

## **A STUDY ON CREDIT RISK MANAGEMENT AT CANARA BANK, HYDERABAD**

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### **ABSTRACT**

Uncertainty and the potential for loss, which can occur in any business transaction at any time or location, are major factors in risk. If a borrower is unable to fulfill the terms of a loan arrangement with the bank or otherwise carry out as agreed, credit risk is the possible loss of assets or income. The credit risk hypothesis states that the lender bears a significant amount of risk, including the possibility of losing principal and interest. For instance, an insolvent bank may not be able to return a depositor's funds, which could result in a complete or partial interruption loss. Investigating the concept of credit risk as it relates to banks and understanding how it may be managed to avoid bank failure were the main objectives of the study. To achieve the primary goal, data was collected from original research articles that examined the relationship between credit risk and the performance of commercial banks. Effective solution would be employed to reduce the impact of credit risk on banks, since according to the assessment, poorly managed credit risk makes banks more vulnerable.

**Key Words:** Credit risk, Financial performance, Interest, Loans, Profitability Analysis.

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### **INTRODUCTION**

Credit risk is the oldest form of risk faced by bankers globally. It's the risk of default on loans and a major concern. Credit risk arises from lending activities and is inherent in banking. Banks act as financial intermediaries, accepting deposits and lending to customers. Credit risk has become pervasive in recent decades, affecting companies, small businesses, and individuals. Determining individual borrower risk is crucial for managing loan portfolios. Exposure to credit risk is a leading source of problems in banks worldwide. Banks and supervisors must learn from past experiences to manage risk. The aim of credit risk management is to minimize risk-adjusted returns. Banks need to manage credit risk in entire loan portfolios and individual transactions. Credit management involves the total lending process, from application to recovery. Activities include loan appraisal, approval, monitoring, and recovery of non-performing loans. Effective credit management minimizes capital tied up in debtors and bad debts. Credit

management is essential for banks' financial stability and profitability. By managing credit risk, banks can maintain acceptable risk exposure and achieve their goals.

### **REVIEW OF LITERATURE**

- 1. Arora and Singh (2015)** found in a study of Indian public banks Arora and Singh that inappropriate assessment mechanisms and political influence on lending are important causes of the rise in NPAs. They recommended automation and a more stringent credit rating system.
- 2. Yurdakul (2014)** explained that credit risk is divided into two types. H. Systematic and systematic. Systematic risks result from fluctuations in economic, social and political situations and affect all financial (capital and currency) markets and securities (financial assets) traded in the market. Organizational credit risk is subject to the characteristics of the industry in which the company works. It consists of factors such as bad management, new innovations, technological developments, and changing consumer preferences.
- 3. Get and Elet (2014)** said it is very important to check your financial history and customer background before making a loan decision, as it helps to minimize credit risk.
- 4. Fernando and Nimal (2013)** looked into how the Bank of Sri Lanka's performance was affected by overall risk management. The main goal of this study was to determine the impact of risk management on banking efficiency in Sri Lankish Bank. This study showed that the risk management programme improved the efficiency of licensed commercial banks in Sri Lanka.
- 5. Gauche, S. (2005)** in an analysis of public sector banks in India, Ghosh highlighted the growing trend in NPAs, combining it with inadequate loan valuation systems and ineffective monitoring areas in credit risk management.
- 6. Bert et al. (2003)** define credit management as the procedure for granting loans, which are the conditions granted to these loans, and receive this loan if there is a deadline. This is a function within the bank or company that manages credit policies that improve income and reduce financial risk.
- 7. Sanders, A. & Allen, L. (2002)** provided a comprehensive overview of the risks of bank loans, internal loan rating systems research, credit pricing, and the impact of regulatory guidelines.
- 8. Crouhy, M., Galai, D. & Mark, R. (2000)** provided jobs in risk management. Integrated framework conditions for the measurement and management of credit risk with the help of portfolio-based models and stress testing.

### **NEED FOR THE STUDY**

The study of credit risk management at Canara Bank is crucial due to the critical role it plays in ensuring financial stability within the banking industry. Credit risk, which originates from the likelihood of borrowers failing to satisfy their obligations, is a significant worry for banks as it effects their profitability and sustainability. An examination of Canara Bank's credit risk management strategy yields important information about its methods for determining creditworthiness, reducing nonperforming assets (NPAs), and guaranteeing regulatory compliance. Additionally, the way that technology is being used to monitor and manage credit risk shows how innovation is changing conventional banking procedures. The significance of sound credit decision-making procedures and their impact on economic stability are also highlighted in this study.

### **SCOPE OF THE STUDY**

By examining each of their credit transactions, this study helps determine the bank's credit performance and ability to grant credit to its clients. It also helps determine which bank has higher credit performance, SBI or Canara Bank. The credit is implied by the study.

- It also says that effective banking operations lead to the management of credit risk towards the banker.
- Bank performance is a significant factor for all financial institutions.

### **OBJECTIVES OF THE STUDY**

The study's primary goals are to:

1. Examine Canara Bank's credit risk management.
2. To assess Canara Bank's credit risk model.
3. To examine how non-performing asset levels have changed over the past five years.
4. To examine loan sanctions for various industries.
5. To offer recommendations for enhancing the Bank's credit risk management policy.

### **RESEARCH METHODOLOGY**

This case analysis was prepared using data gathered from various sources. The information for this case study was gathered through focus groups with the bank's employees and branch managers, as well as suggestions from them. Bank annuals, reports, manuals, internal records, old records, websites, and balance sheets were used to gather the data. Google Scholar was also used to find articles. This study uses an explanatory research design to examine credit risk management at Kanara Bank. Understanding the current risk frameworks and how effectively they function to reduce credit risk is made easier using descriptive research.

### **INFORMATION COLLECTION**

#### **– Secondary data**

Canara Bank's annual reports;

RBI's credit risk management guidelines;

BaseI Committee reports;

Published books, journals, and research papers

Financial database reports, such as those from Money Control, CMIE, and others

### **SAMPLE DESIGN**

The sample size is dependent on access; for interviews, 45–50 employees are usually used.

45-day research period.

### **TOOLS FOR COLLECTING DATA**

Examination of manuals, credit policies, and reports.

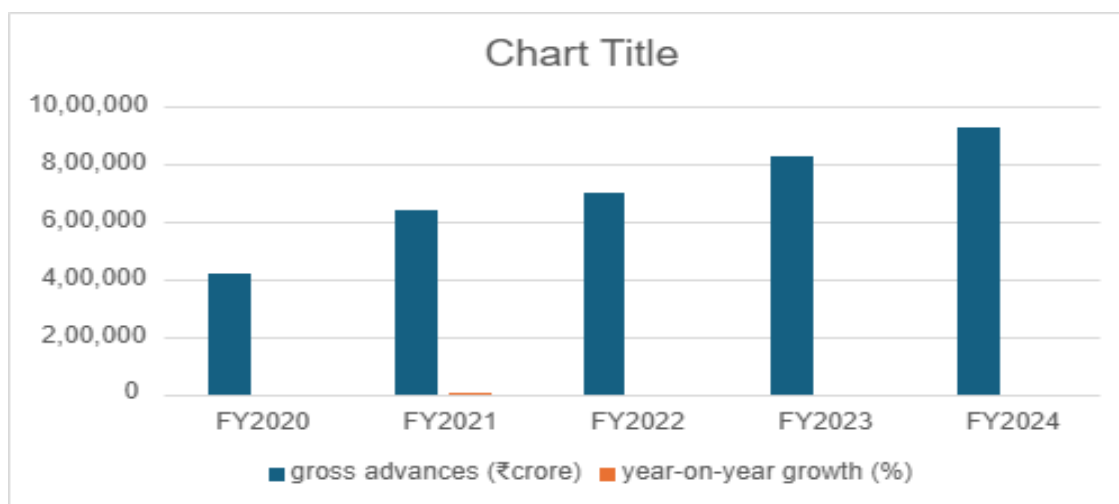
Utilizing the bank's available data and internet databases.

### METHODOLOGY OF DATA INTERPRETATION

The data is extracted from the balance sheet and income statement of the banks for the period of 5 years and the percentage is being calculated to find out the advances provided and the deposits received, interest earned and the interest expended and the variations in the Non- Performing Assets (NPA) levels.

**Table 1:** Bank progress over the past five years.

Financial year	Gross Advances (₹ Crore)	Year-on-year Growth (%)
FY2020	423,175	-
FY2021	639,049	47.8%
FY2022	703,602	10.1%
FY2023	830,673	18.1%
FY2024	931,613	12.1%



**Figure1:** Bank development throughout the previous five years

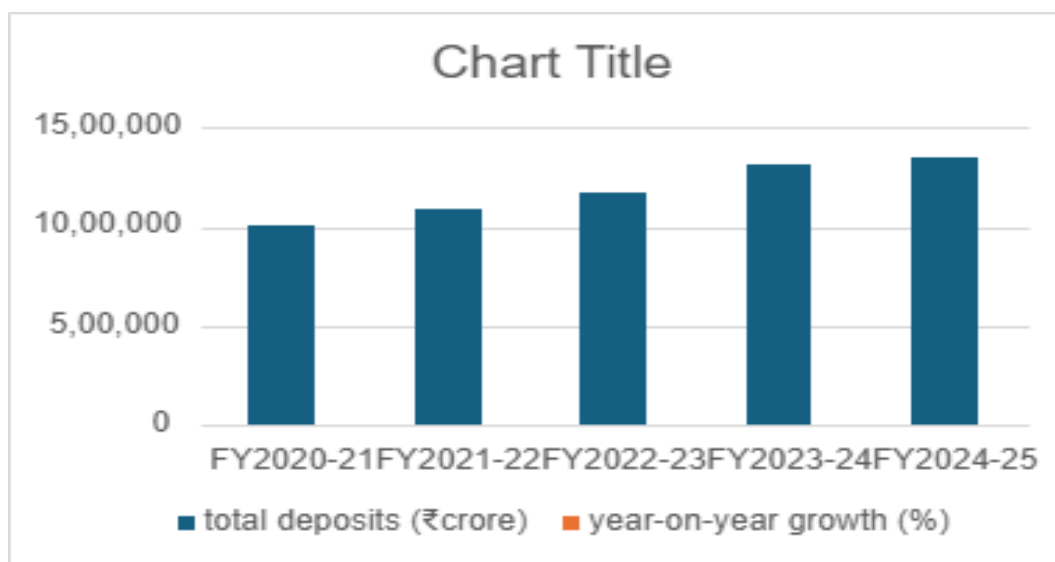
#### Interpretation:

GJ2024 has increased in GJ2024 over the five years of 931,613 crores from 2020. This indicates a positive trend among bank creditors.

Growth rate fluctuated compared to the previous year. In fiscal year 2021, it peaked at 47.8%. This indicates a strong recovery or growth stage after FJ2020. The growth rate was then eased to 10.1% at GJ 2022 and increased to 18.1% in 2023. For the 2024 fiscal year, growth was 12.1%.

**Table 2:** Deposits received by Bank for the previous 5 year

Accounting year	Total deposit (₹crore)	Growth (%) from the previous year
FY2020-21	10,10,985	N/A
FY2021-22	10,86,341	7.5%
FY2022-23	11,79,087	8.5%
FY2023-24	13,12,242	11.3%
FY2024-25	13,47,347	9.3% (YoY as of Sep 2024)



**Figure2:** Deposits received by the bank for the previous 5 years

**Interpretation:**

Every year, Kanala Bank shows a consistent increase in total deposits. This reflects customer trust and the growing range of banks.

From GJ 2023-23 from 2020 to 21, the sediment of ₹10.1lakh crore rose to ₹13.1 crore.

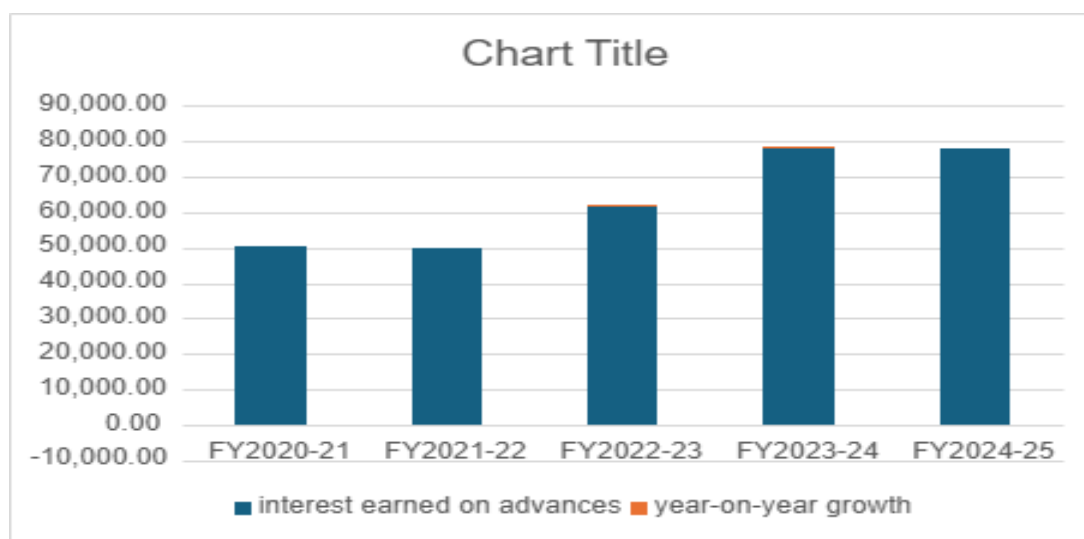
**Recent Performances:**

In fiscal year 2023-24, ₹13lakhcrore deposits, which have marked an impressive 11.3% growth over the last five years.

Since September 2024, there have been deposits of ₹13.47 crores. This indicates that dynamics continued from 2024 to 25.

**Table3:** Interest earned on advances by bank for previous 5 years.

Accounting year	Ongoing Interest (₹Crown)	Growth (%) from the previous year
FY2020-21	50,405.00	N/A
FY2021-22	49,862.11	-1.1%
FY2022-23	61,356.58	23.0%
FY2023-24	78,188.44	27.4%
FY2024-25	78,205.67	0.02%



**Figure3:** interest earned on advances by bank for previous 5 years.

**Interpretation:**

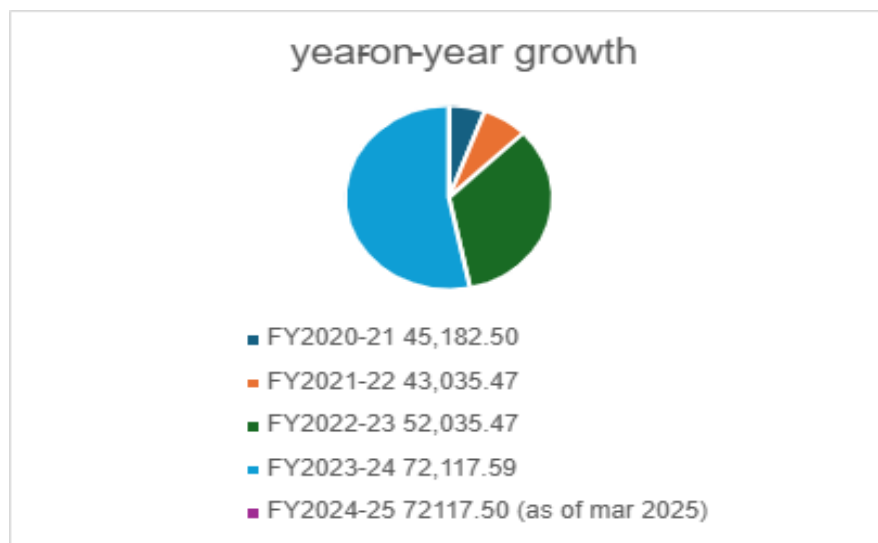
GJ2020-21 for fiscal year 2021-22: Perhaps due to lower credit demand or lower credit rates during this period, 1.1% of interest that may have been made due to progress has decreased slightly.

From GJ2021-22 to GJ 2023-24: Banks recorded robust interest income from progress, up 23.0% in GJ2022-23 and 27.4% in fiscal year 2023-24. This growth could be attributed to an expansion of bank creditors and a cheaper interest rate environment.

GJ2024-25: Interest in progress was relatively flat, with a slight increase of 0.02%. This plateau can indicate a stabilization of credit prices or a change in the bank's asset composition.

**Table 4:** Interest expended by bank for previous 5 years.

Accounting year	Interest spent (₹crore)	Growth (%) from the previous year
FY2020-21	45,182.50	-3.8%
FY2021-22	43,035.47	-4.8%
FY2022-23	52,990.06	23.1%
FY2023-24	72,117.59	36.1%
FY2024-25	72,117.59 (as of Mar 2025)	0.0%



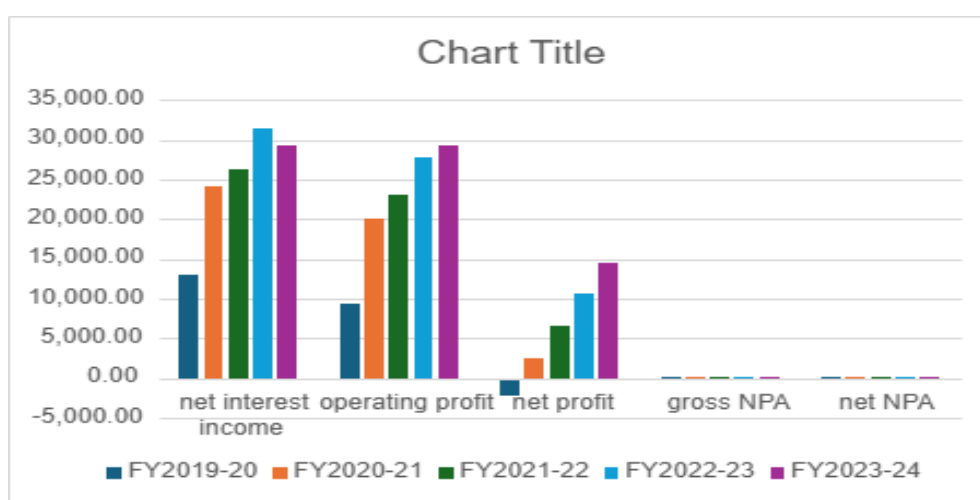
**Figure 4:** Interest expended by bank for previous 5 years.

**Interpretation:**

Fy2020-21 to Fy2021-22: Interest expenses decreased, reflecting a period of lower deposit rates and subdued credit demand. FY2022-23 to FY2023-24: There was a significant increase in interest expenses, aligning with rising deposit rates and an uptick in borrowing costs. FY2024-25: Interest expenses remained stable, indicating a potential stabilization in deposit rates and funding costs.

**Table 5:** Canara Bank's profitability statement over the preceding five years.

Financial year	Income from net interest (₹ crore)	Profit from operations (₹ crore)	Profit margin (in ₹ crore)
FY2019-20	13,123.91	9,359.82	-2,235.72
FY2020-21	24,062.17	20,009.27	2,557.58
FY2021-22	26,383.99	23,088.98	6,536.94
FY2022-23	31,435.29	27,716.01	10,603.76
FY2023-24	38,401.20	29,412.59	14,554.33



**Figure 5:** Canara Bank's profitability statement over the preceding five years.

## Interpretation:

### 1. Profitability

- In the second year of 2019-20, a net loss of ₹2,235.72 crore was shown. This is probably due to the high provisions for poor loans and the impact of the merger with syndicated banks.
- Starting in fiscal year 2020-21, Kanara Bank has returned to profitability and has shown a significant and substantial growth in its net profit every year.
  - fy2020-21: ₹2,557.58crore
  - fy2021-22: ₹6,536.94crore
  - fy2022-23: ₹10,603.76

This trend shows strong relaxation and improved financial performance.



## **2. Strong growth in sign income**

- Net interest income (NII) has consistently increased to ₹13,123.91 crores at GJ 20 and GJ 24.
- This reflects the growth of bank creditors and better profit management.

## **3. Improved operational efficiency**

Operating profit also increased every year. This indicates that banks are effective and cost effective.

## **4. Improve quality**

¢ Gross-NPA ratio decreased from 8.21% for GJ 20 to 4.23% for GJ 24.

¢ NEPA ratio improved from 4.22% to 1.27% over the same period.

This means better recovery in loans, risk management and healthier loan sports folios.

## **5. Overall financial health,**

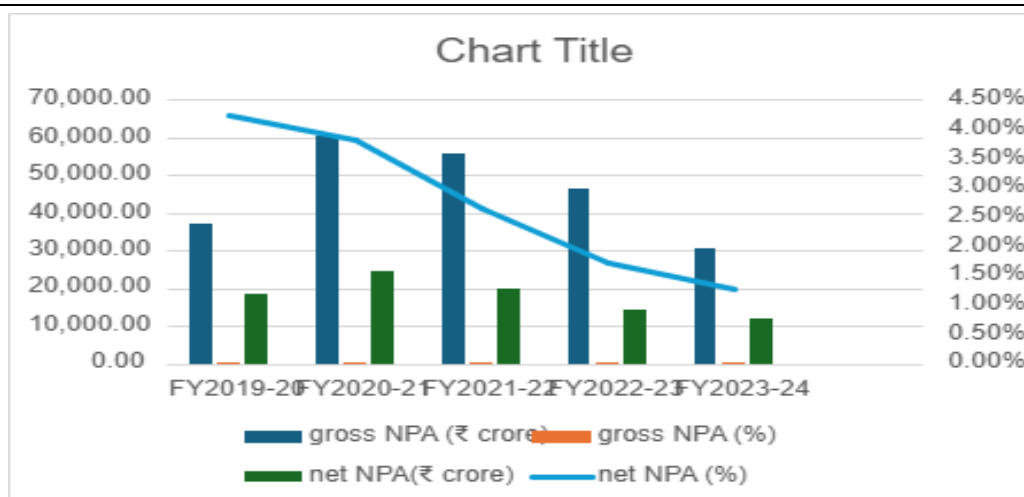
combinations of:

- o Increased net profit,
- o Increased net interest income,
- o Low NPA,
- o and increased operating profit.

...Canara Bank has shown it has been more stable and profitable over the past five years. The bank has successfully strengthened its post-merger synergy, improving its quality of wealth and strengthening its core business.

**Table 6:** The bank's non-performing assets (NPA) over the last five years.

<b>The fiscal year</b>	<b>Gross non-performing assets (NPA) (₹ crore)</b>	<b>Gross Non-Performing Assets (%)</b>	<b>NPA net (₹ crore)</b>	<b>Net NPA (percent)</b>
FY2019-20	37,250.53	8.24%	18,287.72	4.23%
FY2020-21	60,397.80	8.94%	24,455.07	3.82%
FY2021-22	55,714.41	7.51%	18,676.48	2.65%
FY2022-23	46,213.54	5.35%	14,256.16	1.73%
FY2023-23	30,657.18	4.23%	11,831.26	1.27%



**Figure 6: Non-Performing Assets (NPA) of the Bank for previous 5 years.**

### Interpretation:

#### 1. Continuous improvements follow the post-merger spikes

- For fiscal year 2019-20, total NPA was ₹37,250 crores (8.24%) and NET-NPA was ₹18,287 crores (4.23%).
- FY2021 recorded a significant increase in bad loans after the merger with syndicated banks and the beginning of the Covid 19 pandemic.

This was probably due to delays in repayment between inherited assets and sectors.

#### 2. Effective management of wealth quality

Consistent improvements have been made since fiscal year 2021-22. Gross-NPA decreased by 4.23% in FY 2023-24, while Net-NPA reduced significantly 1.27%, lowest in five years.

This reflects:

- A better assessment of credit risk;
- Stronger recovery efforts (such as unique settlements and legal recovery),
- Improved monitoring system,
- and healthier credit portfolio.

#### 3. Financial resilience and risk management

- Decreasing absolute NPA values and percentage conditions suggest that banks have effectively checked slips in new NPAs despite business growth.
- The downward trend is that Kanara Bank is better positioned for future growth.

Canara Bank has shown a robust shift in asset quality. Overcoming fiscal year mergers and pandemic stress. Then we will strengthen our financing process and reinsurance. Achieved significant NPA cuts, increasing financial health and investor confidence.

### FINDINGS

1. Strategies for recovery after merger recreation: After merging with Syndicate Bank in fiscal year 2020, Kanara Bank has been exposed to increased credit risk due to the addition of stressful assets. Banks have implemented a strict system for credit risk assessment and monitoring, which has resulted in a steady decline in aggregate and net NPA from aggregate.

2. Improve the quality of assets: Gross-NPA fell to 8.94% (GJ21) and 4.23% (GJ24). net net NPA fell from 3.82% to 1.27% over the same period. This demonstrates effective credit ratings, early warning signal (EWS), and AD recovery mechanisms.
3. Using risk-based pricing and credit valuation: Canara Bank has taken over risk-based pricing, which links interest rates to borrowers' credit risk profiles. Use an internal credit valuation model to assess borrowing risk and contribute to finding high-risk accounts at the start of the loan cycle.
4. Improved recovery mechanism: The bank has improved its restoration as follows: sarfaesi Act and Difter Record Tirstunas (DRT), Unique payment scheme (OTS), Sales of NPAs to bows (asset reconstruction company).
5. Compliance with regulatory standards: Kanara Bank will take over your credit practices with RBI's Basel-III standard. Risk-weighted assets (MEs) have more appropriate capital than the bare minimum required by law.
6. Implementing technology in credit risk: Loans Software implementation for the management of loan lifecycle and analytical monitoring tools. retail Integration of automated rating engines for retail and SME segments has improved the identification of formation risks.
7. Sectoral and concentration risk control: Banks are taking steps to diversify their credit process in local areas. Limits are exposed to sectors that require protection, such as real estate, KSME, and NBFC, to reduce the risk of concentration.
8. Oversight and political management at the board level: The board board's committed credit risk management committee (CRMC) at the level of the board is monitoring large exposure and high-risk accounts. Regular reviews and audits ensure compliance with internal risk guidelines.

#### **SUGGESTIONS**

1. Improved Credit Evaluation - Machine: Strengthen your loan valuation system by including more robust measures for financial analysis and regular training of credit personnel.
2. Adopting advanced risk assessment models: Implement predictive analysis and AI-based loan assessment models for risk classification and early warning signals.
3. Regular credit portfolio reviews: Regularly record high risk credit segments and run stress tests to assess resilience under adverse conditions.
4. Strengthening of the surveillance system: Develop a more dynamic loan surveillance system with late payments, account regulators, and real-time warnings for sectoral risk loads.
5. Documentation and compliance improvements: Make sure all credit documents are fully valid and updated regularly to avoid recovery issues in the event of a failure.
6. Diversifying your credit portfolio: Reduce the risk of concentration by diversifying sector, geography and borrower categories.
7. Use of collateral and use of guarantees: Encourage safe lending and ensure that the value of collateral is properly valued and updated regularly.
8. Increase employee training and awareness: Perform frequent workshops and training courses to assess credit risk and comply with regulations.
9. Risk analysis using technology: Invest in digital platforms and risk analysis tools to better understand customer behavior and predict failure.
10. Enhanced recreation mechanisms: Develop FastTrack mechanisms with specialized recovery teams such as Lok Adalats and DRTS (Die Recovery Tribunals).

## **CONCLUSION**

Credit risk management plays an important role in the stability and profitability of banking institutions such as Kanara Bank. This study shows that banks have established a solid framework for managing credit risk through guidelines, valuation systems and monitoring mechanisms that still have space for improvement in areas such as risk reserve, portfolio diversification, and technology integration.

With increasing complexity in financial products and changing economic conditions, it is essential for Kanara Bank to continue developing credit risk management practices. Assumptions of data-controlled decision-making tools, improved HR functions, and enhanced recovery mechanisms will help banks more effectively reduce credit risk and ensure continuous growth.

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