable from the applicant as per the home loan agreement signed by the parties involved.

Step 11: Disbursement:

After the bank has ensured that the property is legally and technically clear, all the original documents pertaining to transfer of ownership of property in your favor have been submitted and all the necessary loan agreements have been executed, finally, it is payment time! The applicant will now actually receive the cheque and along with that one also need to submit documents to prove that he/she has paid his/her personal contribution towards the property, since banks normally finance only up to 85-90 per cent of the total cost of the house.In case the applicant is expecting money from other sources to fund his/ her contribution, he/she need to provide sufficient evidence for the same. It is only after submitting this proof that the bank will release part-disbursement of the loan. The cheque will be in the name of the reseller (for resale flats), builder, society or the development authority. It is only in exceptional circumstances, that is, if the applicant provides documents to support that he/she has made an excess payment then only the cheque will be handed over to the applicant directly by the bank.

◆ Disbursement in Stages:

Usually, loans are disbursed on the basis of the stage of construction of the property. So, in case of resale or ready possession properties, the disbursement is full and final. However, in case of under-construction properties, the payment is made in parts, also known as part-disbursement. Each option would have different disbursement processes.

Part disbursement: When a loan is partly disbursed, the bank does not start EMIs immediately, since it is calculated on the total loan amount at a particular rate of interest and for a given tenure. Moreover, it normally does not start breaking up the installments into its principal and interest components until the entire loan amount is disbursed.

To overcome this difficulty, banks charge simple interest on the partly disbursed loan amount. For instance, if you have a sanctioned loan of Rs10 lakh, but the property is under construction and the bank has disbursed only Rs4 lakh, you will be charged a simple interest only on the disbursed amount. This process continues until the final disbursement takes place. The simple interest paid is called Pre-EMI interest or PEMI.At this stage, banks may take only around three to six post-dated cheques on account of PEMI.

Full and final disbursement: If it is a ready-possession property, the bank disburses the entire loan amount in favor of either the reseller or the build.

Payment receipt: Once the bank hands over the pay order to the borrower, he/she in turn is expected to hand it over to the reseller or the builder and should get a receipt from them for the payment and hand it back to the bank, as it will become part of the borrower's mortgage documentation.
Share certificates: In case the property is part of a society, the customer will need to get the flat transferred in his/ her name by asking the society to issue the share certificate in his/ her name and recording the transfer of ownership in their books.This normally happens at the first AGM/EGM after the sale transaction. The transferred share certificate also happens to be a part of the mortgage documentation and has, therefore, to be handed over to the bank after the transfer takes place.

Repayment The loan is generally repaid by equated monthly installments, using post-dated cheques. Banks usually ask for 12, 24 or 36 PDCs (Post Dated Chques), after which the customer need to repeat the process until the entire loan has been repaid. In case the installments are to be deducted against the borrower's salary, he/she need to submit a letter letter from the employer accepting this arrangement and directly remitting the amount to the bank every month. Some banks allow to give standing instructions to the bank to deduct money each month crediting the borrower's home loan account.

Prepayment The borrower can prepay a loan either in part or in full at any given point of time. It can also be prepaid, when it is only partly disbursed. However, most banks have an upper limit on the number of times a person can prepay his loan in a year as well as on the minimum amount that can be prepaid each time.
Until recently, banks charged a penalty for part or full prepayment. But increased

competition has forced most banks to allow partial prepayment at nil charge.
Most banks levy a prepayment charge if one makes the full repayment and ask for release of the property documents.

Loan pre-closure/satisfaction The customer also has the option of completely repaying the loan at any time. Of course, each bank has its conditions for preclosure. Also, the loan will get completely paid off on the expiry of the tenure of the loan if one has paid all your installments on time.
After one has completely repaid the entire loan, he/she must ensure that the entire set of original property documents are taken back. One should also ask the bank for a No-Objection Certificate saying the account has been cleared.
If the borrower has guarantors, the bank will issue a separate letter for each of the guarantors stating that their liability has come to an end.

IMPORTANT FINANCIAL RATIOS TO BE CONSIDERD

While analyzing the financial aspects of project, it would be advisable to analyze the important financial ratios over a period of time as it may tell us a lot about a unit's liquidity position, managements' stake in the business, capacity to service the debts etc.

REFER ANNEXURE T3

CHAPTER 5

◆ POST SANCTION CREDIT APPRAISAL:

Supervision and Follow-up of bank credit has assumed considerable significance particularly after introduction of new norms of assets classification, provisioning and derecognition of interest income on NPAs, affecting profitability. System of supervision and follow up can be defined as the systematic evaluation of the performance of a borrowal account to ensure that it operates at viable level and, if problems arise, to suggest practical solutions. It helps in keeping a watch on the conduct and operational/financial performance of the borrowal accounts. Further, it also helps in detecting signals/symptoms of sickness and deteriorations, if any, taking place in the conduct of the account for initiating timely corrective actions to check slippage of accounts to NPA category.

Some of the important goals of monitoring are listed as under:

i. To keep a watch on the project during implementation stage so that there are no time & cost overruns.

ii. To ensure that the funds released are utilized for the purpose for which these have been provided and there is no diversion of such funds.

iii. To evaluate operational and financial results, such as production, sales, profit/loss, flow of funds, etc. and comparing these with the projections/estimates given by the borrower at the time of sanction of credit facilities.

iv. To ensure that the terms and conditions as stipulated in the sanction have been complied with.

v. To monitor operations in the account particularly cash credit facilities which indicate health of the account.

vi. To obtain market report on the borrower, to gather information like reputation/financial standing etc.

vii. To detect signals and symptoms of sickness or deterioration taking place in conduct/performance of the account.

viii. To ensure that the unit's management and organizational set-up is effective.

ix. To keep a check on aspects like accumulation of statutory liabilities, creditors, debtors, raw-material, stocks-in-process, finished goods, etc.

x. To ensure charging of applicable rate of interest/penal interest/ commitment charges as per bank's guidelines.

System of supervision & monitoring of credit as laid down by the Bank needs to be meticulously followed by the branches/controlling offices which, inter alia, covers the following:

i. Conveying the sanction

ii. Maintenance of Loan Document File

iii. Quarterly Review Sheet

iv. Preventive Monitoring System

v. Quarterly Monitoring System

vi. Inspection and Physical Verification of stocks – Stock Audit

Stages of post sanction process

The post-sanction credit process can be broadly classified into three stages viz., follow-up, supervision and monitoring, which together facilitate efficient and effective credit management and maintaining high level of standard assets. The objectives of the three stages of post sanction process are detailed below.

REFER ANNEXURE T2

CHAPTER 6

RESEARCH METHODOLOGY

Project Methodology means various method used by the structure to obtain the knowledge of information about the subject any one selected for the project methodology may differ from person to person, subject to subject. Some people refer book practical knowledge, through interview of peoples and from questionnaire. Project method gives guidelines how the data is collected and the presentation at information. Project report is an attempt to collect the information and present it in order. The researches select a topic in which he has interest present in with conclusion social research is explained as systematic efforts of the researcher on the topic selected. Research is to discover intellectual and practical answer to problem through the application of scientific methods, which means use of system and arriving at a logical conclusion.

◆ PROBLEM STATEMENT

To study the credit appraisal system PUNJAB NATIONAL BANK, LUCKNOW.

◆ OBJECTIVES

- To study the credit appraisal methods at PNB
- To check the commercial, financial & technical viability of the project proposed & its funding pattern
- To check the primary & collateral security cover available for recovery of such funds

◆ SOURCES OF DATA COLLECTION

Primary sources of Information

- **Meetings and discussion** with the Chief Manager and the Senior Manager of both Credit and Credit Risk Management Department
- **Meetings** with the clients

Secondary sources of Information

- **Loan Policy and Internal Circulars of the bank**
- **Research papers, power point presentations and PDF files**
- **Referring to information provided** by CIBIL, Income Tax files, Registrar of Companies (Ministry of Corporate Affairs), and Auditor reports
- **E circulars at PNB**
- **Database at PNB**
- **Library research**

◆ TYPE OF RESEARCH METHOD ADOPTED

Descriptive research as this kind of research is use to describe characteristics of a given problem and derive conclusions from it.

◆ RESEARCH DESIGN

- **ANALYTICAL in nature**
- **CROSS SECTIONAL DESIGNS-**

Involve the collection of information from any given sample of population elements only once

Multiple cross sectional designs

there are two or more samples of respondents, and information from each sample is obtained only

once. Often, information from different samples is obtained at different times.

◆ BENEFICIARIES

◆ **Researchers:**

This report will help researchers improving knowledge about the credit appraisal system and to have practical exposure of the credit appraisal system at Punjab national Bank.

◆ **Management Students:**

The project will help the management student to know the patterns of credit appraisal in Punjab national bank.

◆ LIMITATION OF THE STUDY:

- As the credit appraisal is one of the crucial areas for any bank, some of the Technicalities are not revealed.
- Credit appraisal system includes various types of detail studies for different areas of analysis, but due to time constraint, our analysis was of limited areas only.

CASE STUDY

CAR LOAN FINANCE

Available for purchase of New Car/ Van/ Jeep/ Multi Utility Vehicle (MUV)/ Sports Utility Vehicle (SUV) or for old vehicles that are not older than 3 years (Depriciation @ 15% p.a. on current invoice / showroom invoice).

Eligibility

Individuals as well as Business Concerns (Corporate or non-corporate).

Minimum net monthly salary / pension / income – 20000/-. Income of spouse /Parent can be added.

Amount of Loan

- For Individuals / Proprietorship Concerns: 25 times of the monthly net salary OR Rs.25 lacs (for one or more vehicles), whichever is lower. Income of parent(s) / spouse can be taken into account for determining loan amount. In such cases, the parent(s)/ spouse shall stand as additional guarantor.
- For Business Concerns (Corporate or non-corporate): No ceiling on loan amount (for one or more vehicles).

Margin

•For New Vehicles: 15%

•For Old Vehicles: 30%

•Under Tie-up Arrangement : 10%

Security

The vehicle purchased with the amount of loan is to be hypothecated to the Bank. It will be registered in the name of the borrower jointly with the Bank.

Guarantee / Collateral Security

i) Third party guarantee / collateral security is waived in following cases:

•Permanent Employees of Central Govt. /State Govt. /PSUs/ MNCs/ ListedCompanies at NSE/ BSE whose Shares are actively traded and quoted above par.

- For other than salaried class borrowers where ex – showroom cost of the car is exceed-ing Rs.6 lakh.

ii) However the Guarantee of Parent(s) / Spouse will be taken in case their income has been considered for determining loan amount

Rate of Interest

BPLR SYSTEM	
LESS THAN 3 YRS	3YRS AND ABOVE
10.50%	12%

Repayment

• For New Vehicle: The loan amount together with interest is to be repaid maximum in 80 Equated Monthly Installments (EMIs).

• For Old Vehicle: The loan amount together with interest is to be repaid maximum in 60 Equated Monthly Instalments (EMIs)

Upfront Fee & Documentation Charges: @ 1% of the loan amount, with a maximum of Rs.6,000/- (exclusive of service tax & edu-cation cess)

Disbursement

The intending borrower will be required to settle the transaction for purchase of vehicle needed by him/her with the seller and will be required to deposit the difference of the cost of the vehicle to amount of loan, and thereafter, the advance will be allowed to him/her from the bank by paying the entire price of the vehicle to the seller directly on behalf of the borrower.

CASE STUDY

◆Brief background of the applicant

Mr. ravi kumar is a salaried employee of NTPC residing in lucknow at hazaraganj. He wants to get his car financed by PNB and he has to submit 15% margin money (as per guidelines of RBI) for purchasing car. He wants the remaining money to be financed from PNB. The details are as under:

◆ *DETAILS OF THE APPLICANT*

NAME- RAVI KUMAR

ADDRESS- HNO. 1/40, LALBAGH, HAZRATGANJ, LUCKNOW

PHONE NUMBER- 9561239875

OCCUPATION- NTPC

DESIGNATION- ASSISTANT ENGINEER

OFFICE ADDRESS – 5/60, VISHAL KHAND, GOMTI NAGAR, LUCKNOW

◆ *PURPOSE OF LOAN*

Purchasing new INDICA VISTA (VXI) model of 4,20,000/-INR with on road charges and other charges included for his personal use.

◆ ***DOCUMENTS REQUIRED***

He has submitted the following documents as per the requirements of the bank :

1) Driving license (not learning) – ID proof
2) Address proof – phone bill / electricity bill
3) 2 colored recent photographs
4) Salary certificate showing gross salary ie 60,000/- INR deductions 7,000/- INR take home salary 53,000/- INR.
5) Last three years ITR’s (INCOME TAX RETURNS)
6) Six months salary account statement
7) Invoice by the dealer mentioning the quotation no. and cost of vehicle.
8) 1 stamp paper of INR.100— for letter of hypothecation
9) 2 stamp paper of INR 10 – for balance and security confirmation letter.

◆ ***DOCUMENTS GENERATED BY BANK***

Now on the basis of following documents duly submitted to the bank the bank will generate some reports that will give an insight of the economic and financial viability of the project---

1) CIBIL report
2) PNB TRAC report

3) PNB SCORE CARD
4) Application cum pre sanction appraisal form
5) Loan process note

- ***CIBIL REPORT:***

The CIBIL Trans Union Score is a 3 digit numeric summary of your credit history which indicates your financial & credit health. The Score is derived from your credit history as detailed in the Credit Information Report [CIR] and ranges from 300 to 900 points. Your credit score tells the lender how likely you are to pay back loan or credit card dues based on your past repayment behavior. The higher your score, the more the chance of your loan application getting approved!

- ***PNB TRAC REPORT***

The Delhi-based Punjab National Bank (PNB) has received the necessary approvals for patenting its rating model -- PNB Trac -- for its entire category of lending loans with exposure under Rs 20 lakh have been rated segment-wise on portfolio basis as per the terms of Basel II accord. This means that the bank would be able to do credit ratings on its own for its lendings.

- ***PNB SCORE CARD***

PNB score card generally generates the credit history of the borrower and as per his creditworthiness he is rated on a score card and provided a credit rating to the borrower that gives an idea of the viability of the project.

- ***APPLICATION CUM PRE SANCTION APPRAISAL***:

The draft is prepared as per the guidelines of RBI and a prescribed format has been given in which every detail of borrower is being filled in and out of which a pre sanction appraisal draft is to be prepared that summarizes the important information of the borrower.

- ***LOAN PROCESS NOTE***

A document that shows the current income tax status, his occupation and prepayment period ,his income after deductions , credit history , EMI etc. it shows all the deductions from the gross salary and take home salary on per month basis that helps to calculate EMI.

◆ ***PRE SANCTION APPRAISAL DOCUMENT***

Bank will complete all three annexure and on the basis of these documents will decide on the economic and financial viability of the project.

REFER ANNEXURE T4

◆ LOAN PROCESS NOTE

REFER ANNEXURE T5

◆ EMI CALCULATION

REFER ANNEXURE T6

◆ ***POST SANCTION APPRAISAL***

After sanction of the loan bank has paid the cost of the vehicle vide draft in favor of the dealer costing 4, 20,000/- INR respectively.

The draft has to be delivered to the dealer along with a letter to mark HYPOTHECATION CLAUSE in favour of bank at RTO OFFICE.

Delivery of the vehicle must be verified by the dealer encoding VEHICLE CHESSIS NUM. & ENGINE NUM. on a prescribed format called ***DELIVERY CHALLAN*** prescribed by auto companies.

After registration and insurance paper submission at the bank by the borrower and photographs of the vehicle displaying RTO registration no. must be submitted to the bank.

And hence end use of funds is verified as required by the bank in case of any loan account.

Stages of post sanction process

The post-sanction credit process can be broadly classified into three stages viz., follow-up, supervision and monitoring, which together facilitate efficient and effective credit management and maintaining high level of standard assets.

CHAPTER 7

◆ ANALYSIS OF THE STUDY ON PRE SANCTION CREDIT APPRAISAL

◆ 5C's OF CREDIT APPRAISAL

5C's of credit appraisal are being analyzed on the basis of given information and thus a credit appraisal in terms of viability of project is conducted.

REFER ANNEXURE T7

◆ VIABILITY OF PROJECT

SINCE THE REPORT GENERATED AS PNB SCORE CARD, PNB TRAC REPORT AND CIBIL RATING ARE INDICATING LOWER RISK AND HIGH SAFTEY THE PROJECT IS ECONOMICALLY VIABLE AND FINANCIALLY SOUND.

- **PNB SCORE CARD RESULT:**

  85 – LOW RISK – HIGH SAFTEY

- **PNB TRAC REPORT RESULT:**

  Low risk

- **CIBIL REPORT RESULT:**

  File not found

SO BANK FACES NO RISK IN LENDING THE LOAN AMOUNT SANCTIONED TO THE APPLICANT AS HE IS CAPABLE TO REPAY THE PROPOSED LOAN AMOUNT WITH DUE INTREST WITHIN STIPULATED TIME PERIOD WITHOUT ANY DELAY.

CHAPTER 8

◆ RECOMMENDATIONS AND SUGGESTIONS

The study at PNB gave a vast learning experience to me and has helped to enhance my knowledge. During the study I learnt how the theoretical financial analysis aspects are used in practice during the working capital finance and term loan assessment. I have realized during my project that a credit analyst must own multi-disciplinary talents like financial, technical as well as legal know-how.

My summer internship program at Punjab national Bank was very fruitful .It was a value addition as I got a practical insight to the theoretical concepts learnt in class. However time was one of the major limitations. Following are the suggestions that I would propose in order to improve the appraisal system:

❖ The procedure starting from getting loan application to disbursement of loan takes around two- three months and by the time disbursement is made, the market scenario changes. The process of loan sanctioning should be more speedy.

❖ Whenever a loan amount exceeding 12.5 crores is appraised, the process is routed through a long channel. The proposal is first sent to the Zonal Office then to the Regional Office and then to the Corporate Office, making the whole process time consuming.

❖ The bank is witnessing an increasing number of intermediaries in the form of Consultants between the client and the bank. It results in further delay and communication gap between the borrower and the bank. Everytime the bank needs some information, it approaches the Consultant Company, and the Company in turn asks the borrower about it and then passes the information to the bank. The bank is unable to communicate directly with the promoter/owner of the company.

◆ FINDINGS

- Credit appraisal is done to check the commercial, financial & technical viability of the project proposed its funding pattern & further checks the primary or collateral security cover available for the recovery of such funds
- Credit is the core activity of the banks & important source of their earnings which go to pay interest to depositors, salaries to employees & dividend to shareholders
- Credit & risk go hand in hand
- In the business world risk arises out of:-
  - Deficiencies / lapses on the part of the management
  - Uncertainties in the business environment
  - Uncertainties in the industrial environment
  - Weakness in the financial position
- Bank’s main function is to lend funds/ provide finance but it appears that norms are taken as guidelines not as a decision making

- A banker's task is to indentify/assess the risk factors/parameters & manage/mitigate them on continuous basis
- The Credit Appraisal process adopted by the bank take into account all possible factors which go into appraising the risk associated with a loan
- These have been categorized broadly into financial, business, industrial, management risks & are rated separately
- The assessment of financial risk involves appraisal of the financial strength of the borrower based on performance & financial indicators
- The norms of the bank for providing loans are not stringent, i.e. even if a particular client is not having the favorable estimated and financial performance, based on its past record and future growth perspective, the loan is provided.

CONCLUSION

- Finance management is the backbone of any organizations and hence yields a number of job options ranging from strategic financial planning to sales.
- From the study of Credit appraisal , it can be concluded that credit appraisal should therefore be based on the following factors, the same are applied at PUNJAB NATIONAL BANK
    - Financial performance
    - Business performance
    - Industry outlook
    - Quality of management
    - Conduct of account
- PNB loan policy contains various norms for sanction of different types of loans. These all norms do not apply to each & every case. PNB norms for providing loans are flexible & it may differ from case to case.

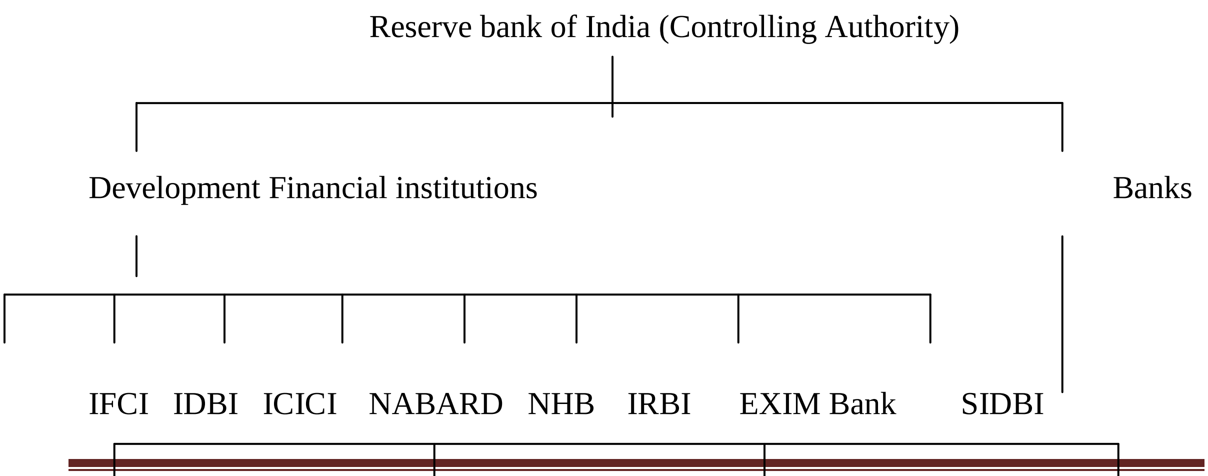
- Usually, it is seen that credit appraisal is basically done on the basis of fundamental soundness. But, after different types of case studies, our conclusion was such that credit appraisal system is not only looking for financial wealth. Other strong parameters also play an important role in analyzing credit worthiness of the firm/company.
- In all, the viability of the project from every aspect is analyzed, as well as type of business, industry, promoters, past records, experience, projected data and estimates, goals, long term plans also plays crucial role in increasing chances of getting project approved for loan.

CHAPTER 9

◆ ANNEXURES ATTACHED

◆ DIAGRAMS (D)

(1.) Banking System in India



Commercial Banks

Regional Rural Cooperative Banks Banks

Land Development Banks

Public Sector Banks

Private Sector Banks

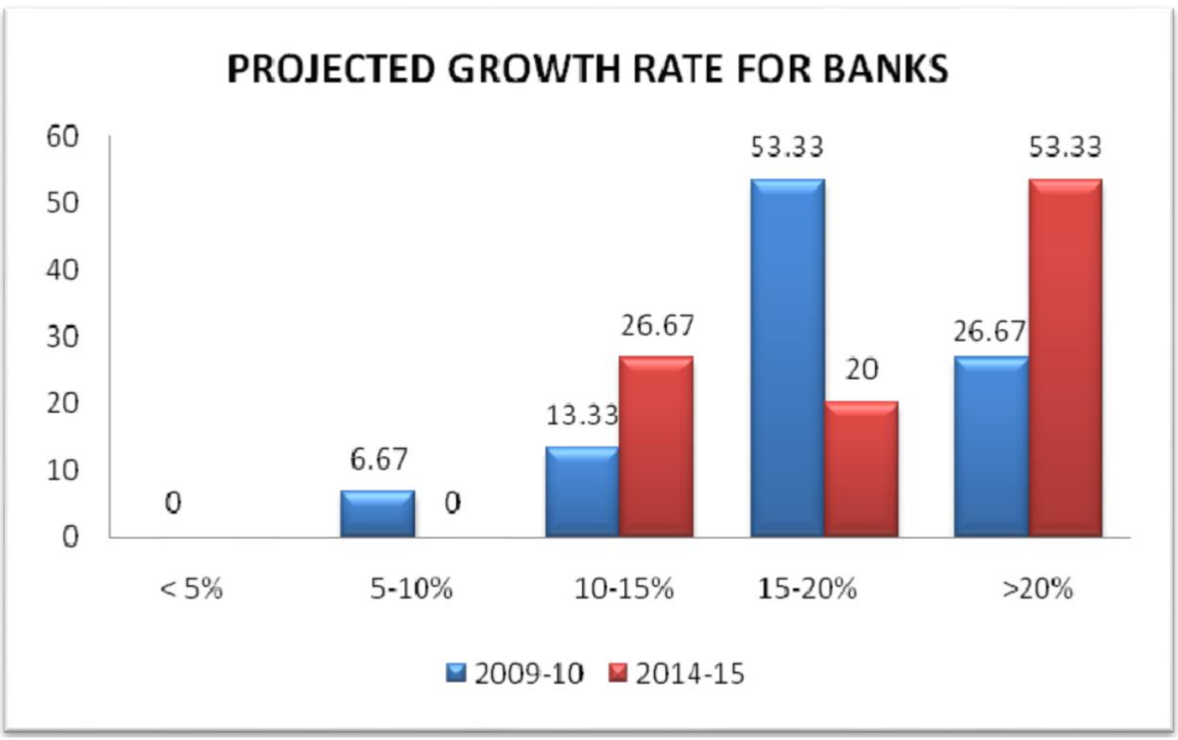
SBI Groups Banks

Nationalized Banks

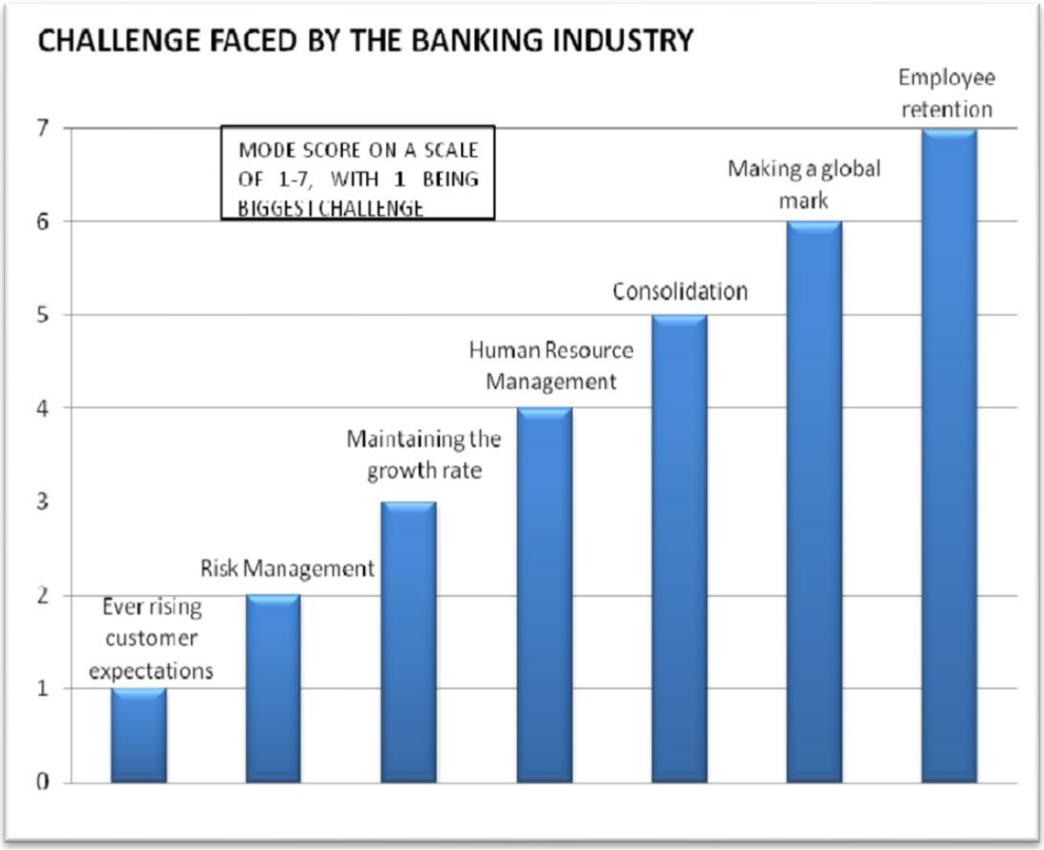
Indian Banks

Foreign

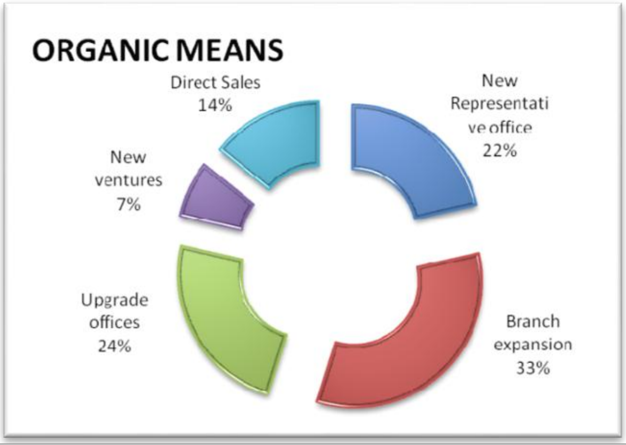
(2.) PROJECTED SALES GROWTH FOR BANKS

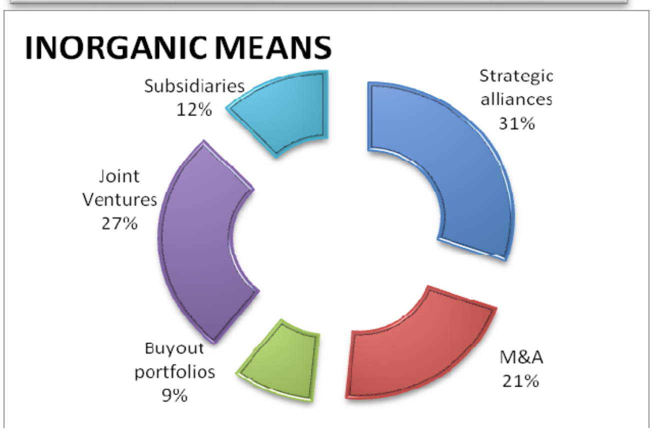


(3.) challenges faced by banking industry

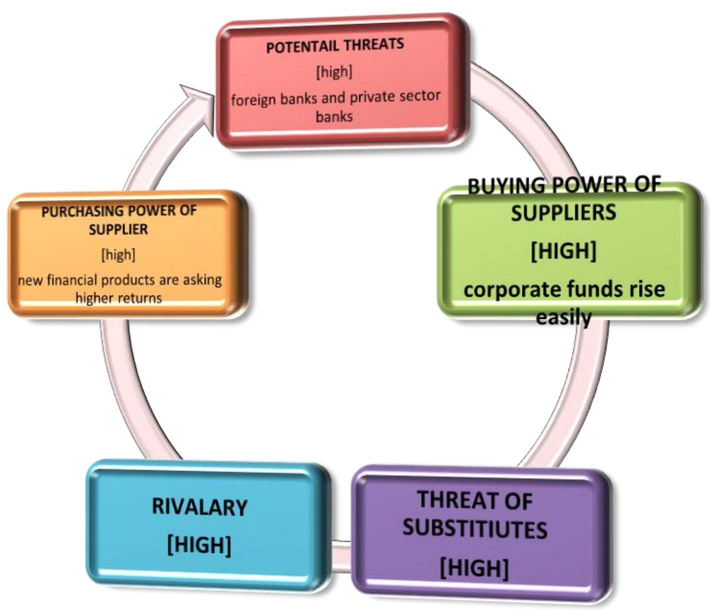


(4.) global expansion of Indian banking

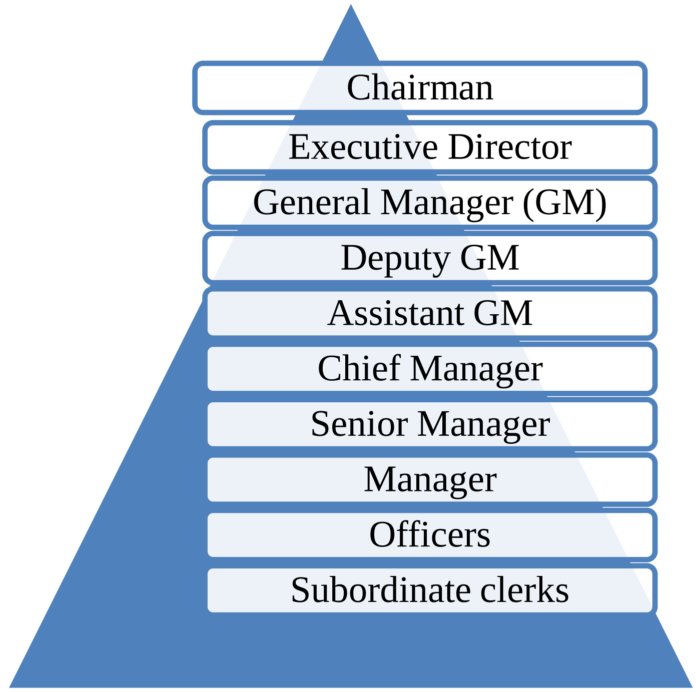




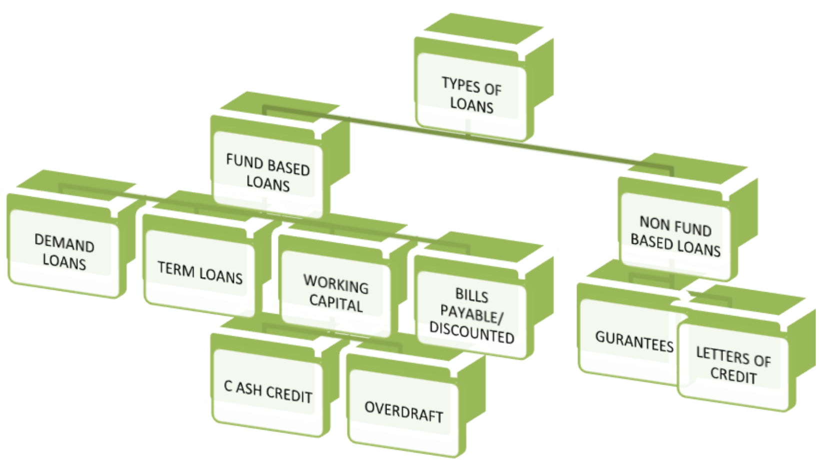
(5.) miachel porter 5 forces model



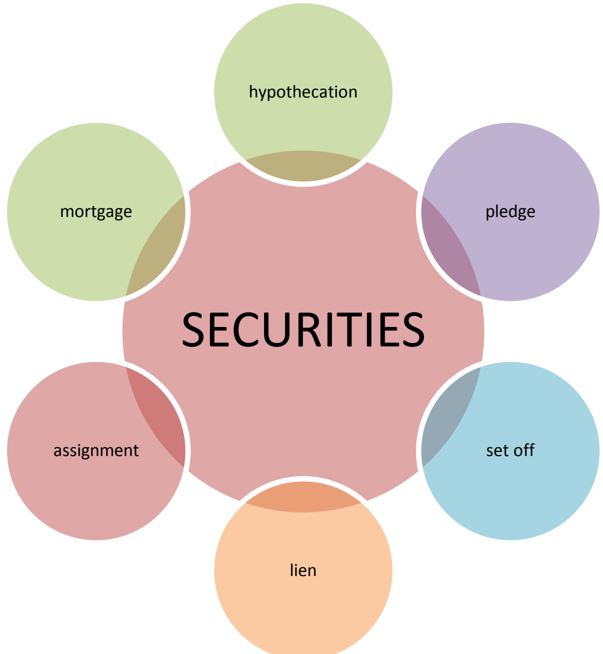
(6.) Hierarchy



(7.) types of loans and advances



(8.) mode of charging securities



TABLES (T)

(1.) A CHECKLIST OF DIFFERENT TYPE OF APPRAISALS

MARKETING APPRAISAL

1) Reasonable demand projections keeping in view the size of the market, consumption level, supplposition, export potential, import substitute, etc.
2) Competitors' status and their level of operation with regard to production and sales.
3) Technology advancement/Foreign Collaborator's Status/Buy-back arrangements etc.
4) Marketing policies in practice, for promotion of product(s) and distribution channels being used. Expenses on marketing are done so as to popularize the product.
5) Local/foreign consumer preferences, practices adopted, attitudes, requirements etc.
6) Influence of Govt. policies, imports and exports in terms of quantity and value.

7) Marketing professionals employed, their competence

TECHNICAL APPRAISAL

1.) product and its product mix and their application.

2) Location, its advantages/disadvantages, availability of infrastructural facilities, Govt. concessions, if any, available there.

3) Plant and machinery with suppliers' credentials and capacity attainable under normal working condition.

4) Process of manufacturing indicating the choice of technology, position with regard to its commercialisation and availability.

5) Plant and machinery - its availability, specification, price, performance.

6) Govt. clearance/licence, if any, required e.g. pollution control certificate, changes in regulatory policies of local/State/Central Govt. etc. activity is prohibitive or not, location of unit in restrictive area (i.e. near to Residential, Historic Monuments etc).

7) Labour/Manpower, type of skills required and its availability position in the area..

FINANCIAL APPRAISAL

1) Total project cost and how it is being funded/financed.

2) Contingencies and inflation, duly factored in project cost.

3) Profitability projections based on realistic capacity utilisation and sales forecast with proper justification. Unrealistic/ambitious sales projections without reference to past performance and justification to be avoided.

4) Break-even analysis, fund flow and cash flow projections.

5) Balance sheet projections should be realistic and based on latest available data. The components of financial ratios should be subjected to close scrutiny.

6) Aspect of support of parent company, wherever applicable, may be taken into account.

MANAGERIAL APPRAISAL:.

1)Qualifications and experience of the promoters and key management personnel.

2.) erstanding of the project in all of its aspects - financing pattern, technical knowledge and marketing programme etc.

3) nternal control systems, delegation of adequate powers and entrusting responsibility at various levels.

4)Other enterprises, if any, wherein the promoters have the interest and how these are functioning.

ECONOMIC APPRAISAL

1) Impact on increase in level of savings and income distribution in society and standard of living.
2) Project contribution towards creation and rate of increase of employment opportunity, achieving self sufficiency
3) Project contribution to the development of the region, its impact on environment and pollution control.

(2.) post sanction appraisal process

FOLLOW UP	SUPERVISION	MONITORING
• Ensuring Compliance with terms & conditions of sanction on an ongoing basis • Ensuring performance safety & recoverability of assets.	• Ensuring effective follow up to maintain asset quality • Keeping look-out for early warning signals.	• Ensuring effective supervision • Monitor customer satisfaction • Ensuring quick response to early warning signals.

(3.) financial ratios

	Ratio	Formula	Remarks
1	Debt-Equity Ratio	Debt (Term Liabilities) / Equity *(Where, Equity = Share capital, free reserves, premium on shares, , etc. after adjusting loss balance)*	There cannot be a rigid rule to a satisfactory debt-equity ratio, lower the ratio higher is the degree of protection enjoyed by the creditors. These days the debt equity ratio of 1.5:1 is considered reasonable. It, however, is higher in respect of capital intensive projects. But it is always desirable that owners have a substantial stake in the project. Other features like quality of management should be kept in view while agreeing to a less favorable ratio. In financing highly capital intensive projects like infrastructure, cement, etc. the ratio could be considered at a higher level.
2	Debt-Service Coverage Ratio	Debt + Depreciation + Net Profit (After Taxes) + Annual interest on long term debt / Annual interest on long term debt + Repayment of debt	This ratio of 1.5 to 2 is considered reasonable. A very high ratio may indicate the need for lower moratorium period/repayment of loan in a shorter schedule. This ratio provides a measure of the ability of an enterprise to service its debts i.e. \`interest' and \`principal repayment' besides indicating the margin of safety. The ratio may vary from industry to industry but has to be viewed with circumspection when it is less than 1.5.
3	TOL / TNW Ratio	Tangible Net Worth (Paid up Capital + Reserves and Surplus - Intangible Assets) / Total outside Liabilities (Total Liability - Net	This ratio gives a view of borrower's capital structure. If the ratio shows a decreasing trend, it indicates that the borrower is relying more on his own funds and less on outside funds and vice versa

		Worth)	
4	Profit-Sales Ratio	Operating Profit (Before Taxes excluding Income from other Sources) / Sales	This ratio gives the margin available after meeting cost of manufacturing. It provides a yardstick to measure the efficiency of production and margin on sales price i.e. the pricing structure
5	Sales-Tangible Assets Ratio	Sales / Total Assets - Intangible Assets	This ratio is of a primary importance to see how best the assets are used. A rising trend of the ratio reveals that borrower has been making efficient utilization of his assets. However, caution needs to be exercised when fixed assets are old and depreciated, as in such cases the ratio tends to be high because the value of the denominator of the ratio is very low.
6	Current Ratio	Current Assets / Current Liabilities	Higher the ratio greater the short term liquidity. This ratio is indicative of short term financial position of a business enterprise. It provides margin as well as it is measure of the business enterprise to pay-off the current liabilities as they mature and its capacity to withstand sudden reverses by the strength of its liquid position. Ratio analysis gives indications; to be made with reference to overall tendencies and parameters in relation to the project.
7	Output Investment Ratio	Sales / Total capital employed (in fixed & current assets)	This ratio is indicative of the efficiency with which the total capital is turned over as compared to other units in similar lines.

(4.) PRE SANCTION APPRAISAL DRAFT

Bank will complete all three annexure and on the basis of these documents will decide on the economic and financial viability of the project.

PROPOSAL NO.: RO/PNB/12-07-2012	**Date: 12/07/2012**

Proposal received at Branch	Proposal received at retail banking divison (RBD)
Date :12/07/2012	Date 15/07/2012

FOR APPROVAL- RETAIL BANKING DIVISION

<u>GIST OF THE PROPOSAL</u>:

CAR LOAN

INDICA VISTA (vxi) MODEL

1) ***PROFILE OF APPLICANT***

Name of borrower	RAVI KUMAR		
Address	HNO. 1/40, LALBAGH, HAZRATGANJ, LUCKNOW		
DOB	13/06/1978		
Date of joining in NTPC-		5/08/2003	
Branch: lalbagh , lucknow		**Region: lucknow**	
Established on	05.03.1991	**Whether appearing in**	
Dealing with us since	1991	Standard B List	No

Gross salary	60,000 INR	deductions	7,000 INR
EMI OF CAR LOAN	6355/- INR	Take home salary	46,645/- INR
Risk Weightage	NO	Provisioning:	NIL
Credit Risk Rating	AAA	Risk Grade as per CIBIL DATED – 18-07-2012	N/A

*2) **PRESENT PROPOSAL:***

CAR LOAN FOR AMOUNTING 3,60,000 INR SANCTIONED BY BANK

3) SECURITY / DOCUMENTATION

DULY SIGNED AGREEMENT OF HYPOTHECATION

Prime security (Rs. in lacs)

Nature	Value
HYPOTHECATION OF CAR	RS 4,20,000

4) CREDIT RATING & PRICING:

Pricing	*Existing*	*Proposed*
Credit Rating Score Based on ABS [March 09]	'AAA'	AA
Applicable interest rate as per Credit Rating	BPLR+1.50%	BPLR+2%
Concession if any	N.A.	N.A.
Processing Charges		2% of the sanctioned loan amount
Intrest applicable – BPLR+ 2% = 12%		REPAYEMNT PERIOD – 84 months

(5.) LOAN PROCESS NOTE

Name of borrower	RAVI KUMAR		
Address	HNO. 1/40, LALBAGH, HAZRATGANJ, LUCKNOW		
INDIVIDUAL TYPE - service		**AGE- 34 years**	
INCOME TAX STATUS	TAX PAID	**PRESENT RESIDENCE OWNERSHIP**	Owned in the name of RAVI KUMAR
OCCUPATION	NTPC	YEARS OF SERVICE	9 years
REPAYMENT PERIOD	84 MONTHS	NET SALARY AFTER DEDUCTIONS	53,000 INR
EMI	6355/- INR	TAKE HOME SALARY	46,645/- INR
CREDIT HISTORY	N/A	AGE OF VEHICLE PROPOSED TO BE PURCHASED - NEW	

- ***<u>CALCULATION OF ELIGIBILITY</u>***

SNo.	CONTENTS	AMOUNT
A	GROSS INCOME	60,000
B	LESS - DEDUCTIONS	7,000
C	NET	53,000
D	AMOUNT APPLIED	3,60,000
E	EMI OF PROPOSED LOAN	6355
F	50% OF INCOME	30,000

G	TOTAL DEDUCTIONS	13,555

NOTE – G should not be greater than F

(6.) EMI CALCULATION

Scheduled Payment	**8008.00**
Scheduled Number of Payments	84
Actual Number of Payments	84
Total Early Payments	0.00
Total Interest	173818.64

PmtNo.	Payment Date	Beginning Balance	Scheduled Payment	Total Payment	Principal	Interest	Ending Balance
1	25-Aug-12	360000.00	6354.98	6354.98	2754.98	3600.00	357245.02
2	25-Sep-12	357245.02	6354.98	6354.98	2782.53	3572.45	354462.48
3	25-Oct-12	354462.48	6354.98	6354.98	2810.36	3544.62	351652.12
4	25-Nov-12	351652.12	6354.98	6354.98	2838.46	3516.52	348813.66
5	25-Dec-12	348813.66	6354.98	6354.98	2866.85	3488.14	345946.81
6	25-Jan-13	345946.81	6354.98	6354.98	2895.52	3459.47	343051.30
7	25-Feb-13	343051.30	6354.98	6354.98	2924.47	3430.51	340126.83
8	25-Mar-13	340126.83	6354.98	6354.98	2953.72	3401.27	337173.11
9	25-Apr-13	337173.11	6354.98	6354.98	2983.25	3371.73	334189.86
10	25-May-13	334189.86	6354.98	6354.98	3013.09	3341.90	331176.77
11	25-Jun-13	331176.77	6354.98	6354.98	3043.22	3311.77	328133.56
12	25-Jul-13	328133.56	6354.98	6354.98	3073.65	3281.34	325059.91
13	25-Aug-13	325059.91	6354.98	6354.98	3104.38	3250.60	321955.52
14	25-Sep-13	321955.52	6354.98	6354.98	3135.43	3219.56	318820.10
15	25-Oct-13	318820.10	6354.98	6354.98	3166.78	3188.20	315653.31

(7.) ANALYSIS OF PRE SANCTION CREDIT APPRAISAL

SNo.	5C's	Meaning derived	Documents Analyzed

1	CHARACTER	Trustworthy and honesty	▪ ITR ▪ Salary certificate ▪ 6 months salary account statement
2	CAPACITY	Ability to repay the loan amount with due interest within time	▪ 6 months salary account statement ▪ ITR (assets)
3	COLLATERAL	Recovery of loan amount in case of default	▪ Purchased car hypothecated (letter of hypothecation)
4	CAPITAL	Assets and earnings	▪ ITR
5	CONDITIONS	Environment of the company in which borrower is employed	▪ NTPC (govt. of India undertaking) 6 months Salary account statement

◆ BIBILIOGRAPHY

1) www.pnbindia.in

2) www.pnb.co.in

3) www.pnbnet.in

4) www.indianbankassociation.com

5) www.bankersindia.com

6) www.wikipedia.com

7) "credit and banking" --KC NANDA

8) Book of instructions on loans , risk management division

(for internal circulation only)