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CLIENT COMPANIES' PERCEPTION TOWARDS CREDIT RISK OF PRIVATE SECTOR BANKS WITH REFERENCE TO ICICI, HDFC, AXIS BANK, IDBI, AND YES BANK

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ABSTRACT

The banking sector at present is facing many issues; one among them is credit risk. A Credit risk is termed as an estimate or forecast of the default of a borrower failing to recover his interest amount or borrowed amount. Currently, the banker or the lender is at risk of recovering the interest amount and principal amount, increasing their recovery costs. The present study makes an attempt to know the awareness of customers towards credit risk of private sector banks. The research objective is to analyze the significant association between Client Company's perceptions with a view to credit risk. The study explains the major variation between client company's perspectives towards Indian private sector. The study explains about the impact of credit risk on banks profitability. The present study helps banks to prevail over the problem of credit risk. The study analysis the objectives of research, hypothesis formulated, research methodology, findings and conclusions are discussed. The secondary sources for the study are through the websites of banks, Journals and client company's websites. Primary data has been gathered from 285 client companies using convenience random sampling technique from private sector banks.

Keywords: Private Sector Banks, Credit Risk, Customers Perception, Profitability.

JEL Classification Codes: H32, Z33, E32, D21, C12, G21.

INTRODUCTION

Credit risk is measured as a major problem in banking sector. The factors responsible for credit risk may be financial factors, Business related factors, Government intervention and Policies of the banks etc. To decrease the non-performing assets we need to plan in advance on issuing of requested amount to the

clients. Before issuing the loans to the customers, banks necessitate to analyze the financial background and their credit worthiness. This may help in identifying the borrowers who will settle up the borrowed sum and who defaults it.

REVIEW OF LITERATURE

Zergaw (2019) Author analyzed the elements that are upsetting the credit risk management practices in few Ethiopian private banks. Author evaluated the result of credit measurement, observing process and the effects of market risk, operational risk, and legal risk in credit risk management procedures of banks. The study examines the effect of creating Credit risk environments on credit risk management in accomplishment of the Banks and to evaluate credit granting procedures of the banks and its outcome on credit risk management of the banks. Yüksel et al. (2018) Authors in the present study made an effort to analyze the elements which manipulate credit risk in Azerbaijani banks. They suggested the banks to verify the ratings on customers before granting loans to them. Considering 10 banks, the analysis was done considering their asset size with 10 variables. Panel logic methodology was used for the study and analyzed that 4 independent variables like capital adequacy ratio, joblessness rate and interest rate affect credit risk of Azerbaijani banks. Zheng et al. (2018) the study tried to show the backward effect of credit defaults in bank profitability though other factors are considered with equal importance. The study chronologically showed the uni-variate to multivariate regression to determine the best executed model. The study addressed the credit risk which is the prevailing question in the contemporary time horizon. Sandada and Kanhukamwe (2016) explained the crucial elements that are affecting the credit risk of Zimbabwe banking sector. The study ascertained the impact of macro-economic, industry and bank related factors on increasing credit risk. The bank specific factors highlight the need for banking institution to take staff training on various aspects of banking operations seriously. The research findings provide a platform for further research on how to deal with the credit risk problems.

The research gap identified is that there are very less studies which showed an influence of Client Company's perception towards credit risk. No study was carried out on analyzing the significant association of Client Company's perception towards credit risk. The current study recovered the research gap. The current study makes an attempt to minimize the consequences of credit risk on banks profitability and suggests suitable methods to overcome credit with more samples.

After studying various research papers and articles, besides the above mentioned, the following significant remarks with regard to the study were made.

OBJECTIVES OF THE STUDY

- To analyze the significant influence of client companies perception towards credit risk.
- To evaluate the significant association of client companies perception towards credit risk.
- To study the impact of credit risk on banks profitability.
- To suggest suitable methods to overcome credit risk.

SCOPE OF THE STUDY

The scope is limited to analyzing the customer's perception towards credit risk of private sector banks. Primary data has been gathered from 285 client companies.

STATEMENT OF THE PROBLEM

Credit risk is the reason for economic decline as banks fail because of default risk from client companies, which has had a negative impact on the economic development of many nations around the world.

RESEARCH METHODOLOGY

Research Design

The study uses descriptive research design with a survey method by convenience random sampling technique to assemble the facts. The analysis was conducted to analyze the client company's perception

towards credit risk for the solutions like Credit risk management, Fraud management, and better loan securitization etc.

Sample Size

The present study collected samples from 285 client companies of private sector banks using convenience random sampling technique. Questionnaire was forwarded to 1880 companies all over the country. But the responses were received from 285 companies.

Statistical Tools

Few statistical tools like percentage analysis, ANOVA, Chi-Square test and Regression were used to examine the collected data to evaluate the customer's perception towards credit risk using SPSS.

HYPOTHESIS OF THE STUDY

- There is no significant influence of customer's perception towards credit risk.
- There is no significant association of customer's perception towards credit risk.
- There is no significant impact of credit risk on banks profitability.

RESULTS AND DISCUSSIONS

Table 1. Tabular representation of Demographic factor of the client companies

Type of Business	**Number**	**Percentage**
Agricultural based	23	8
Manufacturing	56	20
Construction	38	13
Health care	44	15
Education	26	10
Petroleum	32	11
Others	66	23
Total	**285**	**100**
Annual Turnover	**Number**	**Percentage**
Below 100 crores	18	6
101 crores to 200 crores	5	2
201 crores to 300 crores	58	20
301 crores to 400 crores	70	25
401 crores to 500 crores	55	19
501 crores and above	33	12
Others	46	16
Total	**285**	**100**
Place of the organization	**Number**	**Percentage**
Andhra Pradesh	35	12
Arunachal Pradesh	15	5
Assam	6	2
Bihar	11	4
Madhya Pradesh	19	7
Uttar Pradesh	9	3
Gujarat	9	3
Goa	14	5
Kerala	15	5

Karnataka	18	6
Meghalaya	15	5
Odisha	11	4
Mizoram	9	3
Nagaland	11	4
Maharashtra	15	5
Himachal Pradesh	16	6
Tripura	14	5
Rajasthan	20	7
Uttarakhand	10	4
Telangana	13	5
Total	**285**	**100**
Bank	**Number**	**Percentage**
ICICI	57	20
HDFC	53	18
Axis bank	57	20
IDBI	59	21
Yes bank	59	21
Total	**285**	**100**

Source: Authors own work

The data was gathered from 285 client companies, the details of the companies are explained here. Considering the type of business other business are 23%, manufacturing companies are 20% and Health care are 15%. Other type of businesses like Construction, Education and Petroleum contributed fewer shares. The companies having an annual turnover of 301crores-400 crores are 25%, 201 crores-300 crores are 20% and 401 crores- 500 crores are 19%.

Questionnaire was forwarded to few companies from all the states. The questionnaire was forwarded to 1880 companies all over the country. But the responses received are 285, out of which the responses from Andhra Pradesh are 12%, Madhya Pradesh is 7% and Rajasthan are 7%. The responses from other states are very less. The banks opted by the client companies are IDBI and Yes bank are 21%, ICICI and Axis bank are 20% and HDFC are 18%.

Table 2. Tabular representation of influence of customer perception towards credit risk

Test of Homogeneity of Variances			
Credit Risk			
Levene Statistic	df1	df2	Sig.
3.472	10	274	.000

ANOVA					
Credit Risk					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	19.022	10	1.902	15.453	.000
Within Groups	33.727	274	.123		
Total	52.749	284			

Source: Authors own work

ANOVA is a test of hypothesis that is suitable to compare means of a permanent variable in two or more independent comparison groups. Here, Customer perception has been altered in relation to Credit risk. Since the p values are 0.010 that are commenced to be less than 0.05, the null hypothesis is discarded and alternative hypothesis is established at 5% level of significance, therefore the strength of association between variables is very strong. There is a significance difference on the Customer perception towards Credit risk.

Table 3. Tabular representation of significant association of consumer's perception towards credit risk

Chi-Square Tests			
	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	213.145[a]	80	.000
Likelihood Ratio	212.411	80	.000
Linear-by-Linear Association	71.790	1	.000
N of Valid Cases	285		
a. 83 cells (83.8%) have expected count less than 5. The minimum expected count is .01.			

Symmetric Measures			
		Value	Approx. Sig.
Nominal by Nominal	Phi	.865	.000
	Cramer's V	.306	.000
N of Valid Cases		285	
a. Not assuming the null hypothesis.			
b. Using the asymptotic standard error assuming the null hypothesis.			

Source: Authors own work

Chi-Square is a single value that explains about how much difference exists between the observed counts and the expected count. For testing Chi-square, a p-value that is smaller than or equal to the significance level explains that there is satisfactory facts to terminate that the new distribution is not the same as the conventional distribution. Therefore we can conclude that a relationship exists between the variables. A low value for chi-square means there is a high correlation between two sets of data. Since the p values are 0.000 which are less than 0.05. The null hypothesis is rejected and alternative hypothesis is accepted at 5% level of significance, therefore the strength of association between variables is very strong. There is a significance association of Consumer perception towards Credit risk.

Table 4. Tabular representation of significant impact of credit risk on banks profitability

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.568[a]	.323	.321	.31953	.323	135.130	1	283	.000
a. Predictors: (Constant), Credit Risk									

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	13.797	1	13.797	135.130	.000[b]
	Residual	28.894	283	.102		

	Total	42.691	284			
a. Dependent Variable: Banks profitability						
b. Predictors: (Constant), Credit Risk						

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.909	.191		9.990	.000
	Credit Risk	.511	.044	.568	11.625	.000
Dependent Variable: Banks profitability						

Source: Authors own work

Regression is a reliable method of identifying which variables have impact on a particular topic. The process of performing a regression allows you to confidently determine which factors matter most, which factors can be ignored, and how these factors influence each other. R-squared (R^2) is a statistical measure that elaborates the ratio of the variation for a dependent variable that's explained by an independent variable or variables in a regression model. The p-value is tested for all the terms, and results illustrates that the null hypothesis that the coefficient is equal to zero (no effect). A low p-value (< 0.05) illustrates that you can reject the null hypothesis. Typically, you use the coefficient p-values to determine which terms to keep in the regression model.

As the R-Square value should be between 0 and 1, here it is 0.323 and the p value is 0.000 which is less than 0.05, therefore null hypothesis is rejected and alternate hypothesis is accepted. Therefore changes in Credit risk are associated with Bank profitability.

FINDINGS

- Demographic factors explains that other type of businesses are more than the businesses like Manufacturing, Health care, Construction and Petroleum.
- The annual turnover of majority of the Client companies is 301-400 crores, which is a good indication of growth of income of the organizations.
- People from Andhra Pradesh have responded more to the questionnaire when compared to other states.
- The percentage of banks selected by the respondents is nearly equal. Maximum percent of the respondents have opted to all the selected banks.
- There is a significant influence of Client Company's perception towards credit risk. This represents that Client companies have comprehensive particulars on the basis for the increase of credit risk like Customers default, Banks internal rating, inappropriate credit policies and Volatile interest rates.
- There is a significant association of Client Company's perception towards credit risk. Here, the factors like Consumers failure to repay the loan amount, inappropriate rating from rating agencies and Banks internal rating are considered to evaluate the Client Company's perception towards credit risk.
- There is an impact of credit risk on banks profitability. The factors like Bank size, Capital ratio, Deposits ratio, Liquidity ratios are considered to analyze the impact of credit risk on Bank profitability.

SUGGESTIONS

- To improve banks internal rating.
- Inspection from banks is to be done accordingly.
- To advise the customers or the businesses who took loan when needed.

- To provide proper rating from credit rating agencies.
- Banks should limit the borrowing amount, as the high the borrowed sum higher would be the credit risk.
- Banks have to evaluate the financial arrangement of the firm thoroughly before granting loan to them.

CONCLUSION

Credit risk of private sector banks can be slowly but surely decreased by following few suggestions mentioned in this paper resembling improving internal rating from banks and external rating from credit rating agencies. Banks can advise and provide training to the customers when needed. It assists the client companies to sustain in his business environment. As these recommendations are constructed on the perception of Client companies, there may be probably other factors which are responsible for increase of credit risk. Banks have to take precautionary measures to overcome these issues. When banks credit risk is decreased, the profitability of the banks increases.

AUTHOR CONTRIBUTIONS

Conceptualization: V. Venu Madhav
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Investigation: Sunitha, G
Methodology: Sunitha, G
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Validation: Sunitha, G, V. Venu Madhav
Visualization: Sunitha, G
Writing – Original Draft: Sunitha, G
Writing – Review & Editing: Sunitha, G, V. Venu Madhav

CONFLICT OF INTEREST STATEMENT

The author declare that they have no competing interests.

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All authors contributed equally to the conception and design of the study.

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APPENDICES

1. **Name of the company:**
2. **Type of business ___________**
    1. Agricultural based [ ]
    2. Manufacturing [ ]
    3. Construction [ ]
    4. Health care [ ]
    5. Education [ ]
    6. Petroleum [ ]
    7. Others [ ]

3. **Annual Turnover:**
    1. Below 100 crores
    2. 101 crores to 200 crores
    3. 201 crores to 300 crores
    4. 301 crores to 400 crores
    5. 401 crores to 500 crores
    6. 501 crores and above

4. **What is your place of organization __________________**
    - list of states[ ]

5. **Name of the bank where you have your account**
    1. ICICI [ ]
    2. HDFC [ ]
    3. Axis bank [ ]
    4. IDBI [ ]
    5. Yes bank [ ]

6. Credit risk

	SD	Disagree	Neutral	Agree	SA
Customer default					
Banks internal rating					
Inappropriate credit policies					
volatile interest rates					

7. Banks profitability

	SD	Disagree	Neutral	Agree	SA
Bank size					
Capital ratio					
Deposits ratio					
Liquidity ratio					

8. Customers perception on Credit risk

	SD	Disagree	Neutral	Agree	SA
Consumer's failure					
Inability to repay					
Banks internal rating					
Inappropriate rating from rating agencies					

9. Suggestions to overcome credit risk

	SD	Disagree	Neutral	Agree	SA
Improve banks internal rating					
Inspection from banks					
Advise customers when needed					
Proper ratings from rating agencies					

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