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A STUDY ON PERCEPTION OF CREDIT APPRAISAL OF ICICI

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Abstract
The last year financial crises have become the main cause for recession which was started in2006 from US and was spread across the world. The world economy has been majorly affected from the crisis. The securities in stock exchange have fallen down drastically which has become the root cause of bankruptcy of many financial institutions and individuals. The root cause of the economic and financial crisis is credit default of big and companies and individuals which has badly impacted the world economy. So in the present scenario analysing one's credit worthiness has become very important for any financial institution before providing any form of credit facility so that such situation doesn't arise in near future again. Analysis of the credit worthiness of the borrowers is known as Credit Appraisal.

In order to understand the credit appraisal system followed by the banks this project has been conducted. The project has analyzed the credit appraisal procedure with special reference to Corporation Bank which includes knowing about the different credit facilities provided by the banks to its customers, how a loan proposal is being made, what are the formalities that is to be satisfied and most importantly.

Introduction

Project financing is an innovative and timely financing technique that has been used on many high-profile corporate projects, including Euro Disneyland and the Eurotunnel. Employing a carefully engineered financing mix, it has long been used to fund large-scale natural resource projects, from pipelines and refineries to electric-generating facilities and hydro-electric projects. Increasingly, project financing is emerging as the preferred alternative to conventional methods of financing infrastructure and other large-scale projects worldwide.

Project Financing discipline includes understanding the rationale for project financing, how to prepare the financial plan, assess the risks, design the financing mix, and raise the funds. In addition, one must understand the cogent analyses of why some project financing plans have succeeded while others have failed. A knowl edge-base is required regarding the design of contractual arrangements to support project financing; issues for the host government legislative provisions, public/private infrastructure partnerships, public/private financing structures; credit requirements of lenders, and how to determine the project's borrowing capacity; how to analyze cash flow projections and use them to measure expected rates of return; tax and accounting considerations; and analytical techniques to validate the project's feasibility

Project finance is different from traditional forms of finance because the credit risk associated with the borrower is not as important as in an ordinary loan transaction; what is most important is the identification, analysis, allocation and management of every risk associated with the project.

The purpose of this project is to explain, in a brief and general way, the manner in which risks are approached by financiers in a project finance transaction. Such risk minimization lies at the heart of project finance.

In a no recourse or limited recourse project financing, the risks for a financier are great. Since the loan can only be repaid when the project is operational, if a major part of the project fails, the financiers are likely to lose a substantial amount of money.

The assets that remain are usually highly specialized and possibly in a remote location. If saleable, they may have little value outside the project. Therefore, it is not surprising that financiers, and their advisers, go to substantial efforts to ensure that the risks associated with the project are reduced or eliminated as far as possible. It is also not surprising that because of the risks involved, the cost of such finance is generally higher and it is more time consuming for such finance to be provided.

Project finance is the financing of long-term infrastructure and industrial projects based upon a complex financial structure where project debt and equity are used to finance the project. Usually, a project financing scheme involves a number of equity investors, known as sponsors, as well as a syndicate of banks which provide loans to the operation. The loans are most commonly non-recourse loans, which are secured by the project itself and paid entirely from its cash flow, rather than from the general assets or creditworthiness of the project sponsors. The financing is typically secured by all of the project assets, including the revenue-producing contracts. Project lenders are given a lien on all of these assets, and are able to assume control of a project if the project company has difficulties complying with the loan terms.

Generally, a special purpose entity is created for each project, thereby shielding other assets owned by a project sponsor from the detrimental effects of a project failure. As a special purpose entity, the project company has no assets other than the project. Capital contribution commitments by the owners of the project company are sometimes necessary to ensure that the project is financially sound. Project finance is often more complicated than alternative financing methods. It is most commonly used in the mining, transportation, telecommunication and public utility industries.

Risk identification and allocation is a key component of project finance. A project may be subject to a number of technical, environmental, economic and political risks, particularly in developing countries and emerging markets. Financial institutions and project sponsors may conclude that the risks inherent in project development and operation are unacceptable (unfinanceable).

To cope with these risks, project sponsors in these industries (such as power plants or railway lines) are generally completed by a number of specialist companies operating in a contractual network with each other that allocates risk in a way that allows financing to take place. The various patterns of implementation are sometimes referred to as "project delivery methods." The financing of these projects must also be distributed among multiple parties, so as to distribute the risk associated with the project while simultaneously ensuring profits for each party involved.

Credit appraisal means an investigation/assessment done by the bank prior before providing any loans & advances/project finance & checks the commercial, financial & technical viability of the project proposed its funding pattern & further checks the primary & collateral security cover available for recovery of such funds.

Objectives

1. To study the Credit Appraisal Methods.
2. To understand the commercial, financial & technical viability of the project proposed & its funding pattern.
3. To understand the pattern for primary & collateral security cover available for recovery of such fund.

Research Methodology

This study is basically of

Primary Data: Informal interviews with Branch Manager and other staff members at Corporation bank.
Secondary Data: Books and magazines, Database at Corporation Bank

Data analysis and Interpretation: For the purpose of data analysis and interpretation

The following three companies has been chosen

1. Prgati
2. Flic micro
3. Tps lab

Company	CR			QR			DE		
	2015-2016	2016-2017	2017-2018	2015-2016	2016-2018	2017-2018	2015-2016	2016-2017	2017-2018
Prgati Micro Instruments Pvt Ltd	0.95	0.93	1.32	2.47	2.8	2.08	0.09	0.08	0.74
Flic Micro Wave	1.13	0.92	0.99	1.28	1.17	1.26	1.29	1.07	1.21
Tps Labs	0.96	0.95	0.97	0.59	0.48	0.76	0.27	1.16	0.56

Company	Net Profit Margin (%)			TOL/TNW		
	2015-2016	2016-2017	2017-2018	2015-2016	2016-2017	2017-2018
Prgati Micro Instruments Ltd	2.65	2.91	4.02	8.77	6.23	4.32
Flic Micro Wave	0.81	2.81	4.01	1.35	1.41	1.49
Tps Labs	-4.31	0.68	0.98	0.69	1.77	1.72

Interpretation

The TOL-TNW ratio for the three companies tells about the gearing of the companies. Pragati micro instruments have high gearing were as the other two companies have very low gearing.

Findings and suggestion

Credit is becoming more scarce and expensive, so investments are being put off, working capital funds Available are gradually declining and workers' wages may also be at stake.

An entity should not prepare its financial statements on a going concern basis if management determines, after the balance sheet date, either that it intends to liquidate the entity or to cease trading

As diversions lead to reduction of NWC and interruptions in operations due to insufficient working capital funds, companies should not resort to such practices.

Conclusion

It is boom time for those working in the financial sector. There are opportunities galore in finance and more will come in the next few years so finance is exciting is exciting both as a subject and a career option with the greater expansion of the global economy.

The CRA models 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, and management risks & are rated separately.

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, in Bank,

Credit appraisal system is not only looking for financial wealth. Other strong parameters also play an important role in analyzing creditworthiness of the firm.

Books

1. Vaidhyanathan, T.S., “Credit Management”
2. Credit and Banking By: K. C. Nanda.

Websites

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