A Case Of Comparative Study Of Loan Performance In Selected Indian Private Banks : An Important Tool Of Profitability

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INTRODUCTION

Lending is one of the two principal functions of Private banks, not only because of their social obligation to cater to the credit needs to different sections of the community, but also because lending is the most profitable, for the interest rates realized on loans have always been well above those realized on investments. Having sterilized a portion of deposits in the case reserve and highly liquid assets, which yield little or no earning for the purpose of satisfying the liquidity requirements, a banker has to deploy the residual funds in profitable outlets so that he may be able to pay interest on deposits, give salary to the staff, meet other establishment expenses, build up reserves and pay dividend to the shareholders. This is why bank loans account for a major portion of residual funds of a private bank. An examination of some of the important characteristics of loans would provide us an insight into the lending activities of a private bank.

OBJECTIVES OF THE STUDY

The present study is undertaken with a view to evaluate the objectives of the Private Banks in India and also judges as to how far these objectives have been fulfilled. Secondly, the study is aimed at finding out the sources or the causes which promoted or weakened the credit programme of the selected Private Banks. Finally, it proposed to assess the operational efficiency of examining the functions of banks. It is hoped that the results would be helpful to the Private Banks in decision making. In order to assess the validity of these propositions and the extent to which the Private Banks perform in this regard, the present study has been taken up with the following explicit objectives:

1. To assess the extent of credit provided by the Private Banks for different productive ends.

2. To suggest remedial measures based on the findings of the study.

CONTRIBUTION OF THE STUDY

The present study will be fruitful for various parties such as shareholders, debtors, banks and customers etc., as it will explain many situations of the private banking industry, and it will suggest best points in view of profit. It will also lay down some standards for the private banking industry, and will be useful for prospective research for scholars.

SCOPE OF THE STUDY

For the present study, five private banks have been considered. The scope covered under the present study is six years, beginning from 2001-02 to 2006-07. The names of aforesaid banks are ICICI Bank, HDFC Bank, Axis Bank, Kotak Mahindra Bank, and Centurion Bank of Punjab.

METHODOLOGY OF THE STUDY

The data for the present study has been collected mainly from annual reports and accounts and other related publications of the respective private banks, which were obtained from the respective head offices. All the data related to the study have been rounded off to lakhs of rupees. The analysis has been calculated through trend analysis for interpreting the data. The analytical analysis has been done for two ways:

1. Financial performance of selected banks in term loans.

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2. Financial performance of selected banks in advances.

CHARACTERISTICS OF PRIVATE BANKING SECTOR'S LENDING POLICY

1. The bulk of the bank loans in India are provided to trade and industries. Banks are lackadaisical in making advances to the agricultural sector because of the relatively greater credit risks inherent in them, and because of the inability of agriculturists to furnish good security. However, since nationalization, banks have evinced a keen interest in this sector. Nevertheless, industrialists and traders are the prominent borrowers of the banks.

2. Another striking feature of a bank loan in our country is that nearly three-fourths of it is given for a period of less than one year. This is essentially because of the high liquidity of such loans. The short-term loans are given to finance the seasonal needs of businessmen, and also for the working capital purpose, to facilitate the process of production and distribution. Seasonal loans are primarily for the purpose of increasing the inventory of a business firm, and are repaid as the inventory is liquidated. Short-term funds are borrowed for increasing the current assets and for expanding production. Such loans are repaid out of the net operating earnings of the firm. Working capital loans are not always for a year or less, but may extend for a period in excess of one year. On the other hand, seasonal loans are sought for a few months.

3. Private Banks in India demand sound security. A very high percentage of advances (85 to 90%) by Indian banks are secured by goods, financial assets and hypothecation. A major portion of bank credit is given against the security. Unsecured credit facilities are given to firms with a sound financial position and stable earnings records.

4. Another characteristic of bank borrowers is that most of them own relatively small, young and growing businesses. Smaller firms depend more on bank loans to finance their needs because of their limited access to other sources of finance. Young concerns which have sufficiently established themselves and, which do not have enough accumulated earnings, make frequent trips to the bank. Growing concerns rely more on bank credit than their older and more established counterparts, because the former are not capable of generating sufficient income to take care of their growing financial needs.

FACTORS WHICH INFLUENCE THE LOAN POLICY OF PRIVATE BANKS

1. Capital Position : The capital position of the bank is probably the most important factor influencing its loan policy. As observed earlier, the capital provides the cushion which absorbs the losses that may occur. It serves as a protective factor against losses for depositors and assumes more credit risks than one with a weak capital position. Accordingly, the former can follow a liberal lending policy and provides different types of loans, including long-term loans promising higher interest rates, which the latter cannot do because of the greater risk involved.

2. Earning Requirement : Profit making is one of the principal objectives of a private bank. Some banks may be in a position to emphasize the importance of income, while others may lay stress on liquidity. The banks which have set income as the principal goal of their lending policies would follow an aggressive policy, and might make a larger amount of term loans or consumer loans which, normally, are made at higher interest rates because of the relatively greater amount of risk involved in them. This does not mean that banks should take undue risks to accomplish the objectives of profitability. Where earnings receive a greater emphasis in the loan policy of a bank, it may mean that the bank is able to keep a larger amount of secondary reserve; or it may mean that it would lend on its investment account securities, which carry shorter maturity periods and possess relatively less risk.

3. Deposit Variability : Banks that have experienced erratic movements in their deposits will have to follow a conservative lending policy. They cannot afford to incur undue risks by extending their term-lending facilities. A similar policy can be pursued by banks whose deposits show little or no fluctuations, and, which can easily predict the fluctuations in deposits and loan demands and make a provision for them in their secondary reserve. Banks whose deposits have shown a rising tendency in the past, and which expect the rising trend to persist in the future can also be liberal in their loan policy.

4. State of Local & National Economy : In formulating the lending policy, the banker should keep in mind the economic conditions that prevail in the region served by the bank. A bank operating in an area which is subject to seasonal and cyclical fluctuations can ill afford to adopt a liberal policy, because that would entail the hazards of illiquidity. However, in a stable economy, where the possibility of fluctuations in the level of deposits and loan demands is limited, the banker may follow a liberal loan policy. Consideration should also be given to the national economy. If the economic conditions of the country are expected to improve, and the level of business activity is likely to increase, banks may liberalize their lending policies and accommodate those borrowers who were hitherto refused banking facilities because of a stiff credit policy. If the economy is likely to recede in the future, the banker must revise the existing policy and design a new one with stiffer terms and conditions of lending, so that only borrowers of a very high credit character are eligible for bank accommodation.

5. Monetary Policy : The monetary policy of the central banking authorities goes a long way in determining the lending policy of a private bank. By a variation in the minimum reserve requirement, and the net liquidity ratio, the Central Bank influences the lending policy of banks. For example, by reducing the proportion of the minimum cash reserve, which a private bank is required to carry with the Central Bank, and by reducing the net liquidity ratio, the bank would get additional funds, which can be utilized in making further advances. If the cash reserve ratio and the net liquidity ratio are increased, lending ability of the banks would be somewhat restricted.

6. Competitive Position : In formulating a loan policy, the management should give consideration to the competitive position of the bank. Where a bank finds that strong competing institutions exit, say, in the field of term lending and the management feels that it cannot afford to provide loans on the terms that are offered by the other existing institutions, it might follow a policy of refraining from entering the space of term loans.

Table 1 : Loan Performance Of Indian Private Banks 2001 - 02 To 2006 - 07

(₹ in lakhs)

Detail	2002	Percentage	2007	Percentage
ICICI Bank	4214765.94	84	15125504.18	64.23
HDFC Bank	375112	7.43	3579549	15.20
Axis Bank	258980	5.13	2571616.47	11
C.O.B.P.	96517	1.91	826537	3.5
Kotak Bank	99338.22	1.97	1445332.71	6.14
Average	**1008942.6**		**4709707.87**	

(Source : Annual Reports of Banks)

Table 1 shows the loan performance of Indian Private Banking Industry during 2002 to 2007 . At the end of the year 2002, the amount of term loans of selected private banks were ₹ 5044713.16 lakhs. However, after 6 years, at the end of year 2007, it reached to ₹ 23548539.36 lakhs. It was an increase of 367% in 6 years. It was a great achievement for the selected private banks. In the case of ICICI Bank, the amount was ₹ 4214765.94 lakhs at the end of the year 2002. At that time, it was 84% of the total loan amount of selected private banks. In fact, it can be said that in 5 selected private banks, only ICICI Bank distributed 84% of the total loans in public sector banks. So, it was matter of great success for the ICICI Bank. At the end of the year 2007, the amount reached ₹ 15125504.18 lakhs. It was an increase of 259% in 6 years. In fact, in 2007, this amount was 64.23% of the total loans granted by the selected banks. In the case of HDFC Bank, the amount of term loans was ₹ 375112 lakhs. It was 7.43% of the total loans granted by selected private banks at that time. However, at the end of the year 2007, this amount reached ₹ 3579549 lakhs. It was an increase of 855% in 6 years. It was a great achievement for the Bank. In fact, at that time, it was 15.20% of the total loans granted by the selected banks.

In the case of Axis bank, the amount of total loans was ₹ 258980 lakhs. It was 5.13% of the total loans of the selected private banks. At the end of year 2007, the amount of Term Loans granted reached ₹ 2571616.47 lakhs. It was an increase by 893% in the 6 years study period. In fact, at that time, it was 11% of the total loans granted by the selected private sector banks. In the case of Centurion Bank of Punjab, the amount of term loans granted was ₹ 96517 lakhs at the end of the year 2002. At that time, it was 1.91% of the total amount of loans granted by these private banks. At the end of the year 2007, the amount reached ₹ 826537 lakhs. It was an increase by 756% in the 6 years of the study period. In fact, it was 3.50% of the total amount of loans granted by the selected private banks. In the case of Kotak Bank, the amount of loans granted were ₹ 99338.22 lakhs. At that time, it was 1.97% of total loans granted by the selected private banks. An the end of the year 2007, the amount of loans granted reached ₹ 1445332.71 lakhs. It was an increase by 1355% in 6 years. At that time, this figure was 6.14% of the total loan amount of the selected private sector banks.

Overall, the amount of loans granted increased by nearly 400% in 6 years, so it was a great success for the private banking industry. It can also be said that the amount of loans granted increased for every bank during the study period. It is also exhibits the trustability factor - that the public has developed a feeling of trust towards the private sector banks.

TYPES OF VARIOUS CREDITS / LENDING SCHEMES OFFERED BY THE PRIVATE BANKING INDUSTRY

Indian Private Banks finance the working capital requirements of their customers. The main styles of credit or systems of financing prevalent in our country are Cash Credit, Overdrafts, and Term Loans.

❁**Cash Credit :** Cash credit is the main method of lending by banks in India and accounts for about 70% of the total bank credit. Under the system, the banker specifies a limit, called the cash credit limit, for each customer, up to which the customer is permitted to borrow against the security of tangible assets or personal guarantees. The customer withdraws from his cash credit account as and when he needs the funds, and deposits any amount of money which he finds surplus with him on any day. The cash credit account is thus an active and running account to which deposits and withdrawals may be affected frequently. The customer requires providing tangible assets as security to cover the amount borrowed from the banker. The borrower is charged interest on the actual amount utilized by him and for the period of actual utilization only. Other features of cash credit arrangements are as follows: -

1) The banker fixes the cash credit limits after taking into account several features of working of the borrowing concern such as production, sales, inventory levels, past utilization of such limits, etc. The banks are thus inclined to relate the limits to the security offered by their customers.

2) The advances sanctioned under the cash credit arrangement are technically repayable on demand and there is no specific date of repayment, but in practice, they *'roll over'* a period of time. Cash accruals arising from the sales are adjusted in a cash credit account from time to time, but it is found that on a larger number of accounts, no credit balance emerges or the debit balance is fully wiped out over a period of years , as the withdrawals are in excess of the receipts.

3) Under the cash credit arrangement, a banker keeps adequate cash balances so as to meet the demand of his customers as and when it arises. However, the customer is charged interest only on the actual amount utilized by him. To neutralize the loss of interest on the idle funds, the utilized limits may be charged by the banks.

❁**Advantages Of The Cash Credit System**

1. Flexibility : The borrowers need not keep surplus idle funds with themselves; they can re-cycle the funds quite efficiently and can minimize interest charges by depositing all cash accruals in the bank account and thus, keeping the drawls at the minimum required level. The system thus ensures lesser cost of funds to the borrowers, and better turnover of funds for the banks.

2. Operative Convenience : Banks have to maintain one account for all the transactions of a customer. The repetitive documentation can be avoided.

❁**Weaknesses Of The System**

1. Fixation Of Credit Limits : The cash credit limits are prescribed once in a year. Hence, it gives rise to the practice of fixing large limits than is required for most part of the year. The borrowers wrongly utilize the unutilized gap in times of credit restraint.

2. Bank's Inability To Verify The End-use Of Funds : Under this system, the stress is on the security aspect. Hence, there is no conscious effort on the part of banks to verify the end-use of funds. Funds are diverted, without the banker's knowledge, to unapproved purposes.

3. Lack Of Proper Management Of Funds : Under this system, the level of advances in a bank is determined not by how much the banker can lend at a particular time, but by the borrower's decision to borrow at that time. The system, therefore, does not encourage proper management of funds by banks.

❁**Overdraft :** When a current account holder is permitted by the banker to draw more than what stands to his credit, such an advance is called an overdraft. The maker may take some collateral security or may grant such an advance on the personal security of the borrower. The customer is permitted to withdraw the amount as and when he needs it, and to repay it by means of deposit in his account as and when it is feasible for him. Interest is charged on the exact amount overdrawn by the customer and for the period of its actual utilization. Generally, an overdraft facility is given by a bank on the basis of a written application and a promissory note signed by the customer. In such cases, an express contract comes into existence. In some cases, in the absence of an express contract to grant overdraft, such an agreement can be inferred from the course of business. For example, if an account-holder, even without any express grant of an overdraft facility, overdraws on his account and his cheque is duly honored by the bank, the transaction amounts to a loan. In *Bank of Maharashtra v. M/s United Construction Co. and Others* (Air 1985 Bombay 432), the High Court concluded that there was an implied agreement for grant of overdraft or loan facility.

❁**Term Loan :** The expression *'term loan'* is used to denote *'a loan whose final maturity is longer than one year'*. It provides the borrower with intermediate or long-term capital funds and depending on the borrower's future earnings, and (or) cash flow for its ultimate liquidation, the maturity period is set between longer than one year, but less than 10 years. Funds are required for single, non-repetitive transactions and are withdrawn only once. If the borrower needs funds again, or wants renewal of an existing loan, a fresh request is made to the bank. Thus, a borrower is required to negotiate every time he is taking a new loan or renewing an existing loan. The Banker is at liberty to grant or refuse such a request depending upon his own cash resources, and the credit policy of the central bank. The object of a term loan is to meet the borrower's need for credit and satisfy the lending bank's requirements for earnings, liquidity and safety. Under the loan system, credit is given for a definite purpose and for a predetermined period. Normally, these loans are repayable in installments.

❁**Advantages of Term Loans**

1. Financial Disciplines On The Borrower : As the time of repayment of the loan or its installments is fixed in advance, this system ensures a greater degree of self-discipline on the borrower, as compared to the cash credit system.

2. Periodic Review of The Loan Account : Whenever any loan is granted or its renewal is sanctioned, the banker gets an opportunity of automatically reviewing the loan account. Unsatisfactory loan account may be discontinued at the discretion of the banker.

3. Profitability : The system is comparatively simple. Interest accrues to the bank on the entire amount lent to a customer.

❁**Drawbacks of Term Loans**

1. Every time a loan is required, it is to be negotiated with the banker. To avoid it, borrowers may borrow in excess of their exact requirements to provide for contingency.

2. Banks have no control over the use of funds borrowed by the customer. However, banks insist on hypothecation of the asset/vehicle purchased with the loan amount.

Table 2 : Financial Performance of Selected Private Banks In Term Loans During 2002 to 2007

(₹ in lakhs)

Detail	2002	2003	2004	2005	2006	2007	Average
ICICI	4214770	4890282	5342863	7225889	11179046.39	15125504.18	7996392.43
UTI	258980	390865	598472	1040543	1568379.59	2571616.47	1071476.01
HDFC	375112	652427	1080989	1537435	2580250	3579549	1634293.67
Kotak	235558.40	301998.85	450554	677675.43	993169.55	1445332.71	684048.16
C.O.B.P.	96517	86373	118830	178394	493889	826537	300090
Total	**5180937.4**	**6321945.8**	**7591708**	**10659936**	**16814734.53**	**23548539.36**	**11686300.18**
Combined Average							**2337260.036**

(Source : Annual Reports)

Table 2 shows the Loan Performance of banks (taken for the study) from the period 2002 to 2007. The loan figures for ICICI Bank shows that the volume of term loans increased speedily in every year of the study period. In the first year of the study period, the amount of term loan stood at ₹ 42, 14,770 lakhs. In 2003, it increased by ₹ 6, 75,512 lakhs, i.e. an increase of 16% over the last year. In the year 2004, this figure stood at ₹ 5342863 lakhs, with an increase of ₹ 4, 52,581 lakhs over the previous year. This growth was 9.25% over 2003. In 2005, the amount of term loan rapidly increased and reached up to ₹ 72, 25,889 lakhs. In fact, in the year 2005, this was the highest increase in terms of percentage. In the year 2006, the term loan again sharply increased by ₹ 39, 53,157.39 lakhs. This was a jump of 55% over the last year (2005). In 2007, the data again shows an increasing trend. The amount was ₹ 1, 51, 25,594.18 as compared to the last year of 2006, and it showed an increase of 35.30%. For ICICI Bank, the term loan shows a humongous increase in the 6 years of the study period. In fact, in 6 years, the increased volume of term loan in absolute terms was ₹ 1, 09, 10,734.18 lakhs. For ICICI bank, the amount of term loan increased by 259 % in relative terms over the 6 years of the study period.

In case of UTI bank, the portrayed data of the term loan indicates a rapid upward trend, from 2002 to 2007. In the year 2002, the amount was ₹ 2, 58,980 lakhs, which immediately increased by 51% in the year 2003, and reached up to ₹ 3, 90,865 lakhs. Again in the year 2004, the increasing rate from last year was 53%, and the volume of increase was ₹ 1,04,0543 lakhs. The increased percentage was 74% over the last year. In the year 2006 again, the loan figures show an increase of ₹5, 27,836.54 lakhs, with a 51% increase in comparison to 2005. The amount increased by 64% in the year 2007, as compared to the last year. So, overall, the amount of term loan in absolute terms increased by ₹ 23, 12,636.47 lakhs from 2002 to 2007. This growth was about 893% in 6 years of the study period. Thus, it can be concluded that the bank has got a good operational efficiency regarding the performance of term loans.

The Table 2 also shows the fastest growth in HDFC bank, it was ₹ 3, 75,112 lakhs in 2002, which increased by 74% and reached up to ₹ 6, 52,427 lakhs in 2003. In the year 2004, the increased ratio was 66% from 2003. In the end of 2005, the increase in amount was ₹ 4, 56,446 lakhs. It was an increase of 42% from the last year. At the end of 2006, the growth was ₹ 1,04,2815 lakhs, it was 68% higher than what is was in 2005. At the end of the last year of the study period, the increased amount was ₹ 9, 99,299 lakhs. It shows a 39% increase from the year 2006. Looking into the figures of the loan, it can be said that the term loans increased by ₹ 3204437 lakhs, and this was an 854% increase in 6 years of the study period, which shows the surprising expansion of the business.

In the case of Centurion Bank, except for the year 2003, the data of loan performance also shows a continuously increasing trend during the 6 years of the study period . In 2003, the amount slightly decreased and came down to ₹ 86,373 lakhs. It decreased by ₹ 10144 lakhs and in relative terms, it was a decrease of 10.51 % from the year 2002. But after 2003, the entire figure was showing a rapidly increasing trend up to the end of 2007 . In the year 2004, the amount of term loans increased by 37.5% from the year 2003. It was a threefold increase in comparison to the year 2003. There was a decrease in trend in term loan in percentage, although the gross amount increased in the year 2004, and reached up to ₹ 1, 18,830 lakhs. In the year 2005, the amount of term loan increased by ₹ 59,564 lakhs; it was an increase of 50% from the last year. In the year 2006, the explained data shows the highest increase in terms of percentage, by 177 % from 2005. However, at the end of 2007, the increased amount was ₹ 3, 32,648 lakhs. For the term loans, the amount reached up to ₹ 8, 26,537 lakhs, from ₹ 96517 lakhs in the study period of 6 years. It means that the term loans of Centurion Bank increased in 6 years by ₹ 7, 30,020 lakhs. In fact, it shows a 756 % increase during the study period. It can be said that the bank has shown commendable operational efficiency.

In the case of Kotak bank, the table shows an increase in trend continuously from the term loans' point of view. In the year 2002, the amount stood at ₹ 23,558.40 lakhs, but just in the next year, it increased by 28 %, and reached up to ₹ 3,

Table 3 : Performance of Selected Private Banks in Advances (Cash Credit, Overdraft, Bills Discounted) During 2002 to 2007 (₹ in lakhs)

Detail	2002	2003	2004	2005	2006	2007	Average
ICICI	488720.67	437659.75	866688.60	1914625.80	3437264	4461055	1934335.63
HDFC	306260	523059	693462	109195	925876	1114929	612130.17
Axis	276250	327127	337822.81	519748.80	663044	1116032	540004.10
Kotak	1027.32	1415.45	14668.44	36964.5	48818.60	112011.5	35817.635
C.O.B.P.	66892	44999	36811	41001	159455	295598	107459.33
Total	**1139149.9**	**1334260.1**	**1949452.8**	**2621535.10**	**5234457.6**	**7099625.5**	**3229746.83**
Combined Average							**645949.37**

(Source : Annual Report)

01,998.85 lakhs. In the year 2004, the absolute figure registered and increased and reached at ₹ 4, 50,554 lakhs. At the year 2005, the increase was 50% (approx.), and the absolute figure of term loans reached up to ₹ 6, 77,675.43 lakhs. At the end of 2006, the amount increased by ₹ 3, 15,594.12 lakhs, with an increase of 46% from the year 2005. At the end of the last year of the study period - 2007, the amount again increased by 46% (approx.), and the amount reached at ₹ 14, 45,332.71 lakhs. The overall amount of absolute figures of term loans of Kotak bank increased by ₹12, 09,774.31 lakhs, it was an increase of 514% from 2002 to 2007. Thus, it can be concluded that the growth in performance of the term loans can be said to be satisfactory.

The Table 3 shows the detail of advances of selected private banks during the study period from the year 2002 to 2007. Here, the amount of Cash Credit, Overdraft and Bills Discounted were included. In the case of ICICI Bank, except for the year 2003, the expressed data shows a continuously increasing trend. In the end of year 2002, it was ₹ 4, 88,720.67 lakhs. However, at the end of year 2007, it grew and reached ₹ 44, 61,055 lakhs. So in 6 years of the study period, overall, it increased by 813% . In the year 2002, the total amount of advances possessed by selected private banks was ₹ 11,39,149.90 lakhs, and at that time, ICICI bank was holding 43% of the total amount of selected private banks. At the end of 2007, the total amount of advances held by selected private banks was ₹ 70, 99,625.50 lakhs, and at that time, the ICICI bank was having 63% holding of the total amount. So, it can also be said that in among the selected sample banks, ICICI Bank increased its holding by 20% during the 6 years study period.

In the case of HDFC Bank, the Table 3 shows an increasing trend during the study period. However, in the year 2005, the figure decreased from 2004. In the end of 2002, the amount was ₹ 3, 06,260 lakhs. At that time, this figure was 27% of the total amount held by the selected banks. But at the end of 2007, this amount increased and touched ₹ 11, 14,929 lakhs. So, it was an increase of 264% in the 6 years study period. In fact, at the end of the last year, it accounted for 16% of the total share of the amount held by the selected private sector banks. In the case AXIS Bank, the data showed a continuous increasing trend from the year 2002 to 2007. At the end of the year 2002, it was ₹ 276250 lakhs. But at the end of the year 2007, it reached a high of ₹ 11, 16,032 lakhs. So in 6 years, it showed an overall increase by 304% . In fact, at the end of the year 2002, the bank's holding in the total amount of the industry was 24.25%. And at the end of the year 2007, the bank's holding was 16% of the total amount.

In the case of KOTAK bank, the expressed data showed an ever increasing trend during the study period. In the end of year 2002, it was ₹ 1027.32 lakhs. It was only .09% of the total amount of the selected private banks. However, at the end of the year 2007, this amount reached ₹ 1, 12,011.50 lakhs. In 6 years, the trend showed a rapid increase. It was an increase of 10803%. At the end of the year 2007, the bank's share in the total amount was 1.58%. So, it also indicates that in the 6 years' study period, the bank increased its holding ratio.

In the case Centurion Bank of Punjab, the data showed a mixed trend during the study period from the year 2002 to 2007. In the year 2003 and 2004, the trend decreased, but after it, the same rapidly increased. At the end of the year 2002, the amount was ₹ 66,892 lakhs, at that time, it was only 6% of the total amount . But at the end of the year 2007, the amount rose and reached ₹ 2, 95,598 lakhs. It was an increase of 342% in the 6 years study period. At the end of 2007, the bank's holding was 4.16% of the total amount of the selected private banks.

In the case of selected private banks, it can be said that the amount increased by 523% during the 6 years from 2002 to 2007. It was ₹ 11, 39,149.9 lakhs at the end of 2002, and it grew and reached ₹ 70, 99,625.5 lakhs at the end of 2007.

RECOMMENDATIONS AND SUGGESTIONS

After having drawn various conclusions on the study of lending performance of selected private banks, the researchers have presented some suggestions of practical significance, which can improve the operational efficiency and profitability of the private sector banking industry in India. They are as follows:-

1. It was observed after the study of the selected private banks that the lending procedure of the banks are not proper due to the following points.

- Banks are not having the proper norms of financing.
- The safety measures, in relation to the recovery of the loan, are also not available in the industry.
- The responsibility of the banking staff is not clear for loan recovery.

2. The credit evaluation system for lending work is not widely effective. It is suggested to banks that they should make rational rules, from which the detailed information of a customer can be retrieved easily, it should also be checked that the given information is true or not. For this purpose, the services of other agencies can be obtained.

3. Banks should also disclose the policy for lending to weaker sections of the society. They should also make the people aware about the norms of subsidy, which the Govt. is providing to them. There must be a lending provision for the poor people, which fulfills the role of social profitability.

4. The annual reports of Banks are not following the Accounting Standards of India properly; they are not disclosing all information about assets and liabilities. NPA management, Provision for bad debts, etc. are not being disclosed properly in their annual reports. This issue has to be addressed.

5. Instead of focusing on urban areas only, the banks should set up branches in the rural regions also to improve profitability.

6. It is observed in the private banking industry that the expenses of documentation are very high, and this area of concern has to be addressed. The procedure and requirement for getting a loan is very complicated. Therefore, the public is reluctant to go to private banks as compared to public sector banks. So, the procedure can be simplified to attract more clients.

7. It was also noted that a lot of hidden charges are inbuilt in all services in private banks. Therefore, the people feel reluctant to come to private banks. So, banks should try and make information as transparent as possible.

8. The procedure of recovery of loans in private banking industry is not so good. It was observed that private banks are using agents for recovery of the loan amount. These agents threaten and even beat up the customers. Some PILs regarding the same have also been filed in the various courts of the country. Recently, the RBI announced some guidelines for the appointment of agents in private banking industry for recovery of loans. It is suggested here that the recovery of loans should be made with the help by legal and judicial procedure. The SARFAESI Act 2002 is a very powerful tool for the financial institutions, that can be used for the recovery of loans, wherever applicable.

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