

A STUDY ON CREDIT FACILITY OFFERED BY BANK AND ITS IMPACT ON MANUFACTURING INDUSTRY

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ABSTRACT

The purpose of writing this paper is to analyze the effectiveness of the various credit facilities which is provided by the banking sector of India to manufacturing sector. The paper focuses on the constructive impact of credit facility provided by the banks to the manufacturing sector on its management of cash management & production capacity and actual problems which are associated with the timely disbursement of fund and its impact on production.

1. INTRODUCTION

Financial sector is the backbone of any economy and it plays a crucial role in the mobilization and allocation of resources. The constituents of the financial sector are Banks, Financial Institutions, Instruments and markets which mobilize the resources from the surplus sector and channelize the same to the different needy sectors in the economy.

Traditionally, commercial banks were the main source of finance during the pre-independence era. After Independence, the Government of India announced the Industrial Policy in 1948 with a view to build a sound industrial base and a strong village and small industry sector.

The development banks are of two types; namely, the all India level institutions like IFCI, ICICI, IDBI, SIDBI, NSIC and the State Level Institutions like the State Financial Corporations (SFCs), State Industrial Development Corporations (SIDCs) .

A loan is a legal contract between the lenders and debtors. The business of the banking company is to grant loan and advances to the traders and the commercial and industrial institutes.

Industrial loan

¹“In the present changing scenario of the banking industry it is

1. Amity Law School Centre-II

2. Report <http://www.financialexpress.com/news/india-inc-performance-below-par-on-corporate>

the aim of all financial institutions an bank to provide all short of financial problems and needs its clients. Therefore in the recent development of the financial sector we have been witnessing the lending institutions. Banks have also started financing long terms credit need of the industry. With the advent of the financial sector reform by the government of India and RBI to provide liberalized environment in the banking industry”.

The lending institutions are earlier aimed at proving long term credit requirement for industry but now they are providing working capital finance and also inland as well as foreign letter of credit. In a null shell ‘universal banking’ is the need of the hour to survive.

2. OBJECTIVE FOR LENDING DECISION

1. To know the criteria for granting banks loan to the industrial sector.
2. To find out the type of business availing the loan most.
3. To find out that which group (minority or majority) get the loan easily.
4. To know the legal structure of the firm in getting the loan.
5. Analysis of the relationship of the size of the company, financial system, business experience with the change of getting loan.
6. To access the association in between the government approval of the firm and sanctioning the loan.

3. LITERATURE REVIEW RESEARCH

A bank credit department will analyze a borrower and provide a credit rating used in a lending decision. Creditworthiness of borrower determined by the list

1. Character

Banker should continually emphasize the importance of applicant credit history. It is nothing but the honesty and integrity of the person requiring loan.

2. Capacity

It is the firm ability to generate liquidity in the loan repayment process. generally the cash flow and

changing the capital structure are the primary source of capital repayment.

4. RESEARCH METHODOLOGY

Tools and techniques to be used

Tables bar diagram and the structures are used in explanations to bring out the point more clearly. Tabulation of the primary data was done. On the basis of these tablets, trends come out more visibly. Other statistical techniques those are to be used are.

Ranking method:- Its basic property is to arrange a number of attributes in a particular order.

Large sample test (z test):- It is used to test equality of two population proportion.

Anova:- It is used to test the significance of difference of the variability.

Multiple regression:- It is used to find out the relation of the variable with the group of variables.

Chi square:- It is used to study the independence of the attributes.

Collection of data (are of study)

²“The wide variety of bank regulation along with the existing environmental condition suggest a number of factors that would influence to accept/reject commercial bank lending decision. Specifically, the database includes such information on banks who supplied the information about the strategy of getting loan from the public and Private sector bank. In order to achieve the identified objective pertaining the priority and preference and views, a sample of 10 managers have been selected in the city greater noida and noida from the different branches of PNB,AXIS,SBI AND HDFC during march 2013”.

A pre tested questionnaire was administered to them, personal interview with the help of pre tested interview schedule, designed for this purpose was taken, beside, personal observation was done. A structured questionnaire was used for data collection tool.

2. Chrystal K. Alac, Federal Reserve Bank Of St. Louis Review, 'International Banking Facilities', 1994

5. ANALYSIS AND INTERPRETATION

1. Structure wise analysis

It is important for the for the bankers to note down the legal structure of the firm that is whether sole proprietorship, partnership or corporation. A one – an anova is performed to test whether there is any difference in the structure while availing the loan.

Null hypothesis:-

Ho: the is no difference in the structure of the firm

Source of variable	D.f	Sum of	Mean sum of	f
Column (type of	2	86.79	43.395	F1=12.07
Error	12	73	6.08	
Total	14			

$F_{0.005}(2,12)=3.88 < \text{cal. f} \text{----- } h_0 \text{ is rejected}$

Interpretation:- There exist difference in the structure of the firm in getting loan.

The following table show the percentage of the responses obtained against to each category.

Type of structure	Percentage
Sole proprietorship	14%
Partnership	0%
corporate	86%

2. Ownership wise analysis

Considering the ownership of the firm, it is important to note down the nature of business such as minority business(that is , fifty percentage or more minority owned) or majority business. For this purpose , we have to perform the large sample test(z) in order to know whether the proportion of the minority business owner is important than that of minority or not.

TEST statistics

$$Z = \frac{p - p_0}{\sqrt{p_0 q_0 / n}}$$

P = population proportion of the bankers favouring the majority group

N = sample size 100

$$\text{Calculation } z_{cal} = \frac{p - p_0}{\sqrt{p_0 q_0 / n}}$$

Where $p_0 = 0.05, q_0 = 1 - p_0$

P = sample proportion of the bankers favoring to majority group = $(73/100) = 0.73$

$$Z_{cal} = \frac{0.73 - 0.05}{\sqrt{0.05 * 0.95 / 100}} = 4.6$$

$Z_{tab} = 1.645$ at 5% level of significance

As $z_{cal} > z_{tab}$ H_0 is rejected, H_1 is accepted

Interpretation hence we can conclude that bank emphasize on majority group while sanctioning the loan.

3. Analysis of the relationship of the size of the company, financial system and business experience with chance of getting loan.

The chance of getting the loan is correlated with the size of the company, financial system and business experience. Here the basic interest is to find out the weightage of the independent variable on the predictor, the chance of getting the loan by using the multiple regression technique.

Let y be the independent variable = chance of getting the loan

B = coefficient of the determinant (a constant value)

X_1 = size of the company X_2 = financial company X_3 = business experience.

$$Y = b_0 + b_1 x_1 + b_2 x_2 + b_3 x_3$$

Step by step multiple regression

Table 1 model summary

Model	R	R square	Adjusted R square	Error of estimation
1	.987	.974	.968	2.65705

Adjusted r square value tells us that our model account for 96.8% of variance and it signifies the model as good one.

Table 4 correlation

	y	X1	X2	X3
Y	1.000	.980	.977	.542
X1	.980	1.00	.966	.516
X2	.977	.966	1.00	.541
X3	.542	.516	.514	1.000

Correlation is significant at 0.01 level (2- tailed)

This table gives detail of the correlation between each pair of variable. There is good correlation between the criterion and the predictor variable. The variable here are acceptable.

4. Analysis of the most important financial system of the firm to get the loan

Firms employing a year end complication accounting method for tax purpose can prove little financial information to the prospect lender. Here the basic purpose is to find out the type of financial record favourable to get the loan.

Financial system	Percentage
Keep document with compiled at the end of the year for tax purpose	2%
Maintain record which can provide information about the balance sheet along with the tax information at the end of the year	3%

Have a system which generates quarterly along with the end year financial statement and tax information.	10%
Utilize a system which provides monthly, quarterly and year end financial statement and tax information.	85%

Interpretation:- a majority that is 85% of the bankers are in favour in the fact that the firm should utilize the system which provide monthly quarterly and yearly end financial statement and tax information from the year.

5. Analysis the factor influencing for sanctioning the loan

IT is necessary to asses the important factor influencing the saction of the loan. There are so many factor but we have to include the following factor only.

The summarized rank order

Rank

Features	1	2	3	4	5	Rank sum	Rank
Taxes	6	19	20	26	29	353	4
Poor Scale	2	20	21	26	31	364	3
Financing and Interest Rate	2	10	12	35	41	403	2
Operating and Production Cost	0	4	20	23	53	425	1
Government Regulation	7	19	20	26	28	340	5
Availability and Quality of Labour	15	15	20	25	25	330	6

Cost of Insurance	20	15	25	20	20	305	7
Personal Review	17	20	25	18	20	304	8

Interpretation:- from the above analysis we conclude that the operating and the production costs, financing and interest rates, poor sales are more influencing factor for the bankers to sanction the loan.

6. Product wise analysis

The type of production such as FMCG, PETROLEUM and GASLINE PRODUCTION, STEEL PRODUCTION AND TEXTILE PRODUCTS to be produced by the company is of prime consideration of getting loan.

The differences among the different product are analysed statistically using one way ANOVA

Null hypothesis:- H_0 there is no difference of getting the loan

The difference among the different products are analysed with statistically using Anova.

Source of variable	D.f	Sum of	Mean sum of	f
Column	4	81.267	27.089	F1=
Error	12	77.2128	6.4344	
Total	15			

$F_{0.05}(4,12)=3.26 < \text{cal.f}$ ----- H_0 is rejected

Interpretation:- there exist difference in the products of getting the loan.

Lets further proceed to know which product has maximum weightage to get the loan

Type of Product	Percentage
Fmcg	18%
PETROLEUM and GASLINE PRODUCT	55%

STEEL PRODUCT	12%
Textile product	15%
Other	10%

Interpretation:- majority bankers (55%) petroleum and gasoline products while sanctioning the loan.

7. Business-wise Analysis

The nature of the firm business such as retail, manufacturing or construction could influence the probability of loan approval. The could be positive or negative.

The difference among the different products could be analysed by ANOVA.

Hull hypothesis:- there is no difference in the type of business of getting the loan

Source of variable	D.f	The Sum of Square	Mean sum of Square	F
Column	4	81.267	27.098	F1=4.21
Error	12	77.2128	6.4344	
Total	15			

$F_{0.05}(4,12)=3.26 < \text{cal } f$ ----- H_0 is rejected

Interpretation:- There exist difference in the type of the business of getting the loan.

Let us now see the the type of business has maximum weightage of getting the loan.

Type of Product	Percentage
Retail	20%
Manufacturing	65%
Construction	15%

Interpretation:- Maximum bankers favour the manufacturing unit business while sanctioning the loan.

6. CONCLUSION AND FINDING

Indian financial sector has undergone significant expansion during the last decade. A well developed infrastructure has been promoted to cater the need of growing industries and expanding capital market of India. Commercial bank has traditionally have played significant role in proving the debt financing to business. There is deadly completion among the industries availing the bank loan. So, it felt essential to study the factor influencing the banks lending decision. The research is one component in this direction only. this study provides the data to assess the role of financial information availing the lending decision.

The major finding of the research is given below

1. All most all the bankers favour the big corporation while giving the loan.
2. The bank emphasis the majority group while sanctioning the loan.
3. The bankers are giving more importance on the financial system, size of the firm and less importance on the business experience while giving the loan.
4. A majority i.e 85% of the bankers are in favour in the fact that the firm should utilize a system which provides monthly, quarterly and yearly-end of financial statements and taxation information from th year.
5. The opration and production cost, financing and interest rates an poor sales are the major influencinmg factor for sanctioning the loan.
6. Maximum bankers(55%) favored to petroleum and gasoline products while sanctioning loan.
7. Maximum bankers (65%)favoured to manufacturing units business while sanctioning the loan.