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A Study on Credit Risk Management in State Bank of India

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ABSTRACT
This study investigates the credit risk management practices at the State Bank of India (SBI) using secondary data to evaluate their effectiveness in mitigating financial risks and maintaining profitability. It explores the methodologies adopted by the bank for assessing creditworthiness, managing non-performing assets (NPAs), and ensuring compliance with regulatory frameworks.
The research focuses on analyzing secondary data, including annual reports, financial statements, and publicly available information from SBI. Statistical tools were employed to examine key indicators such as Loan to Deposit Ratio, Cost of Credit Risk, Provision Coverage Ratio, and other metrics impacting SBI's credit risk management outcomes. These metrics provide insights into the effectiveness of the bank's credit risk strategies and their impact on financial stability.
The findings underscore the significance of robust credit risk management frameworks in minimizing default risks and optimizing asset quality. The study highlights challenges such as economic volatility and borrower creditworthiness, emphasizing the need for adaptive strategies to sustain growth.
This research bridges theoretical understanding with practical insights, offering valuable contributions to the literature on banking risk management. It provides recommendations for improving credit risk assessment processes, enhancing monitoring mechanisms, and fostering sustainable financial practices in SBI and similar institutions. The study concludes with implications for policymakers and practitioners in the banking sector.

Keywords: Credit Risk, Financial Ratios, Banking sector.

1. INTRODUCTION
Credit risk management is a critical function in the banking sector, aimed at identifying, assessing, and mitigating the risks associated with lending activities. In the dynamic financial environment, banks must balance effective risk management with the need for flexibility in accommodating diverse borrower needs. A well-structured credit risk management framework helps banks maintain financial stability, minimize non-performing assets (NPAs), and ensure long-term profitability. The role of financial ratios, such as the Loan to Deposit Ratio, Provision Coverage Ratio, and Cost of Credit Risk, is vital in assessing creditworthiness and managing risk exposure. By analysing secondary data, the research aims to provide insights into optimizing credit risk practices to foster sustainable growth.

1.1 OBJECTIVE

- To examine the credit risk management on bank's profitability
- To analyse the key financial ratios influencing banks credit worthiness.

2. REVIEW OF LITERATURE

- Ankur Joshi (2024): This study explores how global financial crises have reshaped bank risk management, emphasizing capital, liquidity, and leverage regulations. Stress testing and advanced machine learning models are now key tools in enhancing risk assessment. Banks have invested in stronger risk cultures and board-level involvement in risk decisions.
- Kamal Sigdel, Kirti Deswal (2024): The study highlights the importance of financial indicators like credit-to-deposit ratio and non-performing loans in influencing profitability (ROA, ROE) of banks.
- Krishnendu Ghosh, Amitava Mondal (2022): This study examines the role of credit risk management in Indian commercial banks, focusing on non-performing loans (NPLs) and capital adequacy ratios.
- Savita Shankar (2021): The study addresses the persistent credit gap in India's MSME sector, suggesting that data analytics can improve lending decisions.
- TP Gosh (2021): This study analyses compliance risk issues in Indian banks, focusing on non-compliance with regulations on fraud risk management, cyber security, and asset classification. It highlights the direct link between regulatory failures and severe financial losses, particularly in commercial banks.
- VS Kaveri (2021): This research discusses the shift from traditional internal audits to Risk-Based Internal Audit (RBIA) in banks. The paper identifies issues in the banking sector, including irregularities and frauds, especially in urban cooperative banks and non-banking finance companies (NBFCs).
- Renu Arora (2021): This study evaluates the effectiveness of credit risk management practices in Indian public sector banks. It uses statistical analysis to assess how well credit analysts' perceptions align with minimizing credit risk while meeting regulatory and strategic goals.
- D John Prabakaran (2020): The study investigates credit risk management in private banks, emphasizing the correlation between asset quality and liquidity. The research shows that good asset management positively impacts financial performance, with asset quality being a key driver.
- Rachita Gulati, Anju Goswami, Sunil Kumar (2019): The paper identifies key determinants of credit risk in Indian banks, focusing on macroeconomic and bank-specific factors. It shows that lower profitability and increased diversification contribute to higher credit risk, necessitating tailored risk management strategies.
- Kumar et al. (2018): This study examines SBI's credit risk management practices, highlighting its use of credit scoring models and rating systems. The research underscores how effective credit risk management is vital for the stability and profitability of Indian banks.

3. RESEARCH METHODOLOGY

This study aims to explore and analyse the relationship between credit risk management and the profitability of the State Bank of India (SBI), as well as examine the key financial ratios influencing the bank's creditworthiness. A systematic and methodical approach was adopted to ensure the accuracy, reliability, and relevance of the findings. The research follows a descriptive design, which is ideal for understanding how credit risk management practices relate to profitability and the role of financial ratios such as Loan to Deposit Ratio, Provision Coverage Ratio, and Cost of Credit Risk. The study focuses on the influence of these ratios on SBI's creditworthiness and their role in the bank's overall credit risk management framework.

3.1 Collection of Data

For this research, secondary data was collected from publicly available sources, including financial statements, annual reports, and credit risk management documents of the State Bank of India (SBI) for the period from 2020 to 2024. The following steps were followed:

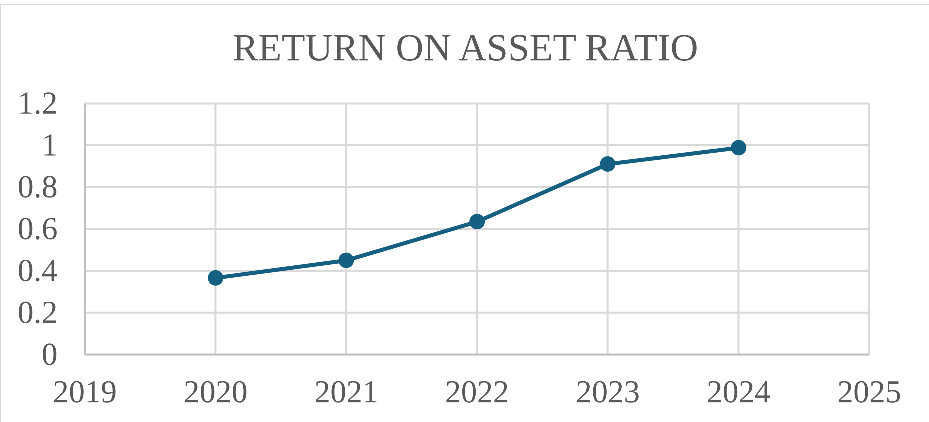
- **Data Identification**: Relevant financial reports, including balance sheets, profit and loss statements, and credit risk management reports from SBI for the past five years (2020-2024) were identified as key sources of secondary data.
- **Data Collection**: Data was gathered from credible financial databases such as Bloomberg, Reuters, and Reserve Bank of India (RBI) reports. Additional data was obtained from SBI's annual reports and other publicly available documents.
- **Data Handling**: The collected data was manually reviewed for relevance and accuracy, and then digitized for analysis. The focus was on key financial ratios such as Loan to Deposit Ratio, Provision Coverage Ratio, and Cost of Credit Risk.
- **Data Analysis**: The data was analysed using descriptive statistics and financial analysis techniques to understand the relationship between credit risk management practices and profitability, and to examine the influence of financial ratios on SBI's creditworthiness.

4. DATA ANALYSIS AND INTERPRETATION

RETURN ON ASSET RATIO

This ratio measures a bank's profitability in relation to its total assets. It reflects how efficiently the bank is utilizing its assets to generate profit.

YEAR	NET PROFIT	TOTAL ASSETS	RETURN ON ASSET RATIO
2024	61,076.62	61,79,693.95	0.98
2023	50,232.45	55,16,978.53	0.91
2022	31,675.98	49,87,597.41	0.63
2021	20,410.47	45,34,429.63	0.45
2020	14,488.11	39,51,393.92	0.36



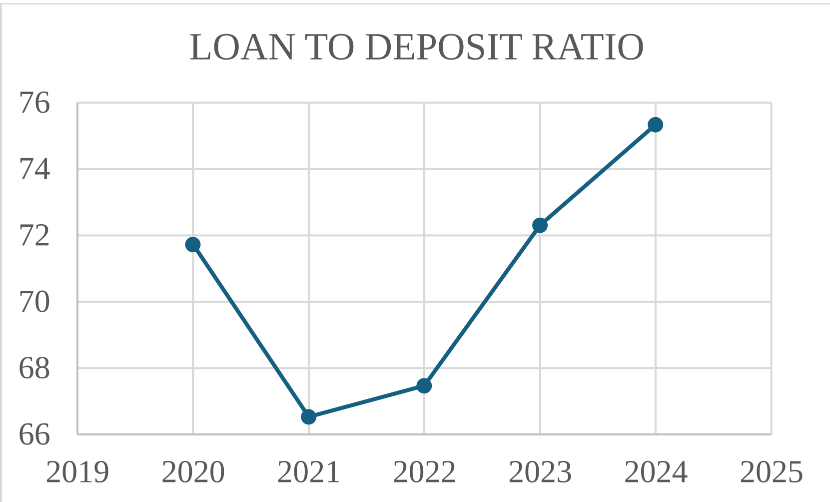
INFERENCE

From the above analysis, The Return on Assets (ROA) ratio shows a consistent increase from 0.36 in 2020 to 0.98 in 2024, indicating improved profitability over the years. This suggests that the bank has become more efficient in utilizing its assets to generate profit. The upward trend reflects positive growth in the bank's financial performance.

LOAN TO DEPOSIT RATIO

This ratio measures the bank's liquidity by comparing its total loans to its total deposits. It is an important indicator of the bank's credit risk and lending practices.

YEAR	TOTAL LOAN	TOTAL DEPOSIT	LOAN TO DEPOSIT RATIO
2024	37,03,970.85	49,16,076.77	75.34
2023	31,99,269.30	44,23,777.78	72.31
2022	27,33,966.59	40,51,534.12	67.47
2021	24,49,497.79	36,81,277.08	66.53
2020	23,25,289.56	32,41,620.73	71.73



INFERENCE

From the above analysis, The Loan to Deposit Ratio (LDR) shows an increasing trend from 66.53 in 2021 to 75.34 in 2024, indicating that the bank has been lending a higher proportion of its deposits over the years. This suggests a more aggressive lending strategy and a stronger utilization of deposits for loans. The upward trend reflects an improvement in the bank's ability to generate revenue from its deposit base.

FINDINGS

RETURN ON ASSET

The findings from the analysis of the Return on Assets (ROA) ratio indicate that the calculated ROA values show a steady increase over the years, from 0.36 in 2020 to 0.98 in 2024. This suggests an improvement in the bank's profitability and efficient use of assets. The positive trend in ROA indicates a favourable financial performance, with higher returns being generated from the bank's total assets over the period.

LOAN TO DEPOSIT RATIO

The findings from the analysis of the Loan to Deposit Ratio (LDR) indicate a consistent increase from 66.53 in 2021 to 75.34 in 2024. This suggests that the bank has been increasingly utilizing its deposits for lending activities over the years. The upward trend in LDR reflects the bank's strategy to leverage its deposit base for generating loans, indicating a more aggressive lending approach.

CONCLUSION

This study has provided valuable insights into how credit risk management practices impact the profitability and creditworthiness of State Bank of India (SBI). The findings indicate that while SBI has maintained a strong focus on managing credit risk through key financial ratios such as the Loan to Deposit Ratio and Return on Assets, there is room for further improvement in its credit risk management framework to enhance profitability. The analysis revealed that the bank's increasing Loan to Deposit Ratio indicates a more aggressive lending approach, while the Return on Assets ratio highlights the positive trend in profitability.

However, the study also emphasized the need for continuous monitoring and refinement of credit risk management strategies, particularly in response to changing economic conditions and borrower behaviour. The findings suggest that a more flexible approach to credit risk assessment could improve SBI's ability to mitigate potential risks and further strengthen its financial performance. Overall, the research underscores the importance of balancing consistency in risk management practices with the flexibility to adapt to evolving market conditions, ensuring long-term stability and profitability for the bank.

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