Date: - 26/03/2018

CERTIFICATE

TO WHOMSOEVER IT MAY CONCERN

This is to certify that **Mr. Chethan D, USN: 1IA16MBA13,** student of **Acharya**

Institute of Technology, Bangalore. Pursuing MBA, has successfully

completed his project work on the topic **"A study on Credit Appraisal of Home**

Loans at Sundaram BNP Paribas Home Finance LTD" from 15th January

2018 to 24th march 2018 Under our guidance.

We wish **Mr. Chethan D, ALL THE BEST** in his future endeavours.

For SUNDARAM BNP PARIBAS HOME FINANCE LTD.

S. Raghuraman
Authorised Signatory

Head -HR

SUNDARAM FINANCE

Sundaram BNP Paribas Home Finance Limited

II-floor, No.1947,28th Main Road, 9th Block,

Jayanagar, **Bangalore**-560069. Tel: 080- 26494747

BNP PARIBAS

Registered office:21, Patullos Road, Chennai-600002.

Date: 25/05/2018

CERTIFICATE

This is to certify that **Mr. Chethan D** bearing USN **1IA16MBA13** is a bonafide student of Master of Business Administration course of the Institute 2016-18 batch, affiliated to Visvesvaraya Technological University, Belagavi. Project report on **"A Study on Credit Appraisal with Special Reference to Home Loans at Sundaram BNP Paribas Home Finance Ltd, Bangalore"** is prepared by him under the guidance of **Prof. Swarupa Ranjan Panigrahi** in partial fulfillment of the requirements for the award of the degree of Master of Business Administration, Visvesvaraya Technological University, Belagavi, Karnataka.

Signature of Internal Guide

Signature of HOD

Head of the Department
Department of MBA
Acharya Institute of Technology
Soldevanahalli, Bangalore-560 107

28 May 18

Signature of Principal
PRINCIPAL
ACHARYA INSTITUTE OF TECHNOLOGY
Soldevanahalli Bangalore-560 107

DECLARATION

I **Chethan D**, hereby declare that the project report entitled **"A study on Credit Appraisal with special reference to Home Loans at Sundaram Home Finance Limited"** with reference to **"Sundaram BNP Paribas Home Finance Ltd "** prepared by me under the guidance of **Prof.Swarupa Ranjan Panigrahi**, faculty of M.B.A Department, Acharya Institute of Technology and external assistance by **Mr.Hemanth Kumar, Assistant Manager, Sundaram BNP Paribas Home Finance Ltd**.

I also declare that this Project work is towards the partial fulfilment of the university regulations for the award of degree of Master of Business Administration by Visvesvaraya Technological University, Belgaum.

I have undergone a summer project for a period of 10 weeks. I further declare that this project is based on the original study undertaken by me and has not been submitted for the award of any degree/diploma from any other University / Institution.

Place: Bangalore

Date: 28/05/2018

Signature of student

ACKNOWLEDGEMENT

The satisfaction and euphoria that accompany the successful completion of any work would be incomplete without the mention of the people who have made it possible whose constant guidance and encouragement served as a beacon of life and crowned my efforts with success.

I wish to pledge and reward my deep sense of gratitude for all those who have made this project come alive.

My sincere thanks to **Dr. S.C Pilli** Principal, Acharya Institute of Technology, Bangalore for the academic support given for pursuing this project.

There is not enough word to offer my vote of thanks **to Dr. Nijaguna.G** Head of Department of MBA, AIT Bangalore for his help in initiating the project report in advance for the regular motivation.

I am gratefully indebted to my internal guide **Prof.Swarupa Ranjan Panigrahi** Professor, Department of MBA, ACHARYA INSTITUTE OF TECHNOLOGY, BANGALORE for encouraging me and for his constant support throughout the course of the project and helping me to complete it successfully.

I would like to thank the Manager **Mr.Hemanth Kumar, Assistant Manager, Sundaram BNP Paribas Home Finance Ltd** (External Guide) for allowing me to undertake this project work at Sundaram BNP Paribas Home Finance Ltd. Last but not the least; I would like to thank all the employees of Sundaram BNP Paribas Home Finance Ltd, Bangalore for their immense support and cooperation given to me during working on this project.

Place: Bangalore
Date: 25/05/2018   **CHETHAN D**

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EXECUTIVE SUMMARY

The Credit Appraisal is an objective of ensuring and maintaining the quality of lending and managing the credit risk. The process of Credit Appraisal is multidimensional and includes - Management appraisal, Financial appraisal, Commercial appraisal, Economic appraisal and Technical appraisal.

The study explains appraisal is done to ensure the recovery of the credit along with good supervision, Monitoring and Relationship. Credit appraisal is a process in which a lender appraises the creditworthiness of prospective borrower. This normally involves appraising the Borrowers payment history and establishing the quality and sustainability of his income. The lender satisfies himselfof the good intensions of the borrower usually through an interview or personal discussions.

The study also speaks related to the NHB guidelines that are supposed to be followed by all the companies which comes under the NBFC's. The company norms and Criteria are also briefly mentioned for different category of customers.

In the support of the study data for the time of 5 years has been collected and calculated to examination. The study briefly explains how the company is performing from 2012 to 2016 through referring company's annual reports and financial statements. It clearly explains the importance of credit appraising in any company coming under the NBFC.

CHAPTER 1.

INTRODUCTION

1.1. INTRODUCTION ABOUT INTERNSHIP

Internship is mainly done for the purpose to gain practical knowledge to the college students. To earn the work experience on selected topic and provides an idea how theoretical knowledge should be applied on the practical working field. It also helps to boost in our CV on work experience and to understand the organization culture.

Sundaram BNP Paribas Home Finance comes under NBFCs which provides housing finance to customers with its various products and services. Many customers were impressed by the NBFC's as they could provide very high interest rate on the deposits comparing to other banks.

The motto of housing finance is to provide Housing loan and Non-housing loan at a lesser Rate of Interest. The expected outcome of the company is to gain more customers with providing good customer services and better customer satisfaction.

1.2 INDUSTRY PROFILE

Sundaram BNP Paribas home finance comes under NBFC. Non-Banking financial corporations (NBFI) is a regulatory body that allows the provision of services relating to the banking activity but does not come under the true meaning of banking in a legal procedure. The ways to conduct the functions may relate to the banking.

We can say that the NBFC'S refers to company with special reference to the financial assistance and performs the basic activity of collection of deposits from its customers with its own norms and criteria to be fulfilled according to the RBI act of 1997.

These kinds of firms are increasing in number as well as their growth rate is at peak these days. As the rate of return on deposits of these institutions are comparatively higher, more customers approach them. It takes part in various activities such as the leasing of equipment, home loans, consumer based finance activities and so on where the firm meets the higher amount of difference between the cost of demand and supply.

There are various classification of these institutions and they are the companies which provides the loan, Raise of investment firms, Leasing firms which includes hiring activities, mutual funds, Companies regarding home loan provision for the sake of commercial and residential purposes.

Advantages of NBFC's:
- Transaction cost is lower in rate.
- Compared to other banks, the rate of interest on deposits is higher.
- The financial decisions are taken quickly.
- Customer oriented and prompt provision of services.

For the purpose of securing the customers with their deposits at financial institutions, RBI has come up with new set of rules and regulations. If the firms are one among the NBFC's, they need to be divided into two main clauses; they are Loan and Investing firms as well as the finance company regarding to equipment leasing and hire purchase activities.

1.3 COMPANY PROFILE

With the objective of providing long-term housing finance to individuals for home ownership, SBNPPHFL was set up in 1999. Sundaram finance and BNP Paribas personal finance both have come together for the Joint Venture. SBNPPHFL also offers home insurance for the property as well as household contents and life cover for the home owner and his family. SBNPPHF combines its expertise in home finance with the service orientation of its provider Sundaram finance.

Based on huge potential in housing sector (considering the large shortfall in dwelling units) and with an aim to make housing loans available to both formal and informal section of society established Sundaram Home Finance Limited under the Companies Act 1956 incorporated on July 2, 1999 as its subsidiary company. SBNPPHFL has also obtained certificate of registration under section 29A of the NHB Act 1987 from National Housing Bank which is a regulatory and advisory for Home loan companies.

Sundaram Finance Limited (SFL) and Union de Credit pour le Batiment (UCB) a wholly-owned subsidiary of BNP Paribas, France, had entered into an agreement on 9th may 2007, regarding a strategic partnership in housing finance in India whereby UCB will acquire a 49.9% stake in Sundaram Home Finance Limited. Consequent to the completion of the regulatory approvals, the name of the company has been changed to Sundaram BNP Paribas

Home Finance Limited effective since 28th November 2007.

FOUNDER OF THE COMPANY:

Born on November 8th, 1912, Mr. Santhanam had his education in Madurai. In 1930, he joined his father in business, and thus began a life time involvement in automobile and finance. He moved to Chennai in 1936, and served parent company T.V. Sundaram Iyengar & sons, in various capacities, gaining rich experience in road transport, marketing of automobiles, manufacture of automobile components, general insurance, banking and finance. In 1954, he founded Sundaram finance, which together with its subsidiaries, now an asset base amount of about Rs. 23915 crore. He was associated with the foundation for over 25 years. The Sundaram medical foundation and the hospital managed by it stand testimony of his keen interest in charitable causes.

1.3.2 VISION, MISSION and QUALITY POLICY

VISION: To be a finance company of par excellence to contribute to mitigation of shelter-related problems of both the formal and informal sectors.

MISSION: To create value-addition for its promoters and stakeholders.

QUALITY POLICY

> - **Respect others, their needs & sentiments.**
>
> - **Develop & maintain trust.**
>
> - **Communicate freely & maintain confidentiality.**
>
> - **Be on time always.**
>
> - **Never ever take shortcuts.**
>
> - **Admit & share mistakes.**

1.3.3 PRODUCTS / SERVICES PROFILE

Table 1.1: Table showing Products of the company.

(A) HOUSING LOANS	(B) NON-HOUSING LOANS
Home loans	Lamp residential
Home improvement loans	Lamp plus
Home extension loans	Lamp commercial
Land loans/ plot loans	NRPR
Take over	Lamp on plot

RATE OF INTEREST as on (11-01-2017):

Table 1.2: Table showing HOUSING LOANS (%)

LOAN TYPE	(<=75 LAKHS)	(> 75 LAKHS)
Salaried	8.70%	8.70%
Salaried (including group employees)	8.70%	8.70%
	9.25%	9.25%
SE-2/ Self- appraisal	10.50%	10.50%

Table 1.3: Table showing PLOT LOANS (%)

LOAN TYPE	LOAN SLABS
Salaried	9%
Salaried (including group employees)	9%
SE-1/ SF Customer	10%
SE-2/ Self- appraisal	10.75%

Table 1.4: Table showing NON-HOUSING LOANS (%)

LOAN TYPE	LAMP Plus with Takeover (<= 75 lakh)	LAMP Plus with takeover (>75 lakh)	Lamp-residential For existing customer (upto 15 Lakhs)	Lamp-Residential
Salaried	8.70%	8.70%	10%	14.50%
Salaried (including group employees)	8.70%	8.70%	10%	14.50%
SE-1/ SF Customer	9.25%	9.25%	10%	14.50%
SE-2/ Self-	10.50%	10.50%	10%	14.50%

Source: Company book information.

*NOTE: LAMP- Commercial, LAMP-Plot, NRPRO loan amount interest rates are 15.50%.

RURAL HOUSING: All loan slabs in this loan type consists of 9.25% fixed for 10 years.

CORE N, 1, 3: All loan slabs in this loan type consists of 3% higher than the applicable home loan rate.

Table1.5: Table showing Permissible limits of LTV for all categories.

SI.NO	Product		LTV				
			Salaried/Group/SF Group Employees	NRI	SF CUSTOMERS	SE I IT returns	SE II External /Internal Appraisal
1	Housing loans	Up to Rs. 30 lakh	90.00%	90.00%	90.00%	90.00%	90.00%
		Above Rs.30 lakh up to Rs. 75 lakh	80.00%	80.00%	80.00%	80.00%	80.00%
		Above Rs.75 lakh	75.00%	75.00%	75.00%	75.00%	75.00%
2	Plot loan		75.00%	75.00%	75.00%	75.00%	60.00%
3	LAMP Plus –(Home loan BT)		70.00%	Not offered	70.00%	70.00%	70.00%
4	LAMP – Residential		50.00%	Not	50.00%	50.00%	50.00%

			offered			
5	LAMP – Commercial and NR Pro loan (purchase/construction of commercial property)	50.00%	Not offered	50.00%	50.00%	50.00%
6	LAMP – Plot	50.00%	Not offered	50.00%	50.00%	50.00%
7	CORE N – Building plan approval not available	50.00%	50.00%	50.00%	50.00%	50.00%4
8	CORE 1- Commercial real estate others – more than two kitchen	As applicable to housing loan	As applicable to housing loan	As applicable to housing loan	As applicable to housing loan	As applicable to housing loan
9	CORE 3- Commercial real estate – third property	As applicable to housing loan	As applicable to housing loan	As applicable to housing loan	As applicable to housing loan	As applicable to housing loan

1.3.4 AREAS OF OPERATIONS

As shown in the above picture of Sundaram BNP Paribas home finance ltd., there are 14 branches all over Karnataka. Bangalore consists of 5 branches in places like Jayanagar, Whitefield, Kengeri, Malleshwaram and Yelahanka. Other branches are in Mysore, Mangalore, Shivmoga, Davanagere, Hubli, Raichur, Gulbarga, Belgam and Bellari.

All over India, company consists of 109 branches in various places as on date in the states such as Andhra Pradesh, Gujarat, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Pondicherry, Rajasthan, Tamil Nadu and West Bengal. The head branch is located in Chennai, Tamil Nadu.

1.3.5 INFRASTRUCTURAL FACILITIES

- Sundaram BNP Paribas home finance has a reliable and scalable state of the art IT Infrastructure.
- Automated & centralised processing by adopting to the customer friendly procedures.
- The company maintains high standards and latest technology.
- All branches are connected on a Real-time basis.

1.4 COMPETITORS INFORMATION

- HDFC
- ICICI Bank
- PNB Housing
- LIC
- SBI Group
- AXIS Bank
- DHFL
- IIFL
- Vijaya Bank
- Syndicate Bank

1.5 SWOT ANALYSIS OF SBNPPHFL

STRENGTHS:

• The company consists of automated and centralised processing by providing friendly procedure to the customers with high standards and latest technology.

•In-House employees such as Legal and Technical team, Credit person, Accountants, Recovery team, Recovery legal to carry on smooth flow of operations.

•SBNPPHFL consists of external verifying agency.

•The company gets major support from the group companies such as SF, SBNPP Asset management, Royal Sundaram alliance insurance, etc.

•The company gives High employee morale.

•The company carries forward investor's trust and faith in the company.

•The company consists of No hidden costs and always direct dealing betweencustomer and the company.

•SBNPPHFL has a reliable and scalable state of the art IT infrastructure.

•SBNPPHFL includes the process of speedy sanctions and personalized services.

•The company ensures committed post disbursement services:

  ➢ Communicating/ reminding on due date.
  ➢ Issuance of statements of accounts.
  ➢ Updating customers of various offers and schemes from time to time.

• Income tax benefits: under the income tax act, 1961 resident Indians are eligible for certain tax benefits on principal and interest component on the loan instalment repaid.

• SE 2 Customers income is assessed by in-house CA team by doing self-assessment to get the housing loan facilities even if they do not file the income tax returns.

WEAKNESSES:

• NRPRO is funded by making high interest rates.

• The Company does not act as a bank in order to get the increase number of portfolios.

• In SBNPPHFL Market value funding is not done i.e. excluding Stamp duty, Service charges, registration charges and VAT, etc.

• The company does not provide the service like Project Funding as of now

• The company is not Aggressive as compared to other companies. E.g.: it follows each and every rules and regulations along with the company's norms compulsorily.

OPPORTUNITIES:

•SBNPPHFL has a better asset quality parameters over other NBFC's, hence the project growth is likely to increase.

• NBFC's target the retail sector more like Consumer durable loans, Vehicle finance loans, Home loans are all available with NBFC's.

• NBFC's has a faster loan processing time which means applicants get loan approval and disbursal faster.

• NBFC's can be more accepting of lower credit scores, and they balance their risks by charging higher interest rates.

• While taking home loans as well, the paper work requirements for NBFC's may be less stringent than banks.

THREATS:

• The Non-Banking financial companies and new age Banks are increasing in India.

• The Government Banks are trying to modernise to compete with private banks and other NBFC's.

• Reserve Bank of India has opened up for foreign banks to invest in Indian market.

• Banks offer various discounts to women, which most of the NBFC's don't at the movement.

• The various Bank's upside of going through greater scrutiny is that loan applicants can get lower processing fees and lower interest rates.

• Sudden changes in Regulations and Company norms due to Recession, Natural calamities and Change in market prices/indices.

1.6 FUTURE GROWTH PROSPECTS

• The company planning to do Project funding for category A and B builders.

• The company planning to implement Core Banking facility.

• The company is trying to expand its number of branches in all the districts of Karnataka.

• The company is planning to extend housing loan for SE2 customers by providing CA appraisal.

1.7 FINANCIAL STATMENT

Current Ratio: The current ratio is performed to analyse whether the company consists of enough resources to maintain its next one year debt. It results in the liquidity and short-term Solvency of the company.

Current ratio = (Current assets/ current liabilities)

Table 1.6: Table showing Current Ratios.

Year	Current assets	Current liabilities	Current ratios
2012	67857	118521	0.57
2013	91650	252068	0.36
2014	113164	290540	0.39
2015	102926	181237	0.57
2016	103967	258099	0.4

Source: Audited financial information from 2012-2016

Analysis: from the above table, we can understand that the company is able to settle the current liabilities in time as it consists of high current ratios.

Debt- equity ratio: It is used to measure the financial leverage of the company. It show the value of debt used by the company to finance its assets proportion relative to the amount of value shown in shareholder's equity.

Debt-equityratio=(Totallongtermdebt/shareholder'sfund)

Table 1.7: Table showing Debt-equity ratio

Year	Total Long-term Debt	Shareholder's Funds	Debt-equity ratio
2012	352120	32594	10.8
2013	521731	51455	10.14
2014	598322	69790	8.57
2015	640154	76472	8.37
2016	653329	87479	7.47

Source: Audited Financial information from 22012-2016.

Analysis: from the above Table, we can understand the organisation has capability to fund for the assets by the value of its debt.

CHAPTER 2.

THEORTICAL BACKGROUND OF THE STUDY

2.1. THEORTICAL BACKGROUND

OVERVIEW

Sundaram BNP Paribas home finance limited was incorporated in the year 1999 and is regulated by the National Housing Bank (NHB) which was set up on July 9' 1988 under the National Housing Bank Act, 1987 which extends to the whole of India.

NHB is wholly owned by reserve bank of India, which contributed to its entire paid-up capital. The basic objective of NHB is to operate as a principal agency to promote housing finance institutions both at local and regional levels and to provide financial and other support to such institutions and for matters connected therewith or incidental thereto.

NHB GUIDELINES

NHB has laid down certain regulations for housing finance companies which are as follows:

a) Registration and Commencement of Business:

Registration: to qualify as a housing finance company, a company should have registered under the companies act, 1956 (now companies act 2013) and should primarily transact or has as one of its principal objects, the transacting of the business of providing finance for housing, whether directly or indirectly.

b) Deposits: HFC's are categorised by NHB in terms of the type of liabilities i.e. into deposits and non-deposit accepting HFC's and are issued the certificate of registration accordingly.

Sundaram home has been categorised as a deposit accepting company and is therefore required to follow all the guidelines with regard to deposits laid down by NHB, as detailed below:

Acceptance of deposit:

A housing finance company may accept public deposits up to 5 times of its net owned funds provided; both the following conditions are satisfied:

• Obtain credit rating for its fixed deposits, not below the minimum investment grade with rating from approved rating agencies:

Table 2.1: Table showing Credit rating Agency.

RATING AGENCY	MIN. CREDIT RATING
CRISIL	FA (-)
ICRA	MA (-)
CARE	CARE BBB (FD)
FITCH	tA-(ind)(FD)
Brickwork	BWR (FA)

Source: Company information book.
NOTE: 'AAA' is the highest / maximum rating.

To comply with all the prudential norms & maintaining a minimum capital to risk asset ratio (CRAR) OF 12%.

- **Period of deposits:**

According to the NHB, the payment of deposits can be made for the period between 12 months or exceeding to it but it must not be over the 120 months from the period which the customers are approached for the purpose of renewal or acceptance of the deposits made at company.

Repayment of deposits:

Since the date of acceptance of deposits, none of the home loan companies will perform the activity of repayment of deposit made at the firm by the customers. At the circumstance, such as repayment of deposits before the arrival of period of maturity, there are different procedures to be followed while distributing the interest payments. they are as follows: The minimum or least time of lock in period of the deposits is 3 months from the time before maturity. The maximum extent of interest provided will be 4 % for the individual customers but whereas for the other category customers, interest option is not available

for the customers with time difference of 3 to 6 months.Before the arrival of date of maturity and 6 month minimum time period, only one percent interest is available.to public deposits.

Brokerage:

No housing finance company shall pay to any broker on public deposit collected by or through him:

• Brokerage, commission, incentive or any other benefit by whatever name called in excess of 2% of the deposit so collected.

• Expenses by way of reimbursement on the basis or relative vouchers/ bills produced by him, in excess of 0.5% of the deposits so collected.

Maturity Intimation:

It is obligatory on that part of HFC to intimate the details of maturity of the deposit to the depositor at least 14 days before the date of maturity of the deposit.

NOTE: company's policy on deposits, with regard to NHB guidelines, has been enclosed and marked as annexure-1.

c) Closure/ opening of branches:

Closure of branches: the permission to close or to shift the companies branch or the office premises can happen only if the news is published in the newspaper at national level as well as with the reference to NHB before the time period or constraint of 90 days of the closure activity of the companies or financial institutions performing the housing finance.

Opening of branches: the housing finance companies can make the opening of their company new branch or offices in different places only after getting the permission and intimation from the NHB which is the regulatory body of all the housing finance companies by way of writing or through written document.

d) Statutory Liquidity Ratio (SLR):

All the housing finance companies need to fix or maintain at the least or minimum rate of 12.5% on the deposits made by the company.

e) Capital Adequacy Ratio: each and every financial institution need to maintain a certain rate of minimum capital ratio which is 12% for all the housing finance companies. It can be found through the statistical formula which is as below:

h) Non-performing loans:

Non-performing loan inclusive of unpaid interest refers to a loan whose instalment is overdue for a period of more than 90 days or on which interest amount remained overdue for a period of more than 90 days.

Each and every institution called to be a housing finance will have to face the challenge of reducing the NPL as it is certain in nature that the customers may try not to pay their instalments.

- Standard assets:

There are loan accounts which are not considered as the NPL as the customers may pay the instalments late due to a valid reason. They will immediately pay the instalments as they turn to be a NPL.

- Sub-standard assets:

It refers to the NPL which are not paid for about more than 12 months period of time after the loan turn to be a NPL.

- Doubtful assets:

The loan taken from the borrowers who do not pay their respective instalments for the period more than the 15 months of their loan turn out to be a NPL at the company are called to be doubtful assets.

Loss assets:

The entire assets shall be written-off in case the account becomes a loss asset. If the assets are permitted to remain in the books for any reasons (100% of the outstanding shall be provided for).

➤ Provisions: an amount set aside from profits in the accounts of an enterprise for a known liability, though the specific amount of the liability may not be known, or for the diminution of the value of an asset.

➤ Note: the above percentages are only the maximum percentages prescribed by the NHB and hence the percentages set by the company may differ.

KNOW YOUR CUSTOMER

The objective of know your customer guidelines is to prevent housing finance companies (HFC's) from being used, intentionally or unintentionally, by criminal elements for money laundering activities. KYC procedures also enable HFC's to know/ understand their customers and their customers and their financial dealings better which in turn help them manage their risks prudently. The essential requirements to maintain a know your customer document is for the purpose of monitoring the movement of transactions of customers and to avoid as much as the risk.

Table 2.2: Table showing Outlook by Credit Rating Agencies.

Borrowing through	ICRA	CRISIL	CARE
Short term debt/ commercial paper	(ICRA) A1+	CRISIL A1+	_
Fixed deposits	MAA+/ Positive	FAA+/Stable	_
Non-convertible Debentures	(ICRA) AA+/ Stable	_	CARE AA+
Subordinated debt	(ICRA) AA+/ Stable	CRISIL AA/ Stable	CARE AA
Long-term bank Loans	(ICRA) AA+/ Stable	_	CARE AA+
Structured Obligations	(ICRA) AAA (SO)	_	_

The Sundaram home finance credit rating is AA+ and Sundaram finance credit rating is AAA given by CRISIL.

ELABORATIVE INFORMATION ON TOPIC

LOAN APPRAISAL - INTRODUCTION

Loan appraisal is process of evaluating a loan proposal to find out the repayment capacity of the borrower. The primary objective is to ensure safety of the money that is lent to customers. This process involves financial appraisal of the borrower and legal and technical appraisal of the property.

The primary aspects to be looked for arriving at the loan eligibility are:

- Income of the applicant and co-applicant.
  - Age of the applicants.
  - Qualifications and family details.
  - Nature of business/employment, experience, vintage, previous occupation history.
  - Net worth, additional source of income, if any
  - Repayment history
  - Recurring liabilities
  - Investing and savings
  - Clear and marketable titles.
  - Cost of acquisitions.
  - Marketable value of the property.

LENDING POLICY FRAMEWORK

1. PRODUCTS:

Eligibility criteria: properties should be situated at places where all basic amenities like water, sanitation and transportation is provided. Properties should fall under corporation, municipal, town panchayats

2. Classification of borrowers:

Table 2.3: Table Showing Category of Borrowers

SALARIED	SELF EMPLOYED
Normal salaried class	SE 1
Group & SF group employess	SE 2
NRI's	SF Customers

3. Income norms:

(a) For salaried profile, we may consider the gross income that is reflected in the payslip. In case of self-employed, we should consider the net profit average for 3 years.

(b) Income that should not be considered for appraisal are:

• Agricultural income: it is non-taxable and non-stable as well.

• Rental income: its consistency may be in doubt.

• Performance norms, medical reimbursements/ leave travel allowances.

• Interest incomes.

(c) Quantum of loan:

Product	minimum loan amount
• Plot loan	2 lakhs
• All home loans and lamp plus	1 lakh
• All non- housing loans	3 lakhs

4. Age criteria:

The minimum age of the borrower at which the loan can be availed is 18 years. The maximum age of the customer whose income has been considered for appraisal purpose will be retirement age i.e.; 58 or 60 years for salaried and 65 years for self-employed.

5. Key indicators for determining loan eligibility:

(a) Instalment to income ratio (IIR) - The maximum IIR that can be considered is 45%. IIR is expressed in % and denotes the income that can be spared by the customer towards the housing loan repayment.

IIR= [EMI for the loan amount/ Total income considered *100]

(b) Fixed obligation to income ratio (FOIR) - The maximum FOIR that can be considered is 50%. FOIR Includes borrowers total monthly obligations which includes the EMI of the proposed loan and other loan obligations.

FOIR= [EMI for the loan amount+ other loan commitments/total income considered*100]

(c) Loan to cost ratio (LCR) - The loan to cost ratio is purely governed by the documented value of a property. Here the cost of the land, cost of building as per the sale deed will be considered. For self-construction cases, home improvements and home extension cases, the estimated value will be considered.

LCR= [Loan amount/estimated cost incurred for construction or sale deed value for purchase* 100]

(d) Loan to value ratio (LTV) - The LCR and LTV varies based on the product and profile. Prevailing market rate which is assessed based on various factors by the technical firms is a very important component at arriving the loan amount.

LTV= [Loan amount/value assessed by the technical officer *100]

6. Loan term: The maximum loan tenor that can be sanctioned varies based on the different products and also age of the customer.

Table 2.4: Table Showing Loan term of the company.

PRODUCTS	CATEGORY	MAXIMUM TERM
Home loan	Salaried	20 YEARS
Home loan	Self-employed	15 YEARS
Plot loan	Salaried & self-employed	15 YEARS
Home loan	NRI	15 YEARS
Non-housing loan	Salaried & self-employed	10 YEARS

The non- housing loans are not offered to NRI's. The loan tenor should not exceed these terms

7. FEES: The applicable fee ranges from 0.5% to 0.75% for housing loans and upto 2% in case of Non-housing loans.

8. Prepayment charges:

- Housing loans: nil or 1% in case of take-over of fixed rates.
- Non-housing loans: nil.

However, if one of the borrowers/guarantors is a corporate, then changes are applicable. 1.5% for own funds and 2% for takeover.

CREDIT DOCUMENTATION REQUIREMENTS

1. General Requirements:

- Application form duly filled and signed by applicant with latest photos.
- KYC documents- Age/ ID and address proof.
- Compliance of KYC forms
- Most important terms and conditions (MITC).

2. For salaried profile:

- Latest 3 months payslip or latest salary certificate.
- Latest year form- 16.
- 6 month's bank statement where salary is credited.
- Repayment track of loans availed.
- Previous employment proof, if customer is employed with the current employer for less than 2 years.
- Appointment order from the present employer.

3. For Self-employed profiles:

- Last 3 years ITR with computation sheet, P/L account, B/S, Schedules, Form 3CB, Form 3CD.
- Repayment track of loans availed.
- 6 month's bank statements- CA/SA/OD/CC account.

- Business vintage proof
- Company proof.
- Registration certificate/ partnership deed/ MOA/ AOA etc…
- Professional certificate for professional.

4. For NRI:

- Six month's pay slip.
- Salary credit overseas bank statement for 6 months.
- NRE/NRO bank statement for 6 months.
- Local and overseas address proof.
- Appointment order from present employer/previous employment proof.
- General power of attorney.
- Valid visa and passport copy.
- Qualification certificate.
- Resume.
- Credit report for countries like US, UK, Singapore and Australia.

5. For SF customers: Apart from the ITR'S the following needs to be collected:

- RC book copies for the vehicles owned.
- Route permit.
- Copy of insurance document.
- SF recommendation.
- SOA from SF.

6. Caution profile:

- Money lenders, people engaged in the film industry, politics.
- People involved in real estate.
- Low level employees/ workers.
- Employees of certain specific departments.
- Commission agents.
- Advocates.

FIELD INVESTIGATION

1. Residence verification:

- Correctness of the address as mentioned in the application form.
- Standard of living of the borrower.
- Quality of the locality and surrounding areas.
- Traceability of the address.
- Whether the residence is owned rented or company accommodated.
- Neighbours references check.
- Numbers of members seen.
- Telephone number to be verified.

2. Employment/ Business verification

a) For salaried individual:

- The existence of the company.
- Address of the company.
- Department where the applicant works and his nature of work (manager, clerk, etc)
- Designation can be checked with colleagues or through the HR department.
- Salary details.

b) For Employment/ Self-employment:

- Nature of business & number of years in business.
- Level of business activity.
- Number of employees.
- Number of clients.
- Office locality & condition of the building where office is located.
- Reference check with the debtors and creditors.

3. Verification of the income documents

a) For salaried individual:

- Employees name and logo.
- Date of latest pay slip.

- Name of the borrower, his designation, department and date of joining.

• Structure of the payslip with regard to its constituents like basis, DA, etc… this should be cross verified with the documents such as form 16/ appointment letter.

• Mode of payment whether by cash/ bank/ bank account number in case of bank credits.

• Authorised signatories in the payslip.

b) For self-employed:

• Name, PAN, Residence address, Father's name and address.

• Status of the assesse, assessment year, ward, range where he has filed the ITR.

• Serial number for sequence.

• Tax paid challans.

• Statement of income to be attested by a chartered accountant and his membership.

• P & L account and the B/S, Audit reports, notes on accounts.

• Any other documentary evidence establishing the details of his turnover, clients, vintage of business such as VAT returns, agreement copies, invoices, sales ledgers, etc.…

SANCTION AND LEGAL- TECHNICAL CO-ORDINATION

1. Loan recommendation: The sanction powers have been delegated to branch and area heads. Files which do not fall within these powers are the sent to co, where the sanction powers lies with VP, MD, EC and board. It should be ensured that when the file is ready in all aspects,   as a branch head, the following are to be checked before sanctioning or recommending for sanction:

• The application is in the prescribed format, filled in all aspects, photos are affixed and attested.

• The enclosures to the application are availed and from part of the file based on which computation of income for loan eligibility was made.

• All the enclosures are attested by the borrower.

• Personal discussion sheet is available.

• All the lending norms have been adhered to.

- Deviations, if any, to be justified & approved by competent authority.
- The interest rate, fee, product and scheme chosen are appropriate for the profile.
- The loan quantum offered is in line with the parameters prescribed for the profile.
- Any loan offer conditions to be stipulated.

2. Legal and Technical: In case of the property is identified, the legal documents can then be sent for title verification and upon submitting the plan approval and title document the technical officer can inspect the property.

3. Documentation: The loan documents must be executed by the borrowers before availing the first disbursements borrowers must execute the loan agreements in the presence of a staff at the branch. Once the documents are executed, they are to be sent to CPC along with the other title documents in a docket.

The borrowers must acknowledge the terms and conditions stipulated in the loan offer letter should also form a part of the file.

PRE-DISBURSEMENTS PROCESS

•Accounting of the balance PF.

•Disbursements reqest form.

•Any conditions stipulated by legal, technical or credit needs to be complied before fixing disbursements.

•The property insurance cheque to be collected.

•In case of KLI, the KLI form and annexure, to be checked and sent, whenever KLI is not applicable, the personal accident form to be collected from borrower.

• Pre-EMI PDC's in case of part disbursement and NACH/ADD/ECS forms to be collected fully disbursed cases. In case of DAS, authority letter to be obtained.

•A letter accepting the billing date to be obtained from the customer. Any change in the billing date requested by the customer should be done when fixing the disbursements. The billing date change can be before/ after the due date. Any change beyond the due date will result in pre-EMI interest.

•Coordination with the CPC for pre-disbursement clearance.

•Handing over the disbursements cheques, obtaining customer acknowledgements on

the cheques/ covering letters and co-ordination for registrations and collections of post disbursements documents.

POST-DISBURSEMENTS PROCESS

- Follow-up and collection of post disbursements documents.
- PDC- data entry (PEMI at branch, EMI @ CPU).
- Daily cheque returns.
- ECS/ADD mandatory registration.
- Collections- ECS/ADD / Cheque returns.
- Handling customers.
- Audit compliance.
- Follow-up for partly disbursed files.

OVERVIEW OF OUR APPLICATION SOFTWARE "HOMFINSYS"

• Details of customer ID: All personal details, banking behaviour, net worth, net income & commitment, property details, credit information report & FI reports.

• A temporary reference number (TRN) will be created once the applicant and co-applicant details are attached to the file.

• Completion of credit notes and recommendations of the BDO, branch and area heads to be recorded in the file.

•Loan to be reviewed and recommended after checking on the product, profile, rate, PF, term and deviations, if any. Key ratio's such as IIR, FOIR, and LTV should be checked to ascertain they are within the prescribed norms.

•Once these checks are done then the file can be put up for sanction.

•Upon sanction the sanction letter to be generated and sent to customer.

•Legal and technical will clear the file for disbursements.

•Once this is done, the disbursements can be fixed based on customer request.

•Post- dated cheques and other payment cheques to be updated in the system.

•Dues like property insurance, personal accident life cover should be cleared when fixing the 1st disbursement. Pre- EMI interest to be collected when the file is partly disbursed.

FILE MANAGEMENT AND CONTROL

Files under process and sanctioned undisbursed files should be regularly monitored. Once logged in, the files should be in the custody of the Customer Support Officers (CSO) or Branch heads and should not move out of office. Files which are cancelled should be sent to CO for scanning.

Files logged in should have the loan application and all annexures to the application arranged in a proper order as detailed below:

- Application form duly filled-in.
- Income documents of the applicant and co-applicant.
- Bank statements of the applicant and co-applicant.
- Age proof, ID proof and address proof (KYC of all borrowers).
- Field investigation reports (FI's) in the prescribed from available in connect.
- Credit information reports.
- Online verifications reports.
- Customer information sheet.
- Approval of (copy of email message) the deviations taken, if any.
- Property documents (plan and agreement for sale or sale deed copy).
- Technical reports (mandatory for non-housing loans).
- Loan appraisal form (L.A.F)/ loan proposal note.
- TAT sheets to be pasted.

2.2. LITERATURE REVIEW

Manureet Riar and Dr. G. S. Bhalla (2016) says that in housing is one time achievement in person life. The situation arises of need of the huge amount for the purchasing of quality housing, this gap is bridged by the housing finance. In the present study the judgemental sampling method is being used. In order to collect the data and sources, the appropriate questionnaire is well structured. The statistical tools used are Mean, Standard deviation and Factor analysis.

The National Credit Union Administration (NCUA) (2001) Clarified in 2002 revised its appraisal rule to make it more flexible and similar to appraisal requirements bank authorities impose as more credit unions are attracted to real estate lending. To the extent possible, the appraiser must not be involved in any kind of credit union's real estate lending, investment and collection activities.

Blood and Roger(1989) clarifies the weakening of sound foundation of home mortgage lending by new federal tax provisions which states that tax deductible borrowing on a home inflated paper value which arises in the credit risk. Minimum appraisal standards could be included in regulations governing the tax deductible lending.

Minderman, Dean C (1992) explains that many credit unions are promoting home equity loans in an effort to enhance their portfolios with loan demand going slow in economy. Variable loan rates are more popular and acceptable in economy, due to low interest rates although there is an uncertainty in providing credit to these type of customers.

Molvig and Dianne (1999) explains that the challenge faced is to know the steps in progressing more than the credit unions which provides home equity lending products. Various strategies are being adopted to increase the profit rate through marketing by discussing in the market. Many financial institutions in the various places of Kansas City incorporates fees into the rate structure and market home loan products as no-closing cost product.

Farrell and Kathlyn L (1994) says that few banks considers mobile home loans to be attractive and viable in nature. It is risky as well as difficult to maintain the documentation of procedure. Due to regulatory and congressional pressure currently bearing upon the banks guide in coming across with the needs of credit and housing customers in the market.

Guard and Marybeth (1998) explains that under each of the lending regulations will ensure the soundness of the mobile loans pass regulatory scrutiny by examining the treatment of loans and

by taking a systematic approach towards it. Loans which are secured by the unaffixed mobile homes are not covered. All types of credit is applicable under The Equal Credit Opportunity Act. Both affixed and unaffixed mobile home loans fits within the purpose of dwelling regulations act.

Robert and Michelle (1998) describes that as a basic rule, many regulatory bodies and acts relating to the mortgage does not assists that the financial institutions need to report to it regarding 2nd lien home equity loans. An equity loan cannot be secured by land which is used for the agricultural purpose unless the primary motive for its use is for the production of milk.

Lai and Zhihong (2001) explains that the variables such as interest rate changes, loan size, loan to value ratio and borrower's credit have a significant impact on mortgage repayment stated as in theoretical models and empirical studies. The objective of this paper is to empirically analyse the situation through three statistical stages which are the ordinary logistic regression, the cox regression of proportional hazard model and the discrete-time logistic regression. They suggest that the discrete-time logistic regression is better than the cox regression proportion of hazard model, even though it is not concluded which model is better in general.

Sabry, Faten, Franceschelli, Ignacio, Claxton, Drew (2016) evaluates the relative importance of changes in the home equity loans and also the potential errors of appraising values in clarifying the borrower's probability towards his default in repayment of loan. Mortgage loans originated between 2005 and 2007, they estimated multinomial logistic models of default and prepayment using loan level data more than 3 million subprime mortgages. They found that 44.8% of subprime borrowers were at defaulters list by 2011.

James R Hagerty, Ruth Simon and Jonathon Karp (2007) explains that due to change in the financial institutions guidelines and relying on their employees to source for the customers, the brokers are being affected and facing major issues. The president of national association of mortgage brokers said that he didn't notice that many employees going out of the business by telling they cannot perform this activity anymore in which they were specialised in due to lack of programs and products to offer.

Shaw and Michael (1996) explains regarding the credit scoring being misunderstood and most of the mortgage industry and also they have misconception that credit scoring is not useful in accessing the credit worthiness of the customers. The benefits achieved by most of the financial

institutions are from using the credit scores as it is reliable data and gives accurate estimationsof loan performance. Financial institutions need to monitor their models by updating and checking its viability in this changing market conditions.

Bankston and Karen (2009) explains that the by clear examining of dramatic economic downturn of 2008 happened surprisingly, but executives of credit unions were appraised for lending activities. By altering the promotions and processes the lending became much easier to the appraisers by market share gains, steady delinquency rates of the company while the others had issued sharp rates and a growing perception of positive thinking regarding achieving the target of loan segments.

Ghosh (2010) explains that the history of credit crunch is not a new thing to the economy as it faced many situations earlier and dealt with it. The recent observance on the credit crunch and its link to sub-prime mortgage industry has put a dark opinion the overall economy. The Model explains how interest rates and capitalization of banks influence the lending process.

Clark and Danial M (1987) Explains that according to National second mortgage association, critics charge that lenders are supporting borrowers to make their homes as collateral property at the time of debt are high. The lines of credit and home equity loans are offered 4 basic formats and they are open ended as line of credit or close ended as a lump-sum loan with either the fixed or variable rate of interest. Here they face major situation of marketing the products.

Ding and Lei (2014) explains that after the great recession, the flow of credit to the residential sector is a difficult situation in the recovery of housing market. This study portraits the effect of information externality on the lending decisions during housing crisis of metropolitan cities from previous transactions. Results of this study states during the housing crisis, the positive side arises by the systematic process of property evaluation and also the mortgage underwriting.

Ahmed, Sufi Faizan, Malik and Quisar Ali (2015) says that the dimensions of credit risk management practices such as credit terms, client appraisal, collection policy and credit risk control on the lending procedure to evaluate the influence of the credit risk management practises is the main aim of the study of this paper. For empirical relationship evaluation of credit risk management practises on the performance of lending, they have used the multiple regression analysis. The study result says that collection policy and credit risk control have

positive but insignificant impact on the lending performance but whereas credit terms and client appraisal gives positive as well as the significant impact on the study.

Mann, George R, Lawton, G Kevin (2003) explains that an adequate underwriting which supports the transaction and also the thorough ongoing account management can help in finding the safety and soundness of the lending activities of Real Estate businesses. For all the real estate related financial transaction an appraisal performed by the state-certified or licenced appraiser is necessary. They found the results in getting the real estate appraisal done in 3 main parts which are competent appraisers, the significant appraisal policy and report for each transaction and determining the appropriate policy to review the transaction relating to the appraisal report.

Lentz, George H and Wang K (1998) says that in this study the various strengths and weaknesses of appraisal techniques are assessed, issues relating to the use of neighbourhood appraisal techniques for lending activities are also mentioned and the development of appraisal methodologies are discussed. The study result shows the frequently encountering the accommodation of data constraints improvises the accuracy of appraisal estimates.

Zhang, Jiawei, Tang and Hua (2014) explains that a huge step was taken by releasing new data to mortgage market towards greater transparency and returning private capital. This article presents the statistical results of analysis for the GSE loan level data which are engaged in the risk level transfer transactions.

Hochgraf and Lisa (2003) says that credit union's effort can get a boost by electronic real estate lending tools. It speaks of investing hours of time to interrogate issues relating to lending procedure in the things such as application data for a single loan, calculating debt, collecting credit, flood and valuation information, other ratios and printing of valuable documents. By using the Ellie Mae's loan origination system series to mortgage banking has helped get things done in minimal time for equity loans as well as the first mortgages.

Lawrence E (2015) explains that the articles mainly concentrates on the issues of the transactions which gets processed from loan inception and ends getting lending activity done but comes to the stage of liquidating the collateral which will be the asset based loan. Due to recent spurt in the growth, the line of credit is weakened. The banks get the right to lien on these kind of transactions to amortize the loan. The results identifies easiest part of the collateral package to collect the accounts receivables in this situations.

Goff and Leslie (1995) says that house buyers are being in relief as the mortgage industry is providing them the service with the lending of information relating to length and cost of the credit loan application process. By eliminating the certain traditional documentation process with the aid of expert systems in the industry lenders are able to approve the borrower's credit and also to fix appropriate interest rates. It also speeds the mortgage application and approval process.

Cassis and John (2007) says that there is an impact on the bank, on customers and on shareholders by the every decisions and opinions made by the credit professionals. There is always something new to learn and indulge in modern policies to the bankers to make a positive difference to their financial institutions, their clients as well as to their colleagues because of changing trends in the market.

Madhu T (2013) portrays that in order to educate the normal individuals regarding the importance of reliable credit history and Do's and Don'ts list prepared by some of the experts originally propagated by the credit information companies such as CIBIL, Experian and Equifax. This study found that the objective of the bank's credit appraisal process is to find the evaluation and intention of repayment of loan by the customer on agreed terms and conditions, says a senior executive vice president and head of debt management, risk intelligence and business analytics called Rajesh Kumar at HDFC Bank.

Lamb and Ellen Clair (2002) explains that in the recent study of American housing survey, they found that the all American homes are built with 5 units are so which is occupied mostly by the tenants occupation. According to the study, there is a rise in multifamily or apartment housing loans. The savings institutions and community banks in particular encourage this kind of loans because of their relatively low risk profile and community importance. Hence there is a good corporate citizenship as well as reliable business in this area of portfolio according to many bankers.

Walsh and John (2009) speaks on the 3 important attributes to consider the loan application in the market to underwrite lending procedures and they are income, credit and collateral. Previously, the human appraisal and software based automated application model (AVM) were considered for credit valuation. More cost effective ways to value properties by the lenders, then the AVM came into picture. The statistical approach has been introduced to replace the human appraisal. In order to arrive at more confident price point for the inconsistent data, more detailed appraisals can be done by human evaluation.

Simpson, Robert, Rebecca and Walzak (1996) says that to protect the integrity of data upon which underwriting decisions are made by the mortgage industry in order to reduce the mortgage fraud and to decrease its losses. The study results speaks of 3 hindrances for the purpose of better adoption of aggressive quality control protocols which are lack of commitment by the management, certain frauds tolerance made by the honest professionals in the market and also the unwillingness to maintain the reputation as appropriate reviewer.

Weber and Diane (1996) says that bargain borrowing interest rates are the result of refinancing boom as the lenders have been competing for homeowners attention. They provide with 2 options of borrowing that is a loan, when u need all cash at once and a line of credit, for the flexibility purpose. A customer need to verify with all the financial hoops in order to qualify their loan and must not depend upon the super low interest rates as advertised.

Ms Sugandha Sharma & Ms Pooja Kalra (2015) explains that credit appraisal is a process which starts from the process of potential borrower walks into the company and concludes in credit delivering and monitoring with the objective of maintaining the quality of lending and managing credit risk. The credit risk is analysed by the probability of default by the borrower at a given confidence level over the provided life tenure of the facility and by calculating the amount of loss that a lender who suffers at the time of default.

Seema U, Venkatesh, Mahadev & Anjali N (2012) says that it depends more on the company and the industry to evaluate the credit risk. It remains as a challenge to the banks to evaluate the potential credit application. This paper enquires in the Indian banks the applicability of one of the new integrated model on a sample data. The integrated model is a combination of techniques of logistics regression and multi-layer perception.

Ch. Karuna & Prof. Dr. G Tulsi Rao (2013) explains that due to housing finance in India, the liberalisation of the financial sector of the economy has also become possible. Housing finance say been top of research and trends in the recent years. It also provides the current housing position in India, institutional performance of the housing sector and basically the manuscripts will conclude with the recommendations to improve the national dwelling position.

Dr. Rosy Kalra (2012) explains that fiancé is required at every stage of business either for starting up the business or in order to monitor it in meeting the day to day expenses of business. The primary function of any financial institution is to lend the commercial loan.

She also explains that how the lender is supposed to verify the credit worthiness of the customer? What are the criterions to be fulfilled to grant the loan proposal? What are the tools to be used in the banks to minimise the credit risk?

Ms Soniya Mohil (2013) explains that the elementary desire of an individual is to own a house, it not only provides a shield to live but also provides the financial security at the time of adverse circumstances. A person can get funds using it as collateral security from the market. Housing sector acts as a big contributor for the employment opportunities in the Indian community. This study endeavours to retrieve the continuous movement of housing industry since 2008 till 2013 in India by reviewing the annual publications of National Housing Bank.

Nancy Arora, Dr. Arti Gaur and Ms. Babita (2013) says that in order to mitigate the credit risk, proper evaluation of the customer is done. In this paper we study the credit risk assessment model of SBI bank and to check the viability of commercial, financial and technical aspects of the customer of project proposed and its funding pattern. It is also necessary to reduce the various risk parameters hence observation of movement of loan procedure is required.

CHAPTER 3

RESEARCH DESIGN

3.1 Statement of the Problem

"A Study on Credit Appraisal with special reference to Home Loans at Sundaram BNP Paribas Home Finance Limited"

The ascertainment of loan eligibility activity of the customers is a crucial role played in the Credit appraisal process. The company evaluates the credit worthiness of a potential borrower through its own rules and criteria in order to decide whether a person is eligible for a loan or not.

3.2 NEED FOR THE STUDY

The analysis is carried out in SBNPPHFL. As per the study Credit Appraisal undertakes the various process to examine the soundness of check upon the Credit worthiness, Instalment repayments and Clearance of Non-performing assets.

To find the answers for the important questions such as:

• To estimate the exact time requirement in knowing the firm's financial soundness.
• To analyse the financial performance of the organisation for a given period.

3.3 OBJECTIVE OF THE STUDY

• To ensure the balance between the risk and affordability of credit.
• To handle the effects of high NPAs.
• To avail the creditworthiness criteria of customer.
• To evaluate the role of SBNPPHFL in financing the home loans in Bangalore.
• To identify the schemes and to analyse the trends in housing finance by SBNPPHFL.

3.4 SCOPE OF THE STUDY

Shelter is a basic human being need and also productive investment. The easy access to financial institution at reasonable rates is an essential requirement for accelerating the housing activity. The scope of the proposed study is restricted to Bangalore divisions of the SBNPPHFL.

•   The study avails the knowledge of providing the loan for the purpose of constructing residential accommodation for employees working at public as well as private firms.

•   The study helps in knowing the movement of funds of customers in the investing purpose relating to housing loans rather than the savings.

•   The study helps the customers to get tax benefits if they have taken home loans.

•   The study shows the financial information of the company.

•   The study includes full compliance with laws and regulations of the company.

•   The study explains the various products and services and their respective rate of interest payments.

3.5 RESEARCH METHODOLOGY

3.5.1. RESEARCH DESIGN

With the help of the 5 year's Annual reports provided by the Company, Analytical Research can be used in this study. The activity includes Examining of facts, Critical Skills adopted for decision making and also the collection of information relative to the study is being done.

3.5.2. DATA AND SOURCES OF DATA

The Secondary data and sources is included in the study which is mainly provided from the

company. The different attributes required in this study are data related to Customers portfolios, Customer identification procedures, KYC documents of customers, Current assets and liabilities of firm and Shareholder's funds. Sources used to collect the data regarding the study are as follows:

- • Financial statement of the company.
- • Income statement of the firm.
- • Historical records of the customers.

3.5.3. STATISTICAL TOOLS

The tools used for the study purpose is Ratio Analysis.

a) Profitability Ratio: It is a process of measurement of the generation of profit rate in financial statements in order to use the resources in bulk.

• Gross Profit Ratio: GPR can also be termed as Gross margin which consists of the difference between the cost of sales and the direct cost.

Gross profit ratio = (gross profit/net sales*100)

• Net profit Ratio: The process of calculating the company's effectiveness and efficiency in conducting the business activities in terms of shareholder's perspective.

Net profit ratio = (net profit after tax/net sales*100)

• Return on equity: It refers to the activity performed after the preference dividend payments, measuring the profit ratio of shareholder's funds.

Return on equity = (net profit after interest and tax/shareholder's funds*100)

3.6 LIMITATIONS OF STUDY

• This study was confined only to the Jayanagar branch of SBNPPHFL.

• The study includes financial details only based on the 5 years of company financial statement.

• The study does not compare the company growth with other NBFCs and banks.

• This study is based on historical information of the company.

3.7 CHAPTER SCHEME

Chapter 1 : It explains about introduction about company, industrial profile, vision mission , quality policies, SWOT analysis, Future growth & prospects etc.

Chapter 2 : It deals about theoretical background & Literature review of the study.

Chapter 3: It explains about statement of the problem, need, scope , research methodology of the study.

Chapter 4: It includes data analysis & interpretation of research study.

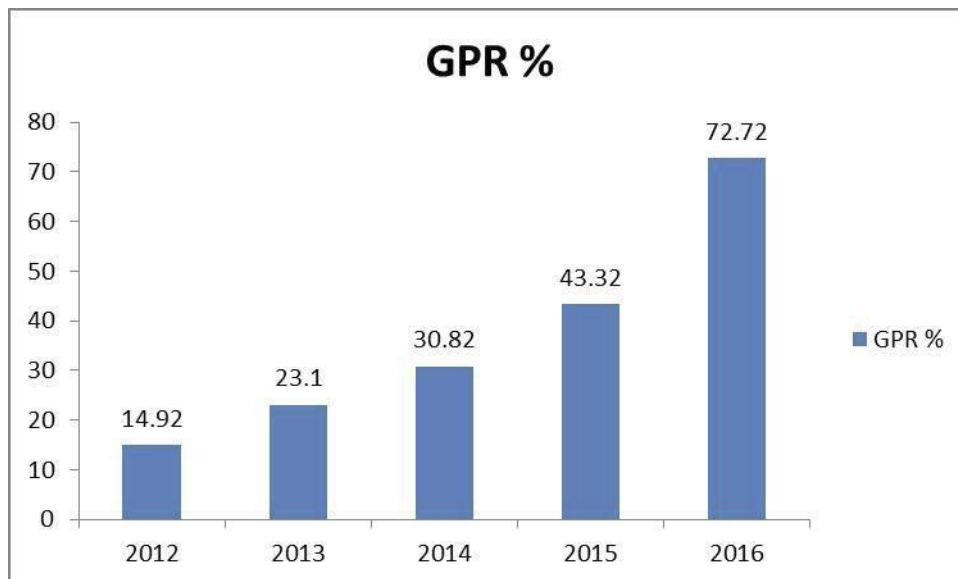Chapter 5: It gives details about findings & suggestions, conclusion

CHAPTER 4

DATA ANALYSIS AND INTERPRETATION

Table 4.1 Table showing the GPR (%) of SBNPPHFL.

Year	Gross profit	Net Sales	GPR (%)
2012	13050	87479	14.92
2013	17667	76472	23.1
2014	21512	69790	30.82
2015	22290	51455	43.32
2016	23701	32594	72.72

Chart 4.1 Graph showing the GPR (%) of SBNPPHFL

Source: From Table 4.1

Analysis and Interpretation: The Gross profit and Net sales of SBNPPHFL has gradually increased from 14.92, 23.1, 30.82, 43.32 and 72.72 in the year 2012, 2013, 2014, 2015 and 2016 respectively as shown in the above graph. The Gross profit ratio has increased immensely by passing years which builds the trust and confidence in the customer's perspective towards the company due to increase in the Net sales and total Revenue.

Table 4.2 Table showing the NPR (%) of SBNPPHFL.

Year	Net profit after tax	Net sales	NPR (%)
2012	9373	87479	10.71
2013	12655	76472	16.55
2014	15074	69790	21.6
2015	14642	51455	28.45
2016	15272	32594	46.85

Source: Extracted from Annual reports from 2012-2016

**Chart 4.2** Graph showing the NPR (%) of SBNPPHFL
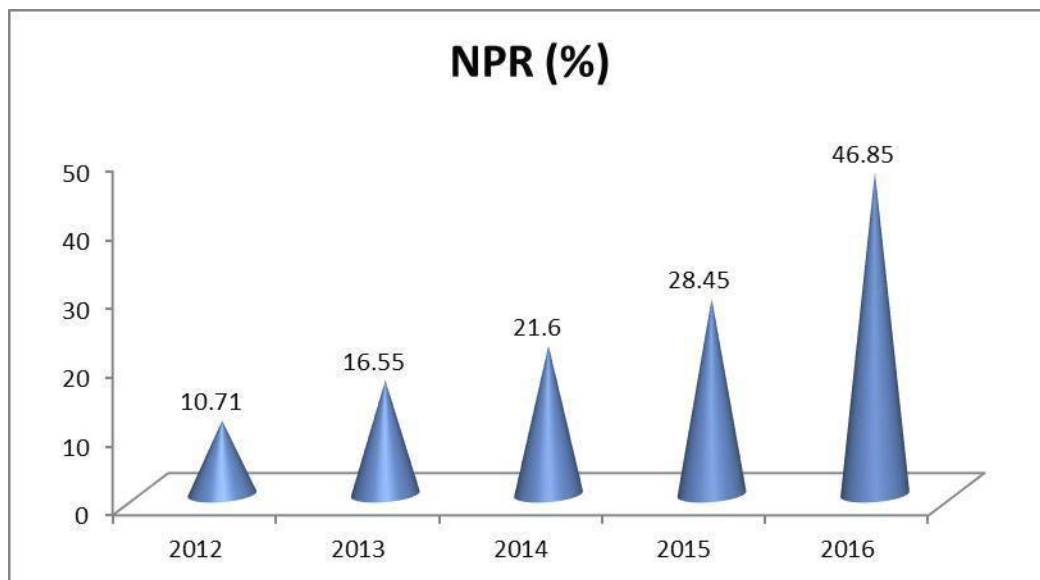
Source: Table 4.2

Analysis and Interpretation: As shown in the above graph the Net profit ratio is gradually increasing from 10.71, 16.55, 21.6, 28.45 and 46.85 in the year 2012, 2013, 2014, 2015 and 2016 respectively. It gives clear understanding that the company performance is good. The company Net sales has also increased from the recent years by maintaining cost of production, administration and financing appropriately. It gives the clear picture of improved operational activities and increased efficiency rate in the firm.

Table 4.3 Table showing Return on Equity (%) of SBNPPHFL.

year	Net profit after Interest & Tax	Share holders Fund	ROE (Rs in lakhs)
2012	19812	87479	22.65
2013	15734	76472	20.57
2014	18739	69790	26.85
2015	13792	51455	26.8
2016	10466	32594	32.11

Source extracted from Annual reports from 2012-2016

Chart 4.3 Graph showing the Return on Equity (%) of SBNPPHFL
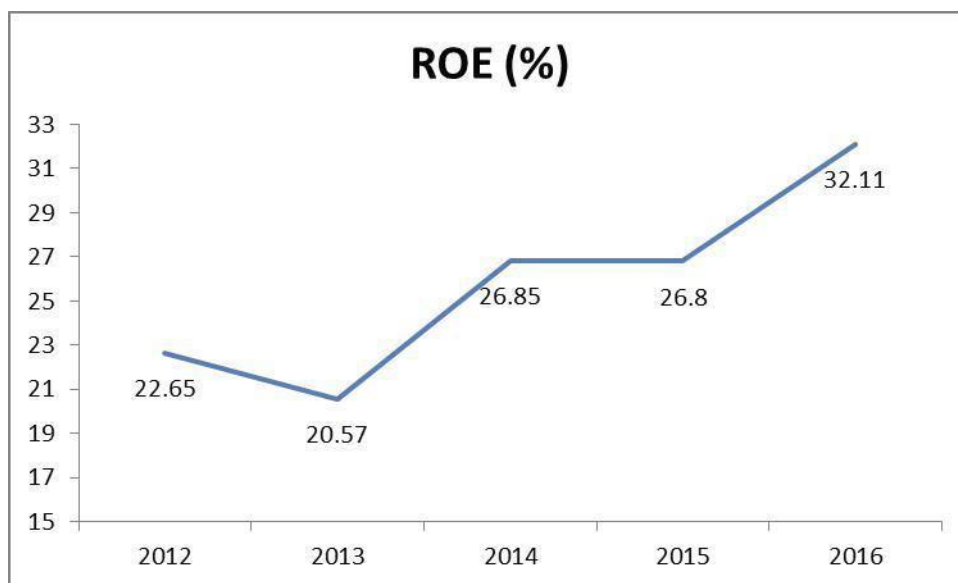
Source: Table 4.3

Analysis and Interpretation: From the above graph, we can see the change in the percentage of Return on equity from 22.65, 20.57, 26.85, 26.8 and 32.11 in the year 2012, 2013, 2014, 2015 and 2016 respectively. After 2013 the company is doing well by generating higher profits to the money invested by the shareholders gradually in the recent years.

Table 4.4 Table showing the Total NPA of Housing loans of SBNPPHFL.

Particulars	2012	2013	2014	2015	2016
Sub-standard assets	1180	1817	4184	7573	4991
Doubtful assets	567	1243	2058	4561	9113
Loss Assets	-	-	25.2	61	61
Total NPA	1747	3059	6268	12095	14165

Source: Extracted from Annual reports from 2012-2016

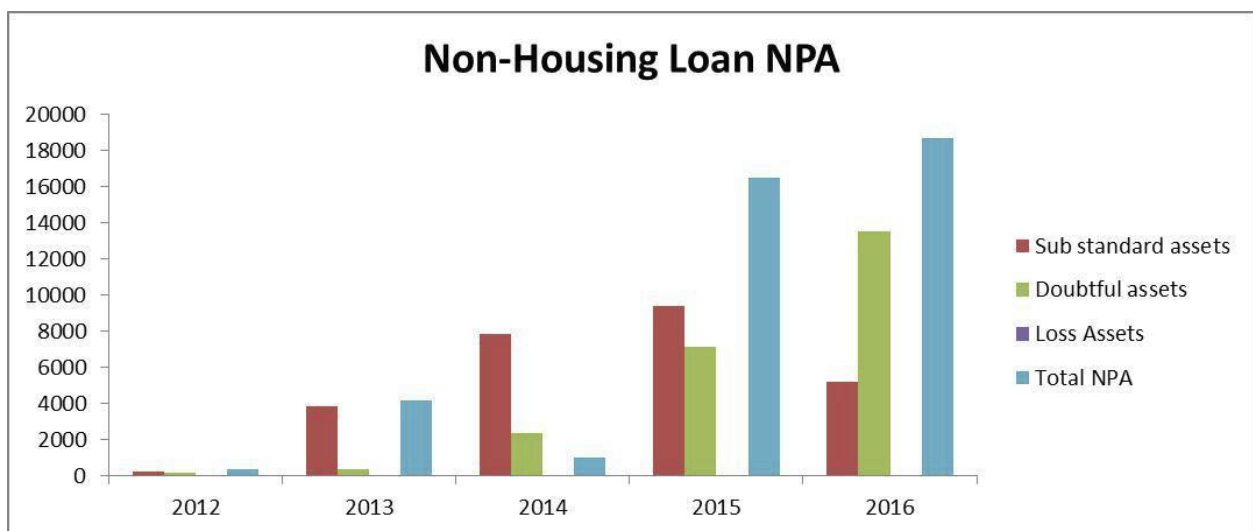**Chart 4.4** Graph showing the Total NPA of Housing loans of SBNPPHFL
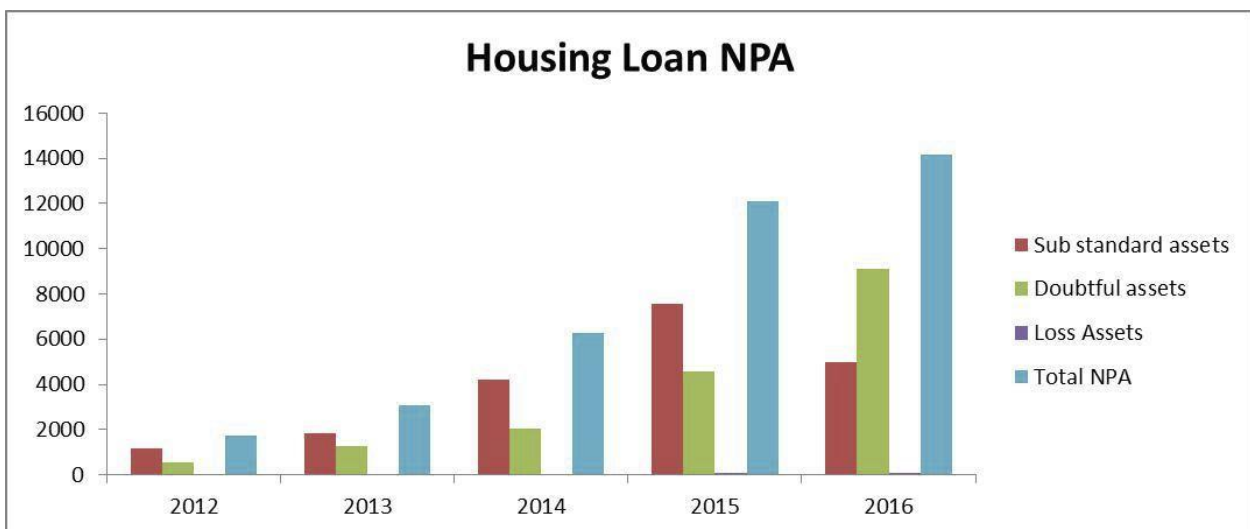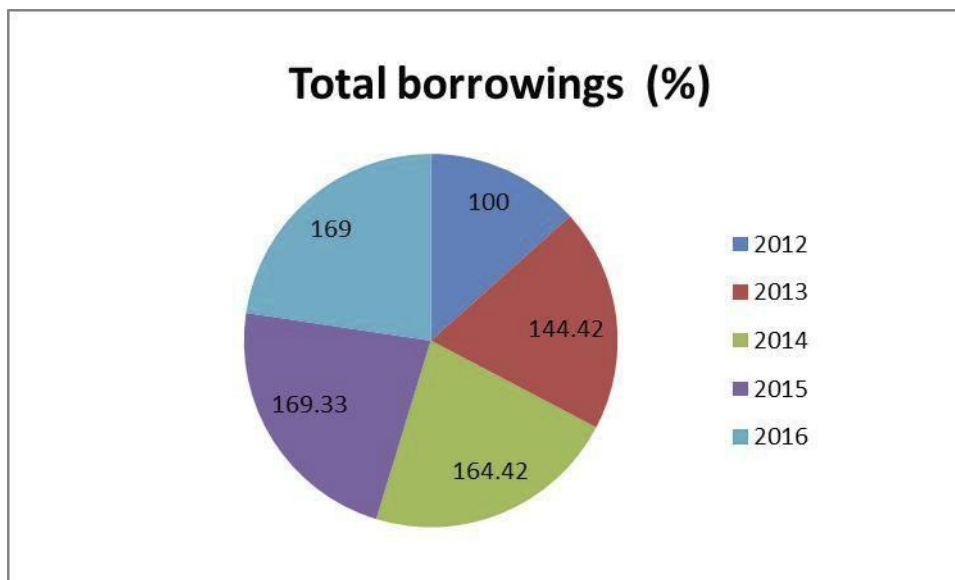

Source: Table 4.4

Analysis and Interpretation: In the above graph we can understand the changes in the Total NPA of SBNPPHFL. It is a negative impact on the company that the amount of Total NPA of housing loans is gradually increasing each year from 2012 to 2016. The company need to adopt various techniques to reduce the NPA as well as to recover the previous NPA by using modern and statistically proven credit appraisal process.

Table 4.5 Table showing the Total NPA of Non-housing loans of SBNPPHFL.

Particulars	2012	2013	2014	2015	2016
Sub-standard assets	224	3812	7849	9355	5166
Doubtful assets	144	361	2329	7116	13499
Loss Assets	-	-	45.54	-	-
Total NPA	368	4173	1024	16471	18665

Source: Extracted from Annual reports from 2012-2016

Chart 4.5 Graph showing the Total NPA of Non-housing loans of SBNPPHFL

Source: Table 4.5

Analysis and Interpretation: In the above graph we can understand the changes in the Total NPA of SBNPPHFL. It is a negative impact on the company that the amount of Total NPA of Non-housing loans is gradually increasing each year from 2012 to 2016. The company need to adopt various techniques to reduce the NPA as well as to recover the previous NPA by using modern and statistically proven credit appraisal process. There is vast change in the amount of change in above values in the recent years, due to which we can understand the customer approach towards the Non- housing loans is more.

Table 4.6 Table showing the Total Borrowings of the SBNPPHFL.

Year	Total borrowings	Percentage (%)
2012	3710	100
2013	5358	144.42
2014	6100	164.42
2015	6282	169.33
2016	6270	169

Source: Extracted from Annual reports from 2012-2016

**Chart 4.6** Graph showing the Total Borrowings of the SBNPPHFL.

Source: Table 4.6

Analysis and Interpretation: From the above graph, we can understand that the Total Borrowings of the company has gradually increased in the recent years. Considering the 2012 as the base year further calculations are performed, the value has increased from 100 in the year 2012 to 144.42, 164.42, 169.33 and 169 in the year 2013, 2014, 2015 and 2016 respectively. The company need to reduce its borrowings so that it can maintain Low Interest rates to attract more customers and gain profits.

Table 4.7 Table showing the Total Deposits of the SBNPPHFL.

Year	Total Deposits	Percentage (%)
2012	102	100
2013	876	85.9
2014	673	66
2015	554	54.3
2016	532	52

Source: Extracted from Annual reports from 2012-2016

**Chart 4.7** Graph showing the Total Deposits of the SBNPPHFL
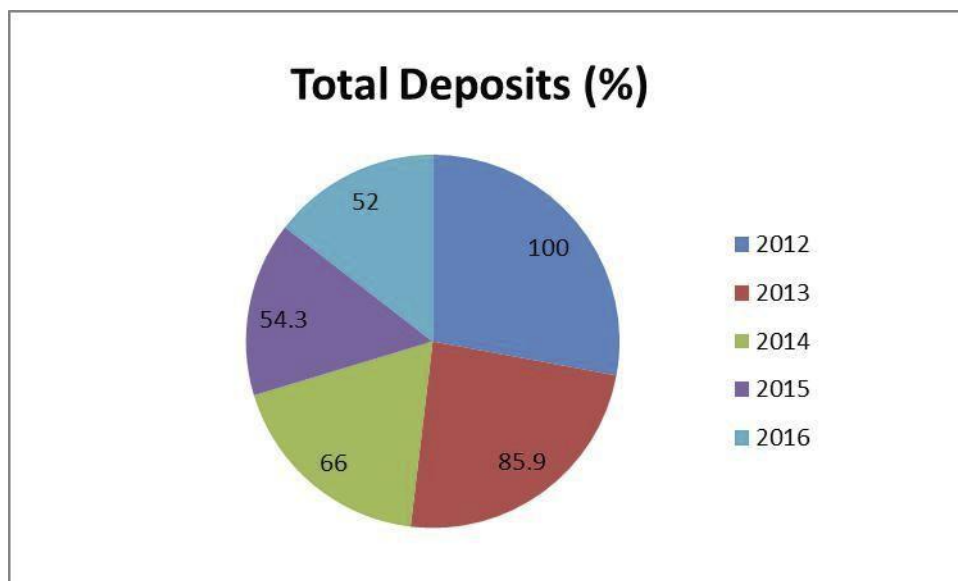
Source: Table Source extracted from Annual reports from 2012-2016

Analysis and Interpretations: From the above graph it is understandable that the percentage change in the Total Deposits of the company is gradually decreasing every year. Considering the 2012 year as the base year further calculations are performed. It gives a negative impact that the deposits rate has decreased from 100 in the year 2012 to 85.9, 66, 54.3 and 52 in the year 2013, 2014, 2015 and 2016 respectively.

Table 4.8 Table showing the Reserves and Other Funds of SBNPPHFL.

Year	Reserves & other funds	Percentage (%)
2012	246	100
2013	422	171.65
2014	597	242.74
2015	664	270
2016	774	315

Chart 4.8 Graph showing the Reserves and Other Funds of SBNPPHFL

Sources: Table 4.8
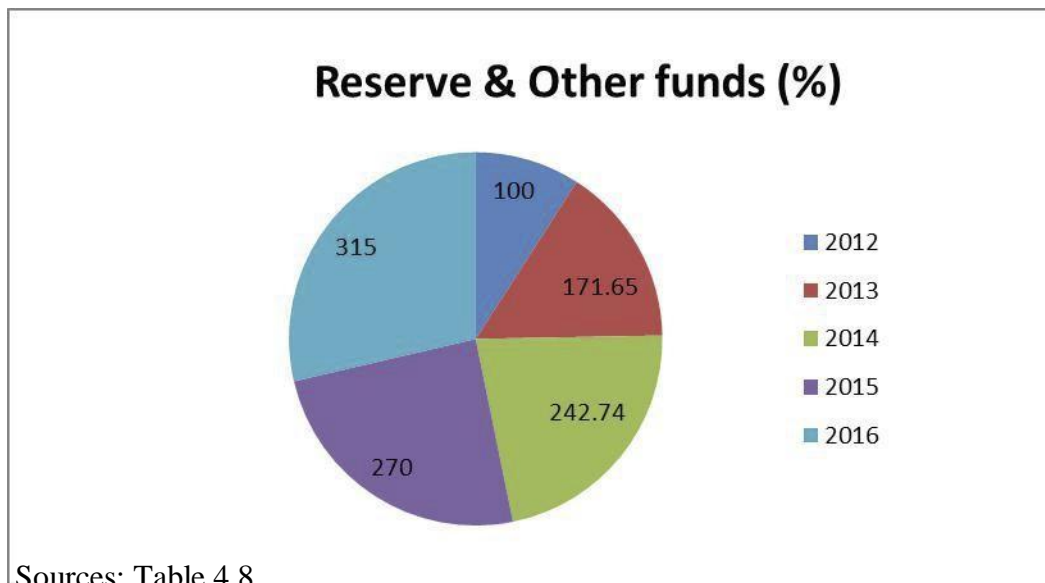
Analysis and Interpretation: From the above Graph it is clear that the Reserves and other funds invested by the Sundaram BNP Paribas Home Finance ltd gradually increased from 2012 to 2016. Considering 2012 as the base year, further year percentage is been calculated. The percentage has increased from 100 in the year 2012 to 171.65, 242.74, 270 and 315 in the year 2013, 2014, 2015 and 2016 respectively.

Chart 4.9 Graph showing the Sub-Standard Assets Ratio from 2012-2016.

Year	Total SSA	Gross NPA	SSA Ratio
2012	1404.74	1165	120
2013	5629	4253	133
2014	12033	9701	124
2015	16827	16803	100
2016	10158	19785	51

Source: Extracted from Annual reports from 2012-2016

Chart 4.9 Table showing the Sub-Standard Assets from 2012-2016.
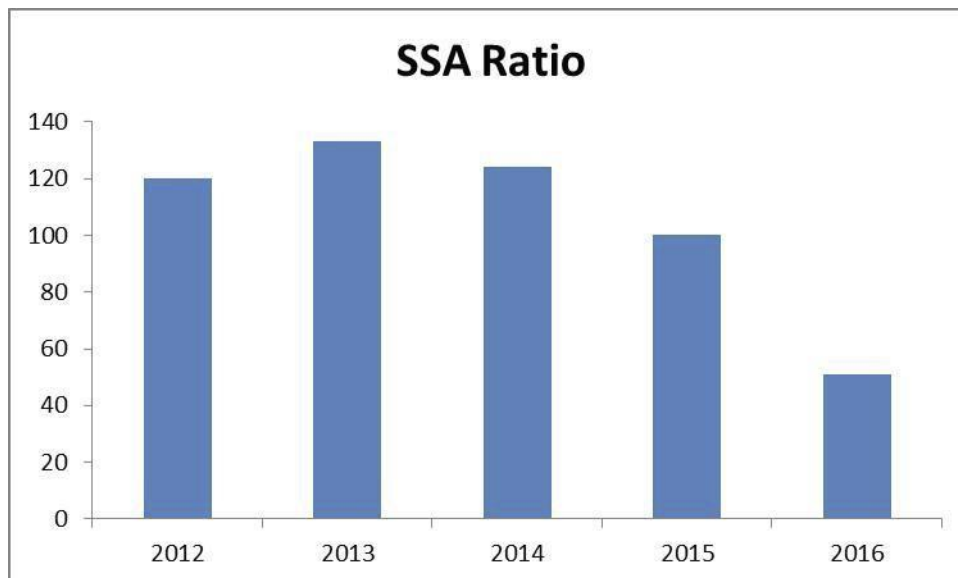
Source: Table 4.9

Analysis and Interpretation: In the above graph, we can see the change in the SSA ratio from 120, 133, 124, 100 and 51 in the year 2012, 2013, 2014, 2014 and 2015 respectively. Here, we can understand that the company is performing well in recovering the Sub-standard Assets

by observing the positive change in ratio due to which there is gradual decrease in the year 2016 from 100 to 51.

$$\text{Doubtful Assets Ratio} = (\text{Total Doubtful Assets}/ \text{Gross NPA} * 100)$$

Table 4.10 Table showing the Doubtful Assets Ratio from 2012-2016.

Year	Total DA	Gross NPA	DA Ratio
2012	711	1165	61
2013	1604	4253	38
2014	4388	9701	45
2015	11677	16803	69
2016	22163	19785	114

Source extracted from Annual reports from 2012-2016

Chart 4.10: Chart showing the Doubtful Assets Ratio from 2012-2016.
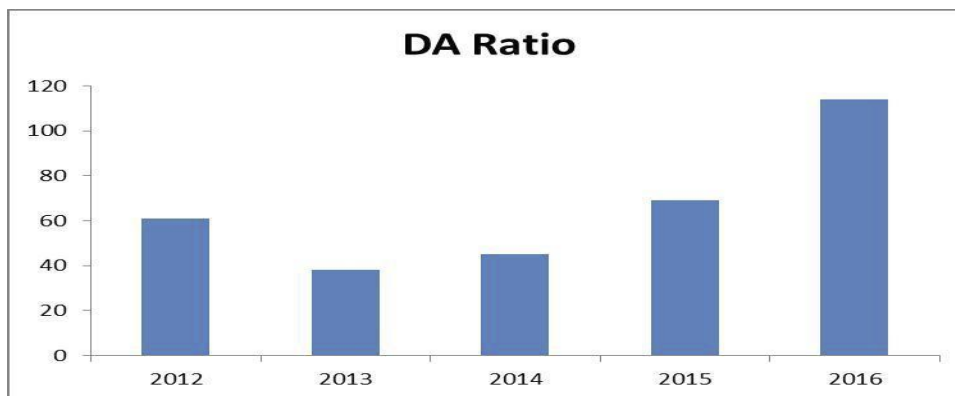

Source: Table 4.10

Analysis and Interpretation: The Above graph shows that the Doubtful Asset ratio is been fluctuating through the recent period of time. The ratios are 61, 38, 45, 69 and 114 in the year 2012, 2013, 2014, 2015 and 2016 respectively. The company need to focus more upon the credit risk management and use more of the recovery techniques in order to reduce the NPL cases.

Chart 4.11 Graph showing the Earnings per Share (%) from 2012-2016.

Year	Earnings per share %
2012	11.57
2013	13.57
2014	16.16
2015	14.46
2016	15.08

Source extracted from Annual reports from 2012-2016

Chart 4.11 Graph showing the Earnings per Share (%) from 2012-2016.
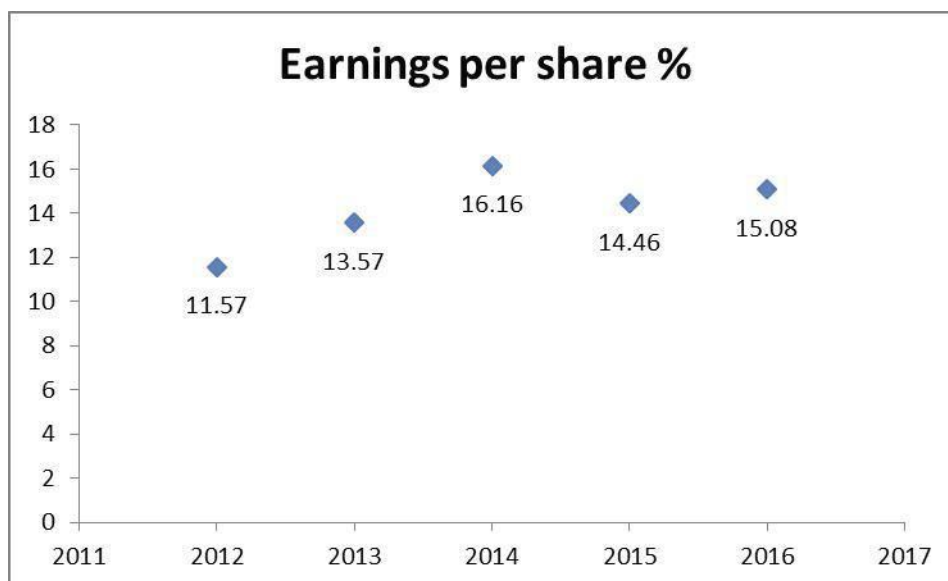
Analysis and Interpretation: The above Table shows the Earnings per share value increasing for 3 years from 11.57, 13.57 and 16.16 in 2012, 2013 and 2014 respectively. It slightly decreases in the year 2015 from 16.16 to 14.46 but gradually increases to 15.08 in the year 2016 due to changes in Net income and Preferred Stock dividends of the Sundaram BNP Paribas Home Finance ltd.

Table 4.12 Table showing Changes in the Gross NPL and Net NPL from 2012-2016.

Year	Gross NPL (%)	Net NPL (%)
2012	0.31	0.06
2013	0.77	0.23
2014	1.53	0.46
2015	2.46	0.75
2016	2.82	0.98

Source: extracted from Annual reports from 2012-2016

Chart 4.12 Graph showing Changes in the Gross NPL and Net NPL (%).
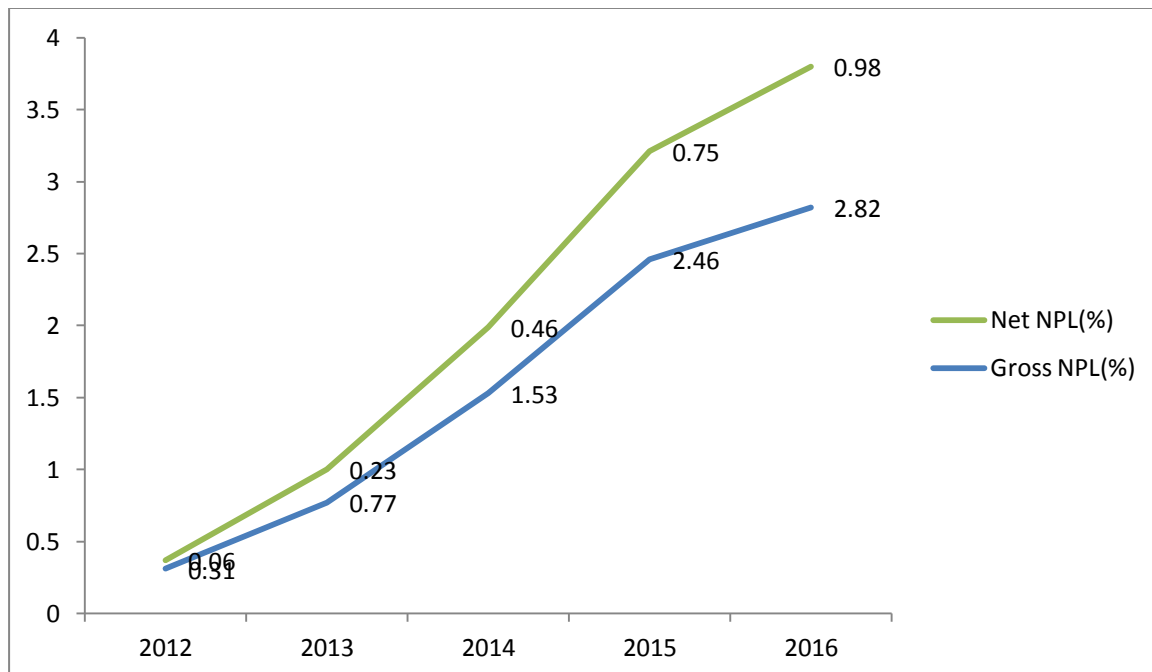
Source: Table 4.12

Analysis and Interpretation: The above graph shows the increasing ratio of Gross NPL and Net NPL for the recent years. The Gross NPL is continuously increasing from 0.31, 0.77,1.53, 2.46 and 2.82 in the year 2012 to 2016 respectively. The Net NPL is more than the Gross NPL comparatively, ranging from 0.06, 0.23, 0.46, 0.75 and 0.98 in the year 2012 to 2016 respectively. The company need to assist to take more actions on recovery of loans and chose the right customers as they can repay the loan amount on time.

CHAPTER 5.

SUMMARY OF FINDINGS, CONCLUSIONS AND SUGGESTIONS

5.1 FINDINGS

• From this study, it has been found that the approach of purchasing home loans by the customers for the purpose of Residential, Commercial, and Real Estate purpose is gradually increasing in number.

• Findings in NPA of Housing and Non-housing loans calculation results that the company has taken initiation in forming stricter norms and criteria towards the customers as the amount of loss due to Sub-standard assets and Doubtful assets is more but the company has very less amount of Loss assets by recovering the loan amount.

• In this study we found that the SBNPPHFL has increasing rate of Gross NPL and Net NPL from 2012 to 2016 which is a major treat to the company because Net NPL includes both the loss of payment of the Interest amount as well as the Principal amount.

5.2 CONCLUSIONS

The study was undertaken for a Sample period of 5 years from 2012-2016, to find the Requirement to perform the Credit Appraisal of Home loans. The Statistical tools used in this study is Ratio Analysis to measure the company performance. From this study it has been found that the company Norms and Criteria helps to verify the customer's Credit worthiness, Repayment of loan and Good track record due to which the company is able to improve its Standards and Financial results.

5.3 SUGGESTIONS

• The findings suggest that the Ratio analysis performed on the 5 year data of the financial results of SBNPPHFL shows increase in the value of GPR, NPR and ROE due to which the company may gain more number of customers and business activities.

• As the Earnings per share value has significantly increased in the recent years, the company will tend to pull more number of investors and also keep the present Shareholders satisfied by gaining higher profits.

• The company can try to create a good track record with the Non-housing Bank(NHB) so that they can have the opportunity to maintain low interest rates.

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ANNEXURE

Balance sheet for the period of 5 years.

Particulars	31.03.2016	31.03.2015	31.03.2014	31.03.2013	31.03.2012
EQUITY AND LIABILITIES					
Shareholder's funds					
Share capital	10125.44	10125.44	10125.44	9265.23	8015.23
Reserves and Surplus	77353.63	66346.78	59664.26	42189.3	24578.69
Money received against share warrants	-	-	-	-	-
	87479.07	76472.22	69789.7	51454.53	32593.92
Non-Current Liabilities					
Long-term Borrowings	398325.02	471088.9	347645.97	306458.3	268683.8
Other Long-term liabilities	8264.27	7530.21	3449.8	3701.56	2893.52
Long-term Provisions	15171.96	14010.46	9351.76	5463.91	2612.94
	421761.25	492629.6	360447.53	315623.8	274190.3
Current Liabilties					
Short-term Borrowings	43246.13	10025.41	28691.28	44474.06	35333.46
Trade payables	3252.49	3882.68	3737.02	2592.96	2159.7
Other Current Liabilities	206237.58	162232.9	252936.11	201038.9	78182.42
Short-term Provisions	5363.03	5095.58	5175.99	3962.28	2845.31
	258099.23	181236.6	290540.4	252068.2	118520.9
TOTAL EQUITY AND LIABILITIES	767339.55	750338.4	720777.63	619146.5	425305.1
ASSETS					
Non-Current Assets					
Long-term loans and Advances	653328.86	640154.2	598321.89	521731.1	352120.1
Fixed Assets					
Tangible Assets	1464.4	646.94	652.94	588	464.75
Intangible Assets	514.59	105.46	247.53	156.09	151.66
Non-Current Investments	7828.76	5914.26	5011.02	3009.04	3590.31
Deferred Tax Assets (Net)	101.32	528.82	3350.8	1914.84	1028.05
Other Non-Current Assets	134.27	62.62	29.74	97.73	93
	663372.2	647412.3	607613.92	527496.8	357447.9
Current Assets					
Short-term Loans and Advances	52916.4	45723.13	41436.25	35167.23	24043.37
Current Investments	19021.63	16099.82	17000.92	21575.1	258.21
Cash and Bank Balances	26908.36	372271.3	52305.84	33802.76	42260.1
Other Current Assets	5120.96	3875.82	2420.7	1104.58	1295.55
	103967.35	102926.1	113163.71	91649.67	67857.23
TOTAL ASSETS	767339.55	750338.4	720777.63	619146.5	425305.1

Name of the Student: Chethan D

Internal Guide: Prof. Swarupa Ranjan Panijrahi

USN No: 1IA16MBA13

Specialization: Finance

Title of the Project: A study on credit appraisal with special reference to home loans at sundaram bnp paribas home finance ltd

Company Name: sundaram bnp paribas home finance ltd

Company Address: 2nd Floor No 1947, 28th Main road, 9th block, Jayanagar, Banglore-560069

Week	Work undertaken	External Guide Signature	Internal Guide Signature
15-01-18 to 20-01-18	Orientation with the company. Collection of secondary data relating to industry and organization.		1
22-01-18 to 27-01-18	Orientation with functional department of the organization and detailed study of department.		2
29-01-18 to 03-02-18	Finalization of problem area of the study and finalization of research objectives and methodology.		3
05-02-18 to 10-02-18	Finalization of data collection questionnaire instruments and formats. Etc...		4
12-02-18 to 17-02-18	Collection of primary data from the restaurants by administrating the questionnaire.		5
19-02-18 to 24-02-18	Discussion with the external guide and internal guide. Formation of hypothesis. Classification and analysis of collected data.		6

26-02-18 to 03-03-18	Compilation of research data and interpretation of data.		7
05-03-18 to 10-03-18	Data analysis and Finalization Of report.		8
12-03-18 to 17-03-18	Finalization of project report and approval of draft by company and college guide.		9
19-03-18 to 24-03-18	Report submission to the Institution.		10

HOD

for SUNDARAM BNP PARIBAS HOME FINANCE LTD.

Authorised Signatory