



Project Report on
Credit Appraisal System of SME
Axis Bank



Submitted

By

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Finance- Marketing

2015-17

**As a part of the requirements for the degree of Master of Business Administration
under the guidance of**

Project Mentor

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**SYMBIOSIS INSTITUTE OF MANAGEMENT STUDIES (SIMS)
(CONSTITUENT OF SYMBIOSIS INTERNATIONAL UNIVERSITY)**

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Executive Summary

Classroom learning demonstrates helpful when connected in the pragmatic field. Practical orientation of management studies is imperative to fit the bill for a potential manager. Entering the business resembles venturing into another world. Each idea, which is taught in the classroom, is drilled diversely in the business. A study on the roles and knowledge practiced in the organization gives a deep insight into the practical aspects of functioning. Banks play an important role in the economic development of the economy. Banks are the backbone of the economic growth and also provide financial stability.

Bank is the main convergence that maintains as well as controls the “flow of money” to make the commerce of the land possible. The functions of the bank include accepting deposits from the public and other institutions and further directs as loans and advances to parties mainly for growth and development of industries. It extends loans for the purposes of education, housing etc and as a part of social duty, some percentage to agriculture sector as decided by the RBI. The difference in these transactions constitute the main source of income for banks.

In any economy, banks have majorly three roles to play; firstly, they fulfill the financing needs of the corporate sector. Secondly, they cater to the needs of household savers by providing assured returns on their surplus funds while maintaining liquidity and safeguarding them from financial risks. Thirdly, they act as a support for development of financial markets and it's participants.

This project titled “Credit Appraisal for an SME” studies the credit appraisal methodology at Axis Bank for a proposal received either for term loan or working capital financing. Credit appraisal is the process of evaluating the worthiness of a proposal and decide whether to provide the type of credit facility the borrower has asked for. The process includes evaluating the current financial status, appraisal of projected cash flows, fund flows, P & L and Balance sheets, along with evaluating the purpose for which the facility has been availed for. The technical and financial feasibility of the project, credit history of the applicant and borrower , managerial competence and past experience, etc. is also studied to make an accurate decision.

The subject for the case study is M/s XYZ Exports which was incorporated in the year 2001 as a

proprietorship concern of Mr. Abc Taneja. The company is engaged in trading of dry fruits and spices. The firm imports dry fruits from USA, Sri Lanka, Iran, Africa etc. The firm also procures almonds from local market as and when required, in order to meet its customer's requirements. The firm is engaged in trading of dry fruits and spices. The firm is banking with Axis bank under sole banking arrangement & presently availing credit facilities of Rs. 150.00 lacs under. The renewal of the facility at its existing level has been conducted in November'2014. However, customer has informed that due to increase in the scale of the activity levels, the firm requires additional funds. Therefore, the proprietor of the firm has approached the bank for enhancement of facility from Rs. 150.00 lacs to Rs. 300.00 lacs under.

After the analysis of the company's proposal and verification of the credentials of the applicant, it was found that the conduct was satisfactory and the bank is of the view that the proposal is a fair banking risk. The activity levels of the establishment are good and the applicant has met all regulatory requirements like obtaining a license, registrations etc. The credit facilities will be released after completion of the documentation formalities.

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TO WHOM SO EVER IT MAY CONCERN

This is to certify that Ms Roopika Gupta, PRN No. 15020441211 has completed her project report on the topic — “**Credit Appraisal system of SME- Axis Bank**” under my guidance.

Prof Rahul Dhaigude

Place: Pune

Certificate of Completion

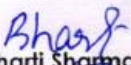


AXISB/DELHI/2016-2017/SUMINT/132
30 June 2016

CERTIFICATE OF COMPLETION

This is to certify that Ms. Roopika Gupta has successfully completed summer internship with Axis Bank from 5th Apr 2016 to 15th June 2016 .The Candidate has worked on '**Credit Appraisal System of SME**' and has added value through Her work.

We wish Her best wishes for all future endeavors!


Bharti Sharma
Assistant Vice President
Human Resource
Delhi Circle

DECLARATION

I hereby declare that the project entitled “Credit Appraisal of a SME” submitted for the MBA Degree is my original work and the project does not form the basis for the award of any degree, associateship, fellowship or any other similar titles.

Name of the Student: Roopika Gupta (PRN: 15020441211)

Place: Pune

Date: 28th July 2016

Acknowledgment

I take this opportunity to extend my sincere thanks to Axis Bank, SME Department, Delhi-1 for providing me with a platform to earn exposure and garner knowledge in the field of credit appraisal for a small medium enterprise.

I wish to extend my sincere and heartfelt gratitude to my mentor Mr. Rahul Gupta, Assistant Vice President, who guided, supported and encouraged me during the entire tenure of my internship. I would extend my gratitude towards the people of the department for their co-operation and valuable advice throughout the course of my internship and provided constant support in accomplishing the objectives of the project.

I have immensely benefited from the summer internship with Axis Bank.

Regards

Roopika Gupta

Finance- Marketing

Batch: 2015-17

SIMS, Pune

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Objectives of the study:

The objectives of the study are as follows:

- Assess the viability of the project and minimization of the credit risk
- Assess the requirements of the borrower and study credentials in order to decide upon the acceptable level of exposure.

The objectives required a series of processes that needed to be carried out. Following are stated below:

- Gathering information about the SME and its operations. Studying various aspects of the company as under:
 - Turnover of the company, major customers and suppliers along with industry/ market profile.
 - The capacity and quality of the plant and machinery, checking for availability of the resources like land, raw material etc.
 - The technology proposed to be used by the company, to check whether it is new or a well-accepted one and whether the technology is in compliance with the industry standard or not.
 - General profile of the company and the directors/proprietor and the company's past dealings with bank are also considered.
- Carrying out the Industry analysis after studying about the company and its operations. Under this, the current trends and future expectations in the industry are studied.
- Undertake credit appraisal process, the proposal, assessment of the working capital requirements, proposed financing, shareholding pattern and security details are studied. Internal credit rating of the company is done where the company is rated under different heads namely financial performance, market position, industry outlook etc. according to the guidelines as per the bank's manual for credit selection.
- Understand and reiterate bank officials' comments and recommendations on the conduct of the existing banking arrangements of the company. The risk assessment is undertaken and the policy compliance with the bank is considered.

1. Introduction

SME at Axis Bank

The Micro and Small Enterprise (MSE) sector contributes significantly to manufacturing output, employment and exports of the country. MSE sector, in terms of value contributes for 45% of the manufacturing output and 40% of total exports of the country. Keeping in view the regulatory requirements, Axis Bank has initiated a focused approach to ensure flow of credit to the MSE sector. The Bank follows the broad guidelines issued under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006. Herein below, bank furnishes the policy on MSEs.

1. Definition: MSEs are broadly classified into two classes:

a) Manufacturing Enterprises: Enterprises engaged in the manufacturing or production, processing or preservation of goods.

i) Micro (manufacturing) Enterprises – Original Investment in plant and machinery does not exceed Rs 25 lakhs.

ii) Small (manufacturing) Enterprises – Original Investment in plant and machinery is more than Rs 25 lakhs but does not exceed Rs 5 crores.

b) Service Enterprises: Enterprises engaged in providing /rendering of services.

i) Micro (service) Enterprises – Original Investment in equipment (original cost excluding land and building and furniture along with fittings) does not exceed Rs 10 lakhs.

ii) Small (service) Enterprises – Original Investment in equipment (original cost excluding land and building and furniture along with fittings) is more than Rs 10 lacs but does not exceed Rs 2 cores.

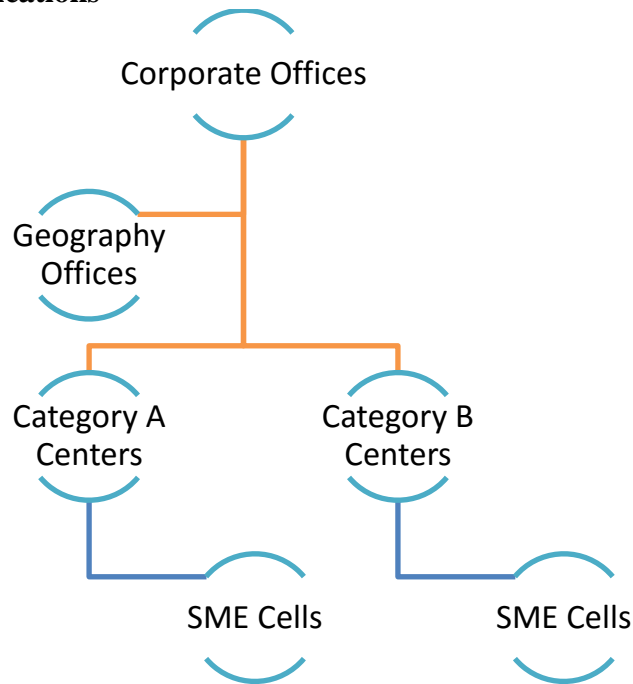
Service Enterprises includes small road and water transport operators, small businesses, professional and self employed persons, retail traders and all other service enterprises.

2. Bank's structure to serve the MSE sector in India: The Bank provides finance to the MSE sector in India through 41 dedicated Centres/Cells well spread out throughout the country. Bank has a strong professional team placed at these Centres to evaluate the borrowers' needs and provide customized solutions.

3. Products and services – Bank has created the following products exclusively for the MSE sector. These are template products, which follow a simple scorecard model for Rating, simple appraisal process, decentralized sanctioning powers, quick Turnaround Time (TAT) and offers wide range of facilities that include working capital, term loans & non fund based facilities. These are generally secured by collateral security. The Bank also provides traditional credit facilities like Cash credit/overdraft, Loan against Deposits/property, Bill discounting, Non fund based credit facilities, Export credit etc. to MSE borrowers through a few other templated products, as well as non-templated products.

- Cash credit/overdraft
- Loan against Deposits/property
- Bill discounting
- Non fund based credit facilities - Letter of Credit & Bank Guarantee

4. Processing of applications



- i. Every SME Centre for loan application issues an acknowledgement which is received from the prospective borrower.
- ii. SME Centers are to maintain a register wherein the date of receipt of application, sanction or rejected with stated reasons etc.
- iii. Applicant can find out the status of his application from the SME Center where he/she has tendered their application.

5. Credit selection strategy - Banks need to have a consistent and transparent credit selection process, for which the following criteria is followed:

- i. Acceptable level of internal/external rating.
- ii. Healthy stream of cash flows.
- iii. A sustainable business model.
- iv. Leadership in business.
- v. Professional management.
- vi. Satisfactory track record, integrity, corporate governance etc.

6. Credit Rating - The rating tool captures the Financial/ Business parameters for any enterprise between parameters acceptable as per the bank policies and norms. The Credit/ Business risk of the firm is captured in the rating and the pricing is based on the same. Meticulous KYC norms are followed by the Bank. As part of the due diligence process, bank checks the CIBIL score of the borrowers, check RBI/ECGC defaulters list etc.

7. Appraisal process - The appraisal process involves obtaining KYC of the applicant, evaluating the profile of the prospect, business viability, past credit history, future potential, cash flows, unit visit, end use etc. All applications for credit limit / enhancement in existing credit limit upto Rs 5.00 lacs is disposed off within two weeks and for credit limits above Rs 5.00 lacs upto Rs 25.00 lacs within four weeks from the date of receipt, provided the application is complete in all respects.

8. Monitoring – Monitoring of the account includes periodical visits, stock verifications, audits etc. The Bank also has a mechanism in place for identifying quick mortality through a EWS (Early warning System) Tool by which delinquent accounts are identified and classified into Exit/Watch List categories and accordingly different strategies are adopted for bringing these accounts back to normal category. Apart from this the Bank’s Internal Audit Department conduct periodical audits for monitoring the portfolio.

Review in respect of SME exposures

Review in respect of SME template exposures is done at least on an annual basis.

	Rating Symbol	Review Frequency
1	SME1	Annual
2	SME2	Annual
3	SME3	Annual
4	SME4	Annual
5	SME5	Once in 6 months
6	SME6	Once in 6 months
7	SME7	Once in 6 months
8	All project finance loans (in case of new projects)	Once in 6 months

9. Interest Rate structure - The interest rate charged to a customer is decided based on a) Rating b) Availability of Security/ Guarantee cover. c) Priority Sector Lending segment.

10. Collection Policy - The debt collection policy is based on principle of dignity and respect to borrowers. The Bank believes in following fair practices with regard to collection of dues and repossession of security thereby fostering borrower confidence and long-term relationship and thus ensuring that there is no coercive practice followed while collecting the dues.

The repayment schedule for any loan sanctioned by the Bank is fixed taking into account repayment capacity and cash flow pattern of the borrower. The Bank explains to the borrower upfront the method of calculation of interest and how the Equated Monthly Installments (EMI) or payments through any other mode of repayment are appropriated against interest and principal due from the borrowers. The Bank expects the borrowers to adhere to the repayment schedule agreed to and approach it for assistance and guidance in case of genuine difficulty in meeting repayment obligations.

11. Management of NPAs - The following strategy shall be followed for NPA containment:

- Identify potential NPAs at the beginning of the Year / HY / Quarter on basis of Center / stressed assets department feedback.
- Identify potential NPAs at the beginning of the period through Early Warning System
- Study in detail the strengths and weaknesses of the relationships. Leverage these features to persuade the borrower to exit / facilitate an exit.
- For non exitable accounts, renew / review exposures on mutually agreed repayment basis supported by repayment plan / PDCs.
- Wherever possible, if business is not generating enough surpluses to repay dues, pursue with the borrower to sell personal assets / borrower assets to bring down exposure
- Persuade borrower to pay by communicating verbally / through notices with guarantors for regularization of accounts.
- On accounts becoming NPA, speedily initiate legal action through Stressed Assets Department.
- If a right price is received, facilitate sale of NPA assets to Asset Reconstruction Companies.
- Wherever applicable, report the delinquent borrower as a willful defaulter.

2. Analysis Methodology:

To learn and observe the practical applicability and feasibility of various theories and concepts the following sources were followed and referred to:

Primary Sources of Information:

- Meetings with the project guide and staff members of Axis Bank
- Telephonic discussions with clients/applicants at Axis Bank
- Meeting with different department heads

Secondary Sources of Information:

- RBI guidelines that regulate the activities of the banks
- Bank Credit and investment policy
- Study material prepared by bank and its related officials
- Study of previous financial year proposals and manuals
- SME Loan policy at Axis Bank
- Corporate Credit Policy 2015-16

3. Documents required from the Borrower for Bank Credit

- Copies of audited financial statement for the last 3 years/Provisional financial statement for the latest year if accounts for that year are not audited and the audited financial statements for the preceding 2 years.
- Copy of last 2 years Income Tax Return for the firm
- Copies of insurance policies in respect of goods and premises insured
- Documents evidencing constitution of the firm like Memorandum & Articles of Association, Certificate of Incorporation and Partnership Deed etc.
- Pan card of the firm/company
- Identity proof (passport copy, voter ID, driving license, PAN card) of proprietor/all partners/all directors
- Signature verification of proprietor/all partners/all directors/all authorized signatories from the existing banker
- CA certified certificate of Net Worth or Personal balance sheets of proprietor/ all partners/ all directors
- CA certified Declaration of borrowing from banks/ Financial Institutional (FIs) as on the date of declaration
- Duly completed application for next year
- CMA (Credit Monitoring Arrangement) data for next financial year
- Electricity bill/ telephone bill copy in the name of the firm

4. Risk Control Process

In the recent years a strong focus has been given towards lending to Micro and Small Enterprises (MSME). RBI guidelines stipulate that lending to Micro Enterprises should constitute 7.5 % of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. Further banks are also expected to achieve a 20 % year-on-year growth in credit to Micro and Small Enterprises and a 10 % annual growth in the number of micro enterprise accounts. Credit risk that is assessed during the sanction process is insulated from two other major risks namely Operational risk and Compliance risk. The Risk control process is there to control these two risks. Key features of the process is as follows:

- Document sampling of NTB application received i.e. verification of data provided by the applicant borrower in the loan application form.
- Borrower profiling- carrying out discrete checks that includes market reputation, links to political parties etc.
- Financial documents verification- Verifying genuineness of the financial documents provided that include financial statement, bank statements, Income Tax return, Audit report, CA Certificates etc. provided by the applicant.
- KYC verification of the Company/Directors/Proprietor/Partners.
- Identify the operational risks associated in the above process flow and lay down a uniform practice across the vertical.
- Suggest remedial measures and also process improvements for better credit delivery.
- Implement the system of checks & balances to ensure compliance conformity e.g. role based activity checklist duly signed in every proposal file.
- Establish tie ups with external agencies and review the performance periodically.
- Maintain close liaison with peer banks with regard to sharing of knowledge of frauds and malpractices happening in peer banks.
- Ensuring meticulous adherence to the laid down procedures and processes.

5. Credit Selection Strategy

Bank's strategy to project itself as a banking partner to its clients to provide sustainable competitive advantage in the medium to long term will continue. With a view to having a consistent and transparent credit selection process, the following criterion is followed:

- Acceptable level of internal credit rating / external rating
- Appropriate pricing
- Opportunities for boosting return on capital from ancillary businesses
- Significant probability of credit rating enhancement in the medium term
- Healthy cash flows, rather than mere security backing.
- Satisfactory quality of management in terms of past track record of performance, competence, integrity and corporate governance practices.
- Satisfactory past conduct and verification with negative lists (RBI defaulters list, CRILC, ECGC SAL etc.)
- Sustainability of business model in the long term
- Likely market share.
- Likely leadership in the emerging businesses.
- Acceptable underlying security and credit enhancement measures.
- Professionalism of management.
- Balanced Domestic and Export revenue dependency.

6. Factors taken into account during the analysis:

Credit rating:

An assessment of credit worthiness of the corporation is done which is based upon the history of borrowing and repayment, as well as the availability of assets and extent of liabilities.

Credit rating is crucial for credit appraisal because individuals and corporations with poor credit find it difficult in financing and will most likely have to pay more due to the risk of default.

a.) Credit rating by Axis Bank

Credit rating tool: It is a software that is used by Axis Bank for assessing the credit worthiness of the company. It helps banks to give individual score to company on different parameters and according to which it scores keeping in view the past record and financial status of the company. If the score given by the software is acceptable then the appraisal can be taken beyond.

Key features of the rating platform of rating process:

- Balance Sheet and P&L are uploaded. The data and auto-computation of all financial ratios that are used for rating is calculated.
- Subjective parameters are auto-scored at the back-end based on descriptive value statements chosen by user. The value statement chosen for a particular parameter should objectively describe the status of the borrower for that parameter.
- PAN no. is mandatory for rating.
- All ratings require finalization by the Risk Department in the system. Once finalized, rating for the assessment cycle cannot be modified. However, event based revisit can be undertaken, if required, by re-rating the account.

Procedures followed for Rating Computation

Borrower Level Rating Computation – SME Schematic Model

First Time Rating (FTR) Assessment (with no prior asset relationship)

- Fill up the parameter level details for the sections Financial, Non-Financial, Industry Risk.
- In the section Conduct (FTR & RR) for the parameter level information for the parameters No. of credits in liability accounts in past 12 months, Ratio of debit to credit amount in liability accounts in past 3 months and cheque bounce history in past 12 months
- Once all the details for the sections Financial, Non-Financial, Industry Risk and Conduct (FTR & RR) have been filled up the Compute button is clicked to get the rating.

Re-Rating (RR) Assessment (with prior asset relationship) – (applicable for existing customers when a rating for the specific customer has not been done previously in Crisil RAM)

- Given that there is no prior rating of the customer on Crisil RAM there needs to be a FTR assessment cycle initially followed by a RR assessment cycle
- Fill up the parameter level details for the sections Financial, Non-Financial, Industry Risk.
- In the input file for the sections Conduct (FTR & RR) and Conduct (RR) for all the parameter level information (except Negative deviation in sales from estimate, Delay in submission of audited balance sheet (months))
- Once all the details have been filled up click on the Compute button.
- After the finalization of the rating by Risk department the status gets updated in RAM as below

Status To be changed by Dept.

Sanctioned
Disbursed
Closed
Default/Restructured
Declined/ On hold/ Withdrawn/ Only Guarantor

- Once the rating is finalized, company needs to be re-rated with the additional Conduct (RR) information
- Once all the details for the sections Financial, Non-Financial, Industry Risk and Conduct sections have been filled up the Compute button is clicked to get the rating.

Re-Rating (RR) Assessment (with prior asset relationship) – (applicable for existing customers when a rating has already been done once previously in Crisil RAM)

1. Fill up the parameter level details for the sections Financial, Non-Financial, Industry Risk.
2. In the section Conduct (FTR & RR) and Conduct (RR) for all the parameter level information (except Negative deviation in sales from estimate, Delay in submission of audited balance sheet (months))
3. Once all the details for the sections Financial, Non-Financial, Industry Risk and Conduct have been filled up the Compute button is clicked to get the rating.

b.) External Rating:

There are several RBI approved Credit rating Agencies like CRISIL, ICRA, CARE, Fitch etc. who undertake the rating of SME. CRISIL being the most popular and reliable is considered here.

CRISIL SME Rating indicates the performance capability and financial strength of the SME.

CRISIL SME Rating gives the level of creditworthiness of the SME, adjudged in relation to other SMEs. Some of the key features of CRISIL SME Ratings are as under:

- **Entity Rating:** SME Ratings are always entity specific
- **Eligibility:** Business enterprises both public and private limited companies along with cooperative societies, partnership firms, and sole proprietorship are eligible for CRISIL SME Ratings. Registration is not required as a micro and small enterprise. Support from the government as subsidy is not available for these ratings.
- Rating is only valid for one year from the date of the SME report issued by CRISIL as long as no significant changes/events occur during this period that could affect the business or financial parameters of the organization. SMEs are continuously encouraged to obtain rating reviews periodically. Further CRISIL carries out reviews every time requested by the SME or the lender/bank. Rating is from SME1 (the highest rating) to SME8 (the lowest rating, default)

NSIC CRISIL

With National Small Industries Corporation (NSIC) association, CRISIL rates SSIs on another rating scale. The government has subsidized the fees for the rating by upto 75% which enables small enterprises to get them rated.

Eligibility for NSIC-CRISIL Rating

Any micro or small enterprise that is registered in India can benefit from this rating. Eligibility requires registration certificate issued by the micro and small enterprise registration authority which is the District Industry Centre or the Directorate of Industries.

It is based on performance capability (from highest- 1 to poor – 5) and financial strength (from high- A to low – C)

- **Defaulters List- RBI Defaulter List/ CIBIL check**

RBI has authorized CIBIL to publish a list of defaulters of Rs.1crore and above and also give out details of willful defaulters of Rs.25 lacs and above against whom suits have been filed. RBI defines 'willful defaulters' and terms like 'diversion of funds' and 'siphoning of funds'. All this is aimed at

exerting moral pressure on the defaulter.

In all of the credit proposals it is mandatory to mention whether the names of the borrowers / companies or firms in which they are directors or partners find a place in the list of willful defaulters published by RBI and Credit Information Bureau of India Ltd. (CIBIL), caution list and the specific approval list of ECGC, Internal Caution List of the Bank, UNSCR (United Nations Security Council) sanction lists. If the names of the borrowers or the companies / firms in which they are directors or partners are mentioned in these lists, why such an exposure is being taken should be adequately explained in the proposal, to facilitate the sanctioning authority to take appropriate decision in such cases.

CIBIL Score:

- CIBIL Score of the majority stake holder (holding on an aggregate 51% stake or more) has to be considered
- In case majority stake holder is other body corporate in the company and CIBIL score of individual body corporates is not available; in that case CIBIL of first promoter/ director/ managing partner is considered as per benchmark parameter
- In respect of Societies/ Trusts, CIBIL score of Promoter/ Key Personnel viz., Managing Trustee, Secretary etc. (other than professionals) is considered.
- CIBIL Score of stake holders should individually be minimum 720. A score upto 675 shall be accepted in cases where the score is lower on account of credit card dues upto Rs10,000/- subject to no other delinquency/ irregularity in any other trade line.
- Prior administrative approval shall be obtained from competent authority as defined below for deviation in CIBIL Score below the threshold levels of 720 (in normal cases) or 675 (credit card dues) as the case may be. However, if the CIBIL score is below the benchmark at the time of conducting renewal at existing level, the sanctioning authority need not obtain administrative approval. In other words, the administrative approval is applicable only for fresh exposure or enhancement.
- Customer CIBIL report should be perused carefully to ascertain the repayment track record across various trade lines. Delinquencies on trade lines other than credit card giving score below the threshold level is normally avoided.

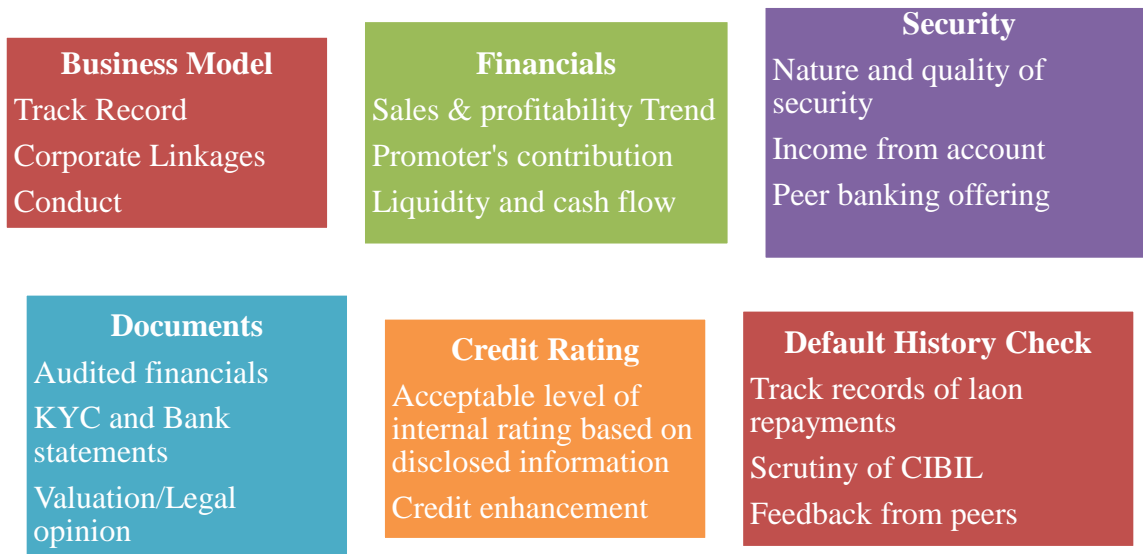
8. Appraisal Techniques

Credit appraisal can be categorized into seven broad heads

- **Borrower Appraisal:** The basis of all credit transactions is confidence which a lender should have in the honesty, ability and willingness of the borrower to repay the loan amount. The basis of this confidence is derived out of the character of the borrower which is constituted by honesty, sobriety, ability and willingness to keep their word. Confidence is also derived from the ability of the borrower to manage the enterprise successfully with the resources available to him. The capacity of the borrower can be judged by their education, technical & professional qualification, present sequence of activities, experience in the line of business and past record of the borrower would help in identifying their capacity to repay. If the borrower meets any loss the ability to sustain in the business from his own investment or capital without shifting the loss to the creditor or banker comes from capital. Unless the borrower has stake in the business he may not be interested in its success.
- **Technical Appraisal:** It involves a detailed study of the following aspects
 - Availability of infrastructure for example; land, location, power, water etc.
 - Registration requirements
 - Selection of technology
 - Availability of suitable technical process
 - Availability of raw materials, skill labor etc.
- **Management Appraisal:**
 - For proprietorship firm, partnership firm or enterprises run by individuals a careful appraisal of the individual borrower shall be the deciding factor to finance the project
 - In case of corporate borrowers and large borrowers; it is usually a set of professionals who manage the entity in specific areas of management i.e. production, finance, marketing, etc.

In all the above cases branches ensure that the concern has necessary key expertise required for the critical functions.
- **Financial Appraisal:** it refers to the below stated aspects of the project or unit
 - Determination of the cost of the project
 - Assessment of the source of funds i.e. means of financing the project

- Profitability estimates
 - Break even analysis
 - Cash flow projection
 - Projected balance sheet
- Economic Appraisal: The performance of a project is influenced by variety of the other social, economic & cultural factors viz. employment potential, development of industrially backward areas, environmental pollution. One of the most important note of appraising this is the computation of the internal rate of return of the project(IRR)
 - Market Appraisal: General market prospects of the product such as import/export policies, licensing norms, monetary & fiscal policies of RBI as well as the total number of the units producing similar products, their installed capacity, degree of health, special incentives or support program of the government are looked into. Position of the product in comparison to the competitors requires in depth study of competitive strength/weakness of the proposed product in relation to its rivals to decide future strategies.



Key Appraisal Parameters

9. Financial Evaluation

Evaluation of financial statements of the borrowers to ascertain the financial health of the company. Financial statements are rearranged as described in detail below and rearranged financial statements are used to ascertain the capital requirements, liquidity, long term solvency, debt repayment capacity etc. of the business involved. Various components of financial evaluation are as follows:

Classification and Rearrangement of Balance Sheet items

Financial statements contain the information about the financial health of the enterprise. Since different applicants use different formats and classification of some of the items present, the balance sheet is subjective. It becomes necessary to rearrange the balance sheet items to achieve standardization. Various components of the balance sheet are used in calculating ratios like Debt Equity Ratio, Leverage Ratios, Current Ratio etc. There are guidelines from the RBI and Bank on the permissible values of these ratios and relaxation permissible, if any. Therefore it becomes critical to rearrange the financial statements for credit lending decision. Classification of items into various heads depends on the policies of the bank. The reclassification is done as per the guidelines issued by the bank and RBI.

Data for assessment of working capital requirement

For determining the working capital requirements of an organization, bank has followed CMA (Credit Monitoring Arrangement). It is required by banks and other financial institutions, To introspect and study the minutes of balance sheet and other financial statements of a corporation CMA is required by banks and various financial institutions. CMA plays crucial role for understanding the financing needs of the projects.

The CMA (Credit Monitoring Arrangement) includes analysis of the following six documents:

- Proposed and existing banking arrangements of the corporate body
- Profit and Loss statements
- Balance Sheet
- Accumulation of current assets and current liabilities
- Cash Flow Statement

Ratio analysis is considered to be one of the efficient methods of analysis of financial statements. Following are the categories of ratio used in credit proposal

Ratio	Formula	Meaning
Liquidity Ratio	Current Ratio= Current Asset/Current Liability Quick Ratio= Current Asset- Inventory/Current Liability	This ratio is used in assessing the degree of liquidity enjoyed by an enterprise, i.e. level of current asset available to meet short term obligation.
Gearing Ratio	Debt/Equity Ratio=Long time liability/TNW TOL/TNW= (Short term credit + long term credit)/capital + reserves- intangibles)	This ratio provides information on the position of owned funds compared to total outside liability of an enterprise and also indicated level of capitalization.
Profitability Ratio	Gross Profit Ratio=Gross Profit/Sales*100 Net Profit Ratio= PAT/Sales*100 Return on Capital Employed=PBDIT/Total Assets*100	The ratio indicates the profit earning capacity of an enterprise in relation to sales.
Turnover Ratio	Inventory/Net Sales+ Receivables/Gross Sales*365	The ratio shows the efficiency of the unit in turning inventory and receivables into cash.
Coverage Ratio	Interest coverage Ratio =(PBT+Dep+Interest)/Interest Debt service coverage ratio =(PAT+Dep+Interest on TL)/TL installment+ TL interest	This ratio shows the ability of the borrower to service the obligation of payment of interest & installments of principal loan amount.

Case Study: Credit Appraisal for working capital requirement: XYZ Exports

Analysis of the company

1. Background

Origin:

M/s XYZ exports is proprietorship concern of Mr Abc Taneja. The firm was established in year 2001. The firm is engaged in trading of dry fruits and spices. The entire business of the firm is being managed by Mr Abc Taneja.

Initially, the firm was incorporated as partnership concern of Mr PQR Sabrawal (cousin of Mr. Abc Taneja) and Mr NBC Taneja (father of Mr Abc Taneja). Later on, in year 2001, Mr Abc Taneja joined the business and the partnership firm was dissolved and entire business was shifted to proprietorship of Mr Abc Taneja.

The firm is engaged in trading of dry fruits and spices. The firm mainly deals in import and trading of California Almonds, pista, kernels, cashew nuts, cardamom, cumin, pepper etc. Almost 80% of the trading business of the firm is being contributed through trading of almonds.

Business Model

The firm imports dry fruits from USA, Srilanka, Iran, Africa etc. The firm also procures almonds from local market as and when required, in order to meet its customer's requirement. The firm is engaged in trading of dry fruits and spices. The firm mainly deals in import and trading of California Almonds,

- Pista,
- Kernels,
- Cashew nuts,
- Cardamom,
- Cumin,
- Pepper etc.

Almost 80% of the trading business of the firm is being contributed through trading of almonds. The firm imports dry fruits from USA, Srilanka, Iran, Africa etc. The firm also procures almonds from local market as and when required, in order to meet its customer's requirement. The goods are being stored as cold storages at various locations.

The stock is identifiable and is fully insured. As per the requirement, stock is drawn from cold storage based on the order in hands. These dry fruits are being supplied to various wholesalers, retailers all over India. The firm also supplies dry fruits to companies which are into manufacturing of chocolates and biscuits.

Firm makes advance payment for import of dry fruits. Percentage of advance varies from 20-100% based on the relationship and credibility with the party. In cases, where percentage of advance payment is less, remaining payment has to be made at the time of shipment. Firm extends also takes advance from its customers and also credit period up to 45 days to its customers depending on the relationship with the customer.

These dry fruits are being supplied to various wholesalers, retailers all over India. The firm also supplies dry fruits to companies which are into manufacturing of chocolates and biscuits.

The firm is having good relations with suppliers & buyers and has good reputation in the market due to long vintage. Portfolio of the firm is well diversified & client concentration risk is minimal.

Existing Relationship

The firm is maintaining current account with the bank at ***** Branch since 2011 and the firm is also availing credit facilities from the bank under sole banking arrangement since 2013. The conduct of the account has been satisfactory with the bank.

Present Request

The firm is banking with us under sole banking arrangement & presently availing credit facilities of Rs. 150.00 lacs. The renewal of the facility at its existing level has been conducted in November'2014. However, customer has informed that due to increase in the scale of the activity levels the firm is in requirement of additional funds therefore proprietor of the firm has approached us for enhancement of facility from Rs. 150.00 lacs to Rs. 300.00 lacs.

2. Management Details

Mr. Abc Taneja, aged 36 years, resident of *-**, *****r K*****, South Delhi is graduate from Delhi university. He has pursued his post-graduation from London. He is proprietor of the firm entire business of the firm is being managed by him. He has experience of almost a decade in same line of business. Mr Abc Taneja is also being assisted by his father Mr NBC Taneja in the business. His father is having experience of almost two decades in same line of business.

Ownership / Share-holding Pattern:

Name	Position	Shareholding	PAN Card No.	Date of Birth
Mr AbcTaneja	Proprietor	100.00%	*****	19/10/1978

Personal net worth of the directors of the company is as under

Assets owned (Rs. in lacs)	Mr. Abc Taneja
Immovable Properties	
Property situated at 15, ***** **** V***** V***r, New Delhi	1260.00*
Movable properties	33.00
Cars	
Personal Net Worth	1293.00

*value of the property has been mentioned as per valuation report

3. Existing Banking Arrangements:

Axis Bank Limited – Cash Credit facility

- The firm is banking under sole banking arrangement & availing credit facilities of aggregate Rs. 150.00 lacs. The statement of account for last one year i.e. April'15 – March'16 has been analyzed.
- The credit summation in the account during this tenor has been Rs. 5137.25 lacs. The proprietor of the firm routes its entire transaction through Cash Credit account maintained with Axis Bank Limited.
- While analyzing statement it has been observed that there has been credit summation of Rs. 485.65 lacs from its associate concern M/s B*** and company, on netting off these transactions the credit summation in the account is Rs. 4651.60 lacs.
- It has also been observed that there has been closure proceeds of FDs aggregating to Rs. 213.10 lacs in the account, which is not business transaction therefore on netting of these transactions as well the credit summation for the year is Rs. 4438.50 lacs, which is in line with achieved turnover for the year.
- There has been NIL instance of any cheque returns in the account
- Overall conduct of the account has been satisfactory

Axis Bank Limited – Current account

- The firm is also maintaining current account with ***** Branch since 2011. Though not much of the transactions are being routed through said account however we have analyzed the statement of account for last one year.
- The credit summation in the account during last financial year has been Rs. 40.00 lacs only.
- There have been NIL instances of cheque returns in the account.
- Overall conduct of the account has been satisfactory

Conduct of current account: The firm is maintaining current account with ***** Branch since 2011 and conduct of the account has been satisfactory.

HDFC Bank Limited – Current account

- The firm is also maintaining current account with HDFC Bank Limited. The firm is mainly maintaining the account for repayment of car loan availed from HDFC Bank Limited.
- After the analysis of the statement of account for April'15 – December'15. The credit summation in the account during this tenor has been Rs. 53.71 lacs only. There has been credit in the account from associate concern M/s B*** and Company only.
- There has been NIL instance of any cheque returns in the account
- Overall conduct of the account has been satisfactory
- Customer has requested for continuation of the account as EMI for the loan is being serviced through this account only. Bank has recommended for continuation of account however firm to ensure to submit account statement on quarterly basis to CBB Delhi.

For Term Loan: The firm is availing car loan facility from HDFC Bank Limited. EMI of the loan is being regularly serviced through current account maintained with HDFC Bank Limited.

Term Loan and other Borrowings:

Bank & Branch	Loan amount	Outstanding as on 02/01/2016	Rate of Interest	Monthly EMI	Balance Months	Purpose / Security
HDFC Bank Limited	Rs. ** lacs	Rs. ** lacs	13.005%	Rs. 61709/-	30 month	Car Loan

4. Performance Details:

(Rs. in lacs)

Particulars	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	Provisional	(Projected)
Net sales	1,214.78	1,461.96	1420.64	2556.92	4765.14	5285.00	5549.25
Other income	7.39	1.99	13.89	34.02	21.77	2.25	2.25
PBDIT	20.95	22.45	34.28	64.43	50.04	58.73	66.92
PBDIT margins	1.72%	1.54%	2.41%	2.52%	1.05%	1.11%	1.21%
Deprecation	0.73	1.30	1.12	3.55	0.00	3.25	3.00
Interest	9.02	5.66	3.81	12.75	18.26	20.25	26.25
PBT	11.21	15.49	29.35	48.14	31.79	35.23	37.67
PAT	9.66	12.48	23.48	38.19	31.79	28.54	30.51
PBT Margin %	0.92%	1.06%	2.07%	1.88%	0.67%	0.67%	0.68%
Cash accruals	10.39	13.77	24.60	41.74	31.79	31.79	33.51
Tangible Net worth	66.21	66.82	88.18	220.82	241.25	254.78	270.30
Unsecured loans	21.34	14.70	26.70	98.61	34.01	35.00	35.00
TOL	44.66	60.16	61.73	473.96	149.60	425.00	424.25
TOL/TNW	0.67	0.90	0.70	2.15	0.62	1.67	1.57
TOL/TNW (Adj)	0.27	0.56	0.30	1.18	0.42	1.35	1.27
Debtors Holding							
Days	12	0	0	23	3	20	19
Current ratio	5.74	2.86	4.30	1.54	2.46	1.45	1.47

Turnover

There has been consistent improvement in the turnover of the firm on year on year basis. As per audited financial of 2015, the firm has witnessed turnover of Rs. 4765.14 lacs as against turnover of Rs. 2556.92 lacs in FY14. The firm has been able to manage sales growth of 86.36% over last financial year (2015). The proprietor of the firm informed that continuous improvement in the prices of dry fruits and increased demand of the product has enabled the firm to book better turnover for FY16.

In FY16, the firm is estimating to book turnover of Rs. 5285.00 lacs. The firm has already booked turnover of Rs. 150.34 lacs in April'16. The proprietor of the firm informed that turnover of the firm starts picking up from May onwards and higher sales are being booked during second and third quarters. Considering the past track record of the firm, achieved turnover and experience of promoters

in same line of business the estimates for the year are considered acceptable.

Profitability

Though there has been increase in the turnover of the firm in FY15 however there has been subsequent increase in cost of the firm as well therefore this resulted in decline in PBDIT margins of the firm. As per audited financial for FY15, the firm has PBDIT margin of 1.05% as against margin of 2.52% in FY14. There has been reduction in PBDIT margins of the firm due to decline in other income as well. Other income is inclusive of Foreign Exchange, interest on FDR and rent in advance for the property. There has been decline in the margins of the firm due to high competition in the trade. Since the promoters are veteran in their field therefore with the margins are expected to be maintained at improved level of 1.11% for FY16, which is considered acceptable.

Along with PBDIT margins of the firm there has been decline in PBT margins of the firm as well. As per audited financial for FY15, the firm has been able to book PBT margin of 0.67% as against margin of 1.49% in FY14. PBT margin has declined due to increase in interest cost of the firm. The margin is expected to be maintained in same range for FY16 and FY17 as well.

Overall profitability profile of the company is considered acceptable.

Liquidity

As per audited financial for FY15, the current ratio of the firm has been maintained at 2.46 times as against ratio of 1.54 times in FY14. The current ratio of the firm has been maintained at higher side owing to maintenance of adequate long term funds in the business to meet unforeseen contingencies. Further ratio is on higher side to high inventory and debtors as well. The ratio is expected to be maintained above benchmark level and at 1.45 times in FY16 which is considered acceptable.

TOL/TNW

There has been continuous improvement in the TNW levels of the firm. As per audited financial for FY15, the TNW level has been maintained at Rs. 241.25 lacs. Due to presence of adequate long term funds in the business the TOL/TNW level has been maintained at 0.62 times. Further, the firm also maintains unsecured loans availed from friends & family of Rs. 34.01 lacs considering it as quasi equity the gearing level of the firm has been maintained at 0.42 times, which is considered acceptable.

For FY16, with the plough back of profits for the year, the TNW level of the firm is estimated to be

maintained at Rs. 254.78 lacs thereby core gearing levels of the firm shall be maintained at 1.47 times. The firm shall continue to maintain unsecured loans availed from friends & relatives of Rs. 35.00 lacs considering it as quasi equity the gearing levels of the firm are estimated to be maintained at 1.47 times. The position is considered acceptable.

Overall presence of Long term funds in the business and maintenance of core gearing levels the position is considered acceptable.

Debtor holding

The firm allows its customers with maximum credit period of 30 days. As per audited financial for FY15, the debtor holding level of the firm is maintained at 3 days which is well within acceptable range. The proprietor of the firm informed that there has been change in the market scenario wherein due to presence of stiff competition in the field the firm has to now allow credit period upto 30 days to its customers accordingly the holding levels are expected to be maintained at 20 days for FY16. Overall position is considered acceptable.

5. Proposal Details:

Renewal cum enhancement of facility from Rs. 150.00 lacs to Rs. 300.00 lacs

The proprietor of the firm informed that due to presence of many traders in same line of business there is presence of stiff competition which has led to change in the business model of the firm. Previously the firms allowed its customers with credit period of not more than 10 days however due to change in scenario now holding levels have increased to 20-30 days and firm imports the products on advance payment basis or with maximum credit of 7-10 days therefore this has generated working capital gap and firm has approached us for sanction of renewal cum enhancement of facility from Rs. 150.00 lacs to Rs. 300.00 lacs.

6. Security Details:

Facility	Security (please specify type & usage of immovable collateral)	Market Value/ Book value/ Distress sale value/ Govt guideline value #
Cash Credit facility	<p>Primary: First & Exclusive charge over the entire current assets & unencumbered movable fixed assets of the firm including both present & future.</p> <p>Collateral Extension of equitable mortgage over freehold residential property situated at Plot no. 15, third floor along with roof rights (measuring 1192 sq. yards), V***** *****, V***** V****r, New Delhi owned by Mr. Abc Taneja.</p> <p>Personal Guarantee *****</p>	<p>BV – Rs. 249.54 lacs as per ABS'15</p> <p>MV: Rs. 1260.00 lacs DSV: Rs. 1008.00 lacs (Lower of two valuation considered for the exposure)</p> <p>Net worth has been detailed above in the note</p>

As per Scheme guidelines two valuations have been obtained & lower of two has been considered for calculation of security cover. Details are as under

Particulars	Valuation conducted by M/s Aggarwal & Associates dated 04/10/2015	Valuation conducted by Mr Ajay Puniani dated 04/10/2015	Lower of two
Freehold residential property situated at Plot no. 15, third floor along with roof rights (measuring 1192 sq. yards), V***** *****, V***** V****r, New Delhi owned by Mr. Abc Taneja.	Rs. 1260.00 lacs (DSV: Rs. 1008.00 lacs)	Rs. 1375.00 lacs (DSV: Rs. 1100.00 lacs)	Rs. 1260.00 lacs (DSV: Rs. 1008.00 lacs)

Quality & location of security:

- The property is freehold in nature
- The said property is residential in nature and presently is vacant. Earlier it was occupied by US embassy.
- The property is residential in nature and located middle class residential locality
- As per valuation reports the interiors & exteriors of the property have been well maintained
- The property is located within municipal limits

Age of the property to be incorporated

As per valuation report the property has been constructed in year 2003 accordingly age of the property is 13 years.

- The properties are located at well established locations of Delhi.
- All properties are well connected through bus metro etc
- All properties have good marketability

7. Credit Rating:

Parameters	Score	Rating
Financial	24.00	AB EA
Business & Management	44.81	AB EA
Industry	9.98	
Conduct	43.00	AB AB
Total	78.79	AB EA

Rating as per ABS'14 is AB EA (Acceptable). Rating conducted on 11/05/2016

8. Default/Track Record Check-up

- **Individual CIBIL: (Promoters/Management)**

Name / Age / DIN No.	Designation	CIBIL Score	Date of Verification	Remarks (Acceptable / Not Acceptable)*
Abc Taneja	Proprietor	817	11/05/2016	Acceptable

Comments: Consumer credit information report provided information on credit history of borrower Mr.

Abc Taneja giving an insight into the overall borrowings undertaken by him from lending institutions. The report helps in identifying the risk areas along with assisting the disbursement of credit faster.

POSSIBLE RANGE FOR CIBIL TRANSUNION SCORE VERSION 1.0

Consumers with more than 6 months credit history: **300 (high risk) to 900 (low risk)**

Consumers with less than 6 months credit history: **0**

Consumers not in CIBIL database or with insufficient information for scoring: **-1**

Applicant lies in low risk category with CIBIL score of 817

The report shows that the applicant has taken a car loan of Rs.*** in 2013 and has been regularly paying the EMI of Rs.61,709. The applicant has taken a housing loan in 2003 of Rs.*** and has fully repaid the amount in 2011. The report also gives an account of credit card payments of the applicant. The names of the lending institutions or account numbers have not been disclosed other than those of Axis Bank, this has been done in due consideration of the privacy policies.

- **Commercial CIBIL Record:** Satisfactory

Comments: Company credit report gives a factual record of entity's credit payment history compiled from information received from various credit institutions. Report gives the details of the business entity /individual relating to the borrowing entity i.e Shareholders, Directors, Promoters, Partners etc. In this case XYZ Exports is under proprietorship of Mr Abc Taneja. Credit facility granted to the entity was a demand loan of Rs.10,00,000 in 2005 by a credit institute other than Axis Bank. Credit grantor name has not been disclosed due to considerations of privacy policies. The entity is not a willful defaulter and no suit has been filed against it. The account has been closed by payment in 2008.

- **RBI/ECGC/ROC Record/Auditors Record/CERSAI/FI Report/Willful defaulter list/ UNSCR list/ Caution listed exporters (RBI)/ CBO caution list**

Particulars	Remarks
RBI Caution list	Nil
RBI Caution Listed exporter	Nil
RBI Wilful Defaulters List (Rs. 25 lacs &above)	Nil
RBI Defaulters List (Rs. 1 Cr &above)	Nil
ECGC defaulter List	Nil
UNSCR Security checklist	Nil
SMA List	Name not appearing
Verification of Audited financial	Verification has been initiated &input shall be recorded on receipt of report

Comments:

The name of business entity and related parties/individuals does not appear in RBI caution list, RBI defaulter list, ECGC defaulter list and UNSCR security checklist.

9. Market Reference: *(Feedback from minimum 2 independent sources)*

Name of company (Suppliers/ Peer Group/General Market)	Relationship with borrower/ Bank (supplier, customer, ETB relationship)	Feedback (Good/ Satisfactory/ Poor)	Remarks
Name of the Reference : JJJP Address : ***** Contact: Mr. JJJP - *****	Customer	Satisfactory	Mr JJJP informed that M/s XYZ export is one of the supplier to M/s JJJP. They have been dealing with the firm since last 8 years. They have been obtaining almonds from the firm. The dealing with the firm has satisfactory.
Name of the Reference : JJJA Address : ***** Contact: Mr. JJJA - *****	Customer	Satisfactory	Mr JJJA informed that they have been dealing with firm since long. The dealing with the firm has been satisfactory.
Name of the Reference : RRA Address: ***** Contact: Mr. RRA - *****		Satisfactory	_____
Name of the Reference : TTA Address: ***** Contact: Mr. TTA - *****	Supplier	Satisfactory	It was informed that they have been supplying almonds to the firm and dealing with firm has been satisfactory. There have been nil instances of delayed payments with the company.

10. Risks Factors and Risk Mitigants:

Risk factors	Risk mitigants
Business Risk	The business risk associated with this industry is dependent on the market conditions. The firm is in this field for the past two decades and is well organized to overcome such ongoing business risks.
Competition	The firm is one of the prominent players in their segment with an established brand. The promoters are highly experienced in their business line. Hence, it is expected to withstand competition successfully.
Demand	The demand for the product is evergreen. The demand of the product shall further increase with the onset of the festive season from Sept to Jan.

11. Overall Recommendation:

Considering the need based requirement of the firm and supporting financial the bank recommends for renewal cum enhancement of cash credit facility from Rs. 150.00 lacs to Rs. 300.00 lacs.

Bank has verified the credentials of the applicant which is found to be to be found to be satisfactory and is of the view that the proposal is a fair banking risk. The bank officials have visited the applicant's establishment and the property to be mortgaged to the bank. The activity levels of the establishment are good and the applicant has met all regulatory requirements like obtaining a license, registrations etc. To the best of bank's knowledge, the information given above are correct and the valuation given by the valuer is reasonable. The credit facilities shall be released after completion of the documentation formalities and creation of security.

11. Limitations of the Study:

- The detailed data availability is exclusive and is not readily shared for dissemination
- The financial figures like valuation numbers and names of concerned authority associated with the corporation are highly confidential
- Projections and assumptions are based on current market conditions and price volatility has not been taken into account
- Financial statements of the proposed project are subject to market risks and uncertainties that can cause t h e actual results to differ materially from those mentioned in the report. The risks and uncertainties include, but are not limited to, the following:
 1. Change in Indian Law
 2. Change in Indian and global economic conditions
 3. Change in government regulations and policies
 4. Introduction of new technologies
- The study has been done keeping in the mind the policies of the head office
- For the reason to maintain bank's confidentiality the case study information has been kept confidential; for example; Company's name, address, promoter's name etc.

12. References:

Axis bank journal (Internal Circulation)/ proprietary information

1. Corporate Credit Policy 2015-16
2. Gist of operative circulars on loans and advances
3. Information guidelines of Axis Bank

Websites accessed

4. **ECGC:** <https://www.ecgc.in/Portal/DesktopDefault.aspx?tabindex=3&tabid=17>
Accessed on: 15.6.2016
5. **Finacle MIS Axis Bank Branch Analytics:** <http://10.0.22.102:8081/mobile/welcome.jsp>
Accessed on: 16.6.2016
6. **Consolidated Sanction list by United Nation Security Council:**
<https://www.un.org/sc/suborg/sites/www.un.org.sc.suborg/files/consolidated.htm>
Accessed on: 16.6.2016
7. **CIBIL:** <https://www.cibil.com/partners>
Accessed on:22.6.2016
8. **Ministry of Corporate Affairs:** <http://www.mca.gov.in/MinistryV2/index.htm>.
Accessed on:17.6.2016

Appendix

COMPANY NAME.:
NATURE OF BUSINESS:

M/s XYZ Exports
Retail and Wholesale trading of Dry Fruits and

AXIS BANK LTD

31.03.2011	31.03.2012	31.03.2013	31.03.2014	31.03.2015	31.03.2016	31.03.2017
Audited	Audited	Audited	Audited	Audited	Provisional	Projected

SALES:							
(I) Gross Domestic Sales	1214.56	1461.96	1420.64	2556.92	4765.14	5285.00	5549.25
(II) Gross Exports Sales	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL GROSS SALES:	1214.56	1461.96	1420.64	2556.92	4765.14	5285.00	5549.25
LESS: Excise duty	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ADD: Other operating income	0.21	0.00	0.00	0.00	0.00	0.00	0.00
NET SALES:	1214.78	1461.96	1420.64	2556.92	4765.14	5285.00	5549.25
Net Sales Growth rate(%)	-22.56%	20.35%	16.95%	79.98%	212.47%	106.69%	16.46%
COST OF SALES:							
(I) RAW MATERIALS CONSUMED							
A. IMPORTED	0.00	0.00	0.00	0.00	0.00	0.00	0.00
B. INDIGENOUS	960.64	1468.49	1408.59	2673.03	4486.23	5147.59	5393.87
R.M.Cost As % of Net Sales	79%	100%	99%	105%	94%	97%	97%
(II) CONSUMABLES	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(IIA) PACKING MATERIAL, STORES & SPARES	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(III) POWER & FUEL	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(IIIA) FREIGHT & CARTAGE EXPENSES	0.00	0.00	11.23	18.13	32.85	34.89	37.25
(IV) DIRECT LABOUR WAGES & SALARIES	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(V) OTHER MANF. EXPENSES	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(VI) DEPRECIATION	0.73	1.30	1.12	3.55	0.00	3.25	3.00
(VII) REPAIR & MAINTAINENCE EXPENSES	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SUB TOTAL:	961.37	1469.79	1420.93	2694.70	4519.09	5185.73	5434.12
ADD: OPENING STOCK IN PROCESS	237.76	13.23	45.08	85.54	273.49	105.13	115.84
DEDUCT: CLOSING STOCK IN PROCESS	13.23	53.51	77.11	273.49	105.13	115.84	121.63
COST OF PRODUCTION:	1185.90	1429.51	1388.90	2506.75	4687.45	5175.02	5428.33
C O P AS % OF GROSS SALES	97.64%	97.78%	97.77%	98.04%	98.37%	97.92%	97.82%
ADD: OPENING STOCK OF FINISHED GOODS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DEDUCT: CLOSING STOCK OF FINISHED GOODS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
COST OF SALES:	1185.90	1429.51	1388.90	2506.75	4687.45	5175.02	5428.33
COST OF SALES AS % OF GROSS SALES	97.64%	97.78%	97.77%	98.04%	98.37%	97.92%	97.82%

selling & administrative expenses	16.04	13.28	12.45	23.31	49.42	56.75	59.25
OPERATING PROFIT BEFORE INTEREST (OBIT)	12.84	19.16	19.28	26.86	28.27	53.23	61.67
OBIT AS % OF GROSS SALES	1.06%	1.31%	1.36%	1.05%	0.59%	1.01%	1.11%
INTEREST & OTHER FINANCE CHARGES:	9.02	5.66	3.81	12.75	18.26	20.25	26.25
INTT. & FIN. CHARGES AS % OF SALES	0.74	0.39	0.27	0.50	0.38	0.38	0.47
OPERATING PROFIT BEFORE TAX (OBT)	3.82	13.50	15.47	14.11	10.02	32.98	35.42
OBT AS % OF GR. SALES	0.31%	0.92%	1.09%	0.55%	0.21%	0.62%	0.64%
ADD OTHER NON OPERATIVE INCOME:							
(I) Erent	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(II) Commission income	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(III) Profit on sale of Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(IV) Dividend / Interest Received	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(V) Misc.	7.39	1.99	13.89	34.02	21.77	2.25	2.25
SUB-TOTAL (INCOME)	7.39	1.99	13.89	34.02	21.77	2.25	2.25
DEDUCT OTHER NON OPERATING EXP.							
(I) Establishment Expenses	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(II) Bad Debts written Off	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(III) AMORTISATION EXPS./Other Expenses	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(IV) LOSS ON SALE OF Fixed Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(V) Misc Exp W/O	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SUB-TOTAL (EXPENSES)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
PROFIT BEFORE TAX / LOSS	11.21	15.49	29.35	48.14	31.79	35.23	37.67
Less: TAX PAID including paid for Earlier years	1.55	3.01	5.87	9.94	0.00	6.69	7.16
Less: Provision for Taxes (Incl. Deferred Tax)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
NET PROFIT/LOSS (PAT)	9.66	12.48	23.48	38.19	31.79	28.54	30.51
PAT AS % OF NET SALES	0.80%	0.85%	1.65%	1.49%	0.67%	0.54%	0.55%
EQUITY DIVIDEND PAID (I) AMOUNT	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(II) Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Retained Profit	9.66	12.48	23.48	38.19	31.79	28.54	30.51

Unsecured loans	21.34	14.70	26.70	98.61	34.01	35.00	35.00
TOTAL TERM LIABILITIES	26.86	18.39	28.36	120.12	48.11	50.00	47.25
Equity Share Capital	66.21	66.82	88.18	220.82	241.25	254.78	270.30
Preference Share Capital (Maturity more than 5 years)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Share Premium Account	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SHARE APPLICATION MONEY	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Surplus (+) or deficit (-) in P & L Account	0.00	0.00	0.00	0.00	0.00	0.00	0.00
General Reserve	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Capital Redemption Reserve	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deffered Tax Liability	0.00	0.00	0.00	0.00	0.00	0.00	0.00
NET WORTH	66.21	66.82	88.18	220.82	241.25	254.78	270.30
TOTAL LIABILITIES	110.87	126.98	149.91	694.79	390.84	679.78	694.55

CONTINGENT LIABILITIES including NFB Limits

BALANCE SHEET							
ASSETS:	31.03.2011	31.03.2012	31.03.2013	31.03.2014	31.03.2015	31.03.2016	31.03.2017
CURRENT ASSETS	Audited	Audited	Audited	Audited	Audited	Provisional	Projected
Cash and Bank Balances	0.99	14.90	10.29	3.35	2.86	2.86	2.96
INVESTMENTS (Other than Long Term)							
(i) Mutual Funds/ Shares	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(ii) Fixed deposits with banks	27.29	24.73	20.70	7.19	9.30	7.19	7.19
RECEIVABLES							
RECEIVABLES other than deferred & exports (Incl. bills purchased & discounted by banks)	41.44	1.06	0.00	159.48	36.85	289.25	295.41
Export Receivables (Incl. bills purchased & discounted by banks)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
INVENTORY							
Raw Material - Indigenous	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Raw Material - Imported	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Stock in process	13.23	53.51	77.11	273.49	105.13	115.84	121.63
Finished Goods	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Consumable spares - Indigenous	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Consumable spares- Imported	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Current Assets:							
(i) Prepaid Expenses	0.00	3.05	0.00	0.00	0.00	0.00	0.00

CASH FLOW STATEMENT

	31.03.2011	31.03.2012	31.03.2013	31.03.2014	31.03.2015	31.03.2016	31.03.2017
	Audited	Audited	Audited	Audited	Audited	Provisional	Projected
A. Cash from operations							
PAT	9.66	12.48	23.48	38.19	31.79	28.54	30.51
Add ::							
Depreciation	0.73	1.30	1.12	3.55	0.00	3.25	3.00
Misc Expenses- Non Cash Expenses	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest Charges	9.02	5.66	3.81	12.75	18.26	20.25	26.25
Preliminary Expenses	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Less:							
Misc Income	7.39	1.99	13.89	34.02	21.77	2.25	2.25
	0.00	0.00	0.00	-13.70	0.00	13.70	0.00
Net Cash from Operations before WC changes	12.01	17.45	14.53	20.46	28.27	49.79	57.51
Add:							
Increase in CL (other than WC finance)	-292.21	-268.24	2.31	200.20	69.26	-145.32	0.97
Less: Increase in CA	-369.70	-366.21	32.09	525.81	76.63	-9.44	303.61
Net Cash from Operations	89.50	115.42	-15.25	-305.15	20.90	-86.09	-245.12
Add:							
Net Misc Income	7.39	1.99	13.89	34.02	21.77	2.25	2.25
Cash from Operating Activities	96.89	117.41	-1.37	-271.13	42.67	-83.84	-242.87
B. Cash from Financing Activities							
Financing Expenses	-9.02	-5.66	-3.81	-12.75	-18.26	-20.25	-26.25
Increase / Decrease in WC finance	-51.33	-51.33	13.26	120.27	-124.55	166.47	274.55
Increase / Decrease in TL	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Increase / Decrease in Other Term Liabilities	-29.58	-38.05	1.51	91.75	21.41	-70.12	-0.86
Contributions by Promoters	-3.57	-5.78	-1.52	94.46	96.04	5.42	-1.46
Cash from Financing Activities	-93.50	-100.83	9.43	293.73	-25.36	81.53	245.97
C. Cash from Investing Activities	-2.90	-2.18	1.24	-29.55	-26.31	1.82	-3.00
Net Movement in Cash	0.49	14.41	9.30	-6.94	-9.00	-0.49	0.10
Opening Cash Balance	0.50	0.50	0.99	10.29	11.86	3.35	2.86
Less: Closing Cash Balance	0.99	14.90	10.29	3.35	2.86	2.86	2.96
Net Movement in Cash	0.49	14.40	9.30	-6.94	-9.00	-0.49	0.10

PARTICULARS	31.03.2010	31.03.2011	31.03.2012	31.03.2013	31.03.2014	31.03.2014	31.03.2015	31.03.2016	31.03.2017
	Audited	Audited	Audited	Audited	Projected	Audited	Audited	Provisional	Projected
PROFIT & LOSS ANALYSIS									
Net Sales	1,568.59	1,214.78	1,461.96	1,420.64	1,525.00	2,556.92	4,765.14	5,285.00	5,549.25
Other Non-Op. Income	1.22	7.39	1.99	13.89	16.55	34.02	21.77	2.25	2.25
PBDIT	25.31	20.95	22.45	34.28	37.34	64.43	50.04	58.73	66.92
Depreciation	1.17	0.73	1.30	1.12	1.10	3.55	0.00	3.25	3.00
Interest	10.57	9.02	5.66	3.81	4.69	12.75	18.26	20.25	26.25
PBT	13.57	11.21	15.49	29.35	31.56	48.14	31.79	35.23	37.67
PBT margins	0.87%	0.92%	1.06%	2.07%	2.07%	1.88%	0.67%	0.67%	0.68%
Net Profit after tax	13.28	9.66	12.48	23.48	25.25	38.19	31.79	28.54	30.51
Cash Accruals	14.45	10.39	13.77	24.60	26.35	41.74	31.79	31.79	33.51
BALANCE SHEET ANALYSIS									
Partner's Capital	60.13	66.21	66.82	88.18	113.42	220.82	241.25	254.78	270.30
Tangible Net Worth	60.13	66.21	66.82	88.18	113.42	220.82	241.25	254.78	270.30
Unsecured Loans	56.43	21.34	14.70	26.70	26.71	98.61	34.01	35.00	35.00
Total assets (tangible)	477.91	110.87	126.98	149.91	296.90	694.79	390.84	679.78	694.55
Total outside liabilities	417.78	44.66	60.16	61.73	183.48	473.96	149.60	425.00	424.25
Net Fixed Assets	6.43	8.61	7.31	6.25	6.00	32.26	32.31	27.18	32.31
Current Assets	471.48	102.27	119.67	143.66	290.90	544.74	249.54	543.60	553.24
Current Liabilities	361.35	17.80	41.78	33.37	156.77	353.85	101.48	375.00	377.00
Net Working Capital	110.13	84.46	77.90	110.28	134.12	190.89	148.05	168.60	176.24
KEY RATIO ANALYSIS									
Growth ratios									
Net sales growth (%)	#REF!	-22.56%	20.35%	-2.83%	7.35%	67.67%	86.36%	10.91%	5.00%
Net profit growth (%)	#REF!	-27.28%	-6.05%	143.14%	102.33%	62.63%	25.91%	-25.28%	-4.00%
Net worth growth (%)	#REF!	10.12%	11.13%	33.17%	69.74%	150.43%	112.70%	15.38%	12.04%

Profitability analysis									
PBDIT/Sales (%)	1.61%	1.72%	1.54%	2.41%	2.45%	2.52%	1.05%	1.11%	1.21%
Net profit / sales (%)	0.85%	0.80%	0.85%	1.65%	1.66%	1.49%	0.67%	0.54%	0.55%
RoCE (%)	#REF!	19.29%	23.73%	32.88%	28.24%	25.31%	15.88%	18.68%	20.54%
Return on net worth (%)	22.09%	14.59%	18.67%	26.63%	22.26%	17.29%	13.18%	11.20%	11.29%
Liquidity analysis									
Current ratio	1.30	5.74	2.86	4.30	1.86	1.54	2.46	1.45	1.47
CR (w/o treating TL instll. as CL)	1.30	5.74	2.86	4.30	1.86	1.54	2.46	1.45	1.47
Quick ratio	0.65	5.00	1.58	1.99	1.24	0.77	1.42	1.14	1.14
Leverage ratio									
TOL / Tang. Net worth	6.95	0.67	0.90	0.70	1.62	2.15	0.62	1.67	1.57
TOL / TNW (Taking UL as QE)	3.10	0.27	0.56	0.30	1.12	1.18	0.42	1.35	1.27
D/E ratio	0.94	0.41	0.28	0.32	0.24	0.54	0.20	0.20	0.17
Interest Coverage	2.40	2.32	3.96	8.99	7.97	5.05	2.74	2.90	2.55
Activity analysis(in days)									
Debtors > 6 months - Amount	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
% of Total Debtors	0.00%	0.00%	0.00%	#DIV/0!	0.00%	0.00%	0.00%	0.00%	0.00%
Recv. Turnover - Domestic	39	12	0	0	10	23	3	20	19
Recv. Turnover - Exports	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Inventory Turnover	55	4	13	20	23	39	8	8	8
Accounts payables turnover	57	6	10	5	1	22	7	6	6
Fixed assets turnover ratio (Times)	121.95	70.57	99.99	113.60	127.08	39.63	73.74	97.21	85.87

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Particulars	31.03.2010	31.03.2011	31.03.2012	31.03.2013	31.03.2014	31.03.2014	31.03.2015	31.03.2016	31.03.2017
	Audited	Audited	Audited	Audited	Projected	Audited	Audited	Provisional	Projected
Net sales	1568.59	1214.78	1461.96	1420.64	1525.00	2556.92	4765.14	5285.00	5549.25
PBDIT	25.31	20.95	22.45	34.28	37.34	64.43	50.04	58.73	66.92
PBDIT/Sales (%)	1.61	1.72	1.54	2.41	2.45	2.52	1.05	1.11	1.21
Profit before tax	13.57	11.21	15.49	29.35	31.56	48.14	31.79	35.23	37.67
Profit after tax	13.28	9.66	12.48	23.48	25.25	38.19	31.79	28.54	30.51
Depreciation	1.17	0.73	1.30	1.12	1.10	3.55	0.00	3.25	3.00
Cash accruals	14.45	10.39	13.77	24.60	26.35	41.74	31.79	31.79	33.51
Net profit/ sales (%)	0.85	0.80	0.85	1.65	1.66	1.49	0.67	0.54	0.55
Paid up capital	60.13	66.21	66.82	88.18	113.42	220.82	241.25	254.78	270.30
Reserves	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Quasi Equity	56.43	21.34	14.70	26.70	26.71	98.61	34.01	35.00	35.00
TNW incl. Quasi Eq.	116.56	87.55	81.52	114.88	140.13	319.43	275.26	289.78	305.30
TOL except Quasi Eq.	361.35	23.32	45.46	35.03	156.77	375.35	115.58	390.00	389.25
TOL/ (TNW+QE)	3.10	0.27	0.56	0.30	1.12	1.18	0.42	1.35	1.27
TNW-QE	60.13	66.21	66.82	88.18	113.42	220.82	241.25	254.78	270.30
TOL/TNW(No QE)	6.95	0.67	0.90	0.70	1.62	2.15	0.62	1.67	1.57
Current Assets	471.48	102.27	119.67	143.66	290.90	544.74	249.54	543.60	553.24
Current Liabilities	361.35	17.80	41.78	33.37	156.77	353.85	101.48	375.00	377.00
Current ratio	1.30	5.74	2.86	4.30	1.86	1.54	2.46	1.45	1.47
Credit allowed (Days)	38.94	12.45	0.26	0.00	10.00	22.77	2.82	19.98	19.43
Credit availed (Days)	56.09	5.48	9.83	5.11	0.66	21.51	6.42	5.59	5.47
Debtors	167.34	41.44	1.06	0.00	41.78	159.48	36.85	289.25	295.41
Purchase	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
Creditors	245.55	14.61	40.08	19.98	2.72	159.73	79.99	80.00	82.00
Inventories	237.76	13.23	53.51	77.11	96.10	273.49	105.13	115.84	121.63
Working Capital Cycle	#VALUE!	5.28	26.77	21.58	14.19	8.96	16.58	19.32	13.50

13. Learnings

My internship with Axis Bank in the SME department was an immense learning experience. It gave me adequate exposure in the field of credit appraisal process undertaken for small and medium enterprises. I was given full freedom to interact with people of other departments and source required documents that aided me in my report completion.

The whole process of credit appraisal is a very meticulous process of identifying the right borrower in terms of reduced credit risk. The entire process has been designed in such a way that it helps in studying information about the SME and its operations and thereby various aspects of the company. Along with studying the company the general profile of the directors/proprietor and the company's past dealings with bank are also studied. The site visits that are conducted ensures the information provided by the company is correct. It helps in understanding and thereby suggesting the appropriate amount of credit requirements for the company.

The department works efficiently and ensures the disbursement of loans within two weeks of credit appraisal. The credit analyst and the relationship manager are in regular conversation with the client and ensuring that the required information is given to the bank in required time to ensure no lag in the appraisal process. The credit analyst is given regular training and weekly meetings are held ensuring that credit risk is maintained and timely credit appraisal is done.

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Match Overview

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Objectives of the study:

The objectives of the study are as follows:

- Assess the viability of the project and minimization of the credit risk
- Assess the requirements of the borrower and study credentials in order to decide upon the acceptable level of exposure.

The objectives required a series of processes that needed to be carried out. Following are stated below:

- Gathering information about the SME and it's operations. Studying various aspects of the company as under:
 - Turnover of the company, major customers and suppliers along with industry/ market profile.
 - The capacity and quality of the plant and machinery, checking for availability of the resources like land, raw material etc.
 - The technology proposed to be used by the company, to check whether it is new or a well-accepted one and whether the technology is in compliance with the industry standard or not.
 - General profile of the company and the directors/proprietor and the company's past dealings with bank are also considered.
- Carrying out the Industry analysis after studying about the company and it's operations. Under this, the current trends and future expectations in the industry are studied.
- Undertake credit appraisal process, the proposal, assessment of the working capital requirements, proposed financing, shareholding pattern and security details are studied. Internal credit rating of the company is done where the company is rated under different heads namely financial performance, market position, industry outlook etc. according to the guidelines as per the bank's manual for credit selection.

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