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RESEARCH ARTICLE OPEN ACCESS

A STUDY ON CREDIT APPRAISAL AT HDFC BANK, KAVADIGUDA, HYDERABAD.

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ABSTRACT:

This study examines the Credit Appraisal Process at HDFC Bank and its impact on financial performance. Credit appraisal is a critical function in banking that ensures loans are sanctioned responsibly while minimizing credit risk. This research analyses how HDFC Bank evaluates creditworthiness, manages loan quality, and maintains financial stability through its credit screening and risk assessment mechanisms.

The study covers a five-year period (2020-21 to 2024-25), utilizing secondary data from HDFC Bank's Annual Reports to identify trends in credit risk management and financial performance. Key aspects such as loan approval standards, risk mitigation strategies, and regulatory compliance are explored to assess the effectiveness of the bank's credit appraisal framework. The findings provide insights into the relationship between credit appraisal and banking efficiency, highlighting areas for improvement in risk management and lending strategies.

KEYWORDS: Credit Appraisal Process, HDFC Bank, Credit Risk Management, Financial Performance, Creditworthiness Assessment, Loan Approval Process, Risk Assessment, Loan Quality, Banking Efficiency, Risk Mitigation Strategies.

1. INTRODUCTION

Credit appraisal is an important process in banking that helps assess whether a borrower can repay a loan. It involves looking at factors such as financial stability, management skills, and risks to assess the borrower's ability to repay the loan. This process helps banks minimize default risk and maintain financial stability by ensuring responsible lending practices. Credit evaluation is important for making sure that banks' assets are good and process entails examining financial statements, collateral security, industry trends, repayment capacity, and borrower history to make prudent lending decisions.

A Solid Credit appraisal process is crucial for reducing credit risk. By thoroughly reviewing borrowers' finances, credit histories, and business plans, bans can lower the chances of loan defaults. This process also ensures that banks follow strict rules on classifying loans and setting aside money for potential losses. By following these guidelines, penalties can be avoided, and more effective financial management is encouraged.

1.1 OBJECTIVES OF THE STUDY

1. To understand the concept and framework of the credit appraisal process followed by HDFC Bank.
2. To analyze how HDFC Bank's Credit Appraisal Process impacts its Financial Performance.
3. To evaluate the efficiency of HDFC Bank's Credit Appraisal by using Credit Quality Ratios.
4. To identify areas for improvement in HDFC Bank's Credit Appraisal Process.

1.2 NEED FOR THE STUDY

The credit appraisal process determines the borrower's eligibility for a loan which also impacts the bank's finances. A good credit appraisal system helps banks the trustworthiness of the borrowers. This guarantees that loans are granted according to the bank's policies, minimizing financial risks. The study aims to evaluate how effective HDFC Bank's credit rating process is, its impact on the bank's financial performance, and areas that need improvement. The study hopes to offer an analysis of how the bank can strengthen its appraisal systems to maximize loan approvals while maintaining financial stability. Knowing these factors helps make better credit decisions, allowing the bank to lend wisely while benefiting both borrowers and the bank for long-term success.

1.3 SCOPE OF THE STUDY

This research explores HDFC Bank's Credit Appraisal Process and its effects on financial performance. It examines how the bank evaluates credit risk, ensures loan quality, and manages financial stability through its credit screening and approval mechanisms The research emphasizes on the most important steps in the process of credit appraisal, including verification of the borrowers, evaluating all the risks, and ensuring that all this is in compliance with the regulatory requirements. This study examines how HDFC Bank approves and manages loans by analyzing its annual reports from 2020-21 to 2024-25. The study was conducted over a 45-day period and involved collecting, analyzing, and interpreting data to gain a clear understanding of how effective HDFC Bank's credit appraisal process is in supporting its financial performance.

1.4 LIMITATIONS OF THE STUDY

- The study relies entirely on secondary data from HDFC Bank's annual reports and financial statements, without access to internal credit policies or borrower-specific assessments due to data unavailability.

- The study focuses solely on HDFC Bank, and the findings are not compared with other banks.

- It considers only 2020-21 to 2024-25 and does not provide any insight into the long-term post-merger impact on the appraisal of credit.

2. REVIEW OF LITERATURE

a) **Aman (2019)** Aman (2019) studied the credit appraisal system of SBI Bank, Hisar branch. The study found that effective credit appraisal involves the assessment of financial performance, management quality, business risks, and industrial risks. The research concluded that both financial and non-financial factors play an important role in determining the repayment capacity of borrowers and reducing credit risk.

b) **Bhujbal (2019)** Bhujbal (2019) examined credit appraisal practices in MSME lending by SBI in Latur District. The study revealed that proper appraisal techniques significantly help in risk mitigation and loan recovery. The findings indicated that effective appraisal systems improve lending quality and reduce default risk in MSME financing.

c) **Dhanya & Vanaja (2018)** Dhanya and Vanaja (2018) analyzed credit appraisal systems in South Indian banks. The study highlighted that banks rely heavily on financial performance, management capability, and business risk assessment while sanctioning loans. The research emphasized that systematic appraisal processes are essential for maintaining asset quality and minimizing credit risk.

d) **Luu Phuoc Ven & Nguyen Dang Khoa (2024)** The study conducted by Luu Phuoc Ven and Nguyen Dang Khoa (2024) examined the impact of credit appraisal on loan performance in Vietnamese commercial banks. The findings revealed that borrower repayment capacity, loan purpose, and collateral assessment positively influence loan performance, with repayment ability being the most significant factor.

e) **Gautam (2022)** Gautam (2022) evaluated the credit appraisal process of Agricultural Development Bank Limited (ADBL), Nepal. The study concluded that a comprehensive appraisal process involving management, financial, technical, and economic evaluations is crucial for effective risk management and financial stability.

3.RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

This study uses an analytical research design to evaluate HDFC Bank's credit appraisal process. It analyses various credit quality ratios and financial performance metrics to understand how the bank manages its lending practices and ensures financial stability. The study is based on a thorough examination of secondary data from HDFC Bank's annual reports to identify patterns, trends, and relationships that demonstrate the effectiveness of the bank's credit appraisal process.

3.2 DATA SOURCE

Data is collected using secondary sources like annual reports, journals, and websites

Tools and Techniques Used Credit Quality Ratios

- Non-Performing Loans (NPL) ratio

NPL Ratio = (Gross NPLs / Gross Advances) × 100

- Provision Coverage Ratio (PCR)

PCR Ratio = (Total Provisions / Gross NPLs) × 100 **Financial Performance Metrics**

- Capital Adequacy Ratio (CAR)

CAR Ratio = (Total Capital / Risk-Weighted Assets) × 10

3.3 Graphical Representations

Column Charts

Line Charts

Combination Charts

4. DATA ANALYSIS AND INTERPRETATION

1. Non-Performing Loan (NPL) Ratio

The NPL ratio shows the share of a bank's loans that have become non performing where borrowers have stopped repaying. A consistently low NPL ratio shows that the bank is handling credit risk well and keeping loan defaults under control. If it starts rising, it signals weak loan screening, poor risk assessment, or potential economic issues.

Formula

NPL Ratio (Non-Performing Loan Ratio) = (Gross Non-Performing Loans / Gross Advances) × 100

Favourable <2% (Poor credit screening, Higher default rates)

Neutral 2% - 5% (Manageable risk, moderate asset quality)

Unfavourable >5% (High default rates, weak credit screening)

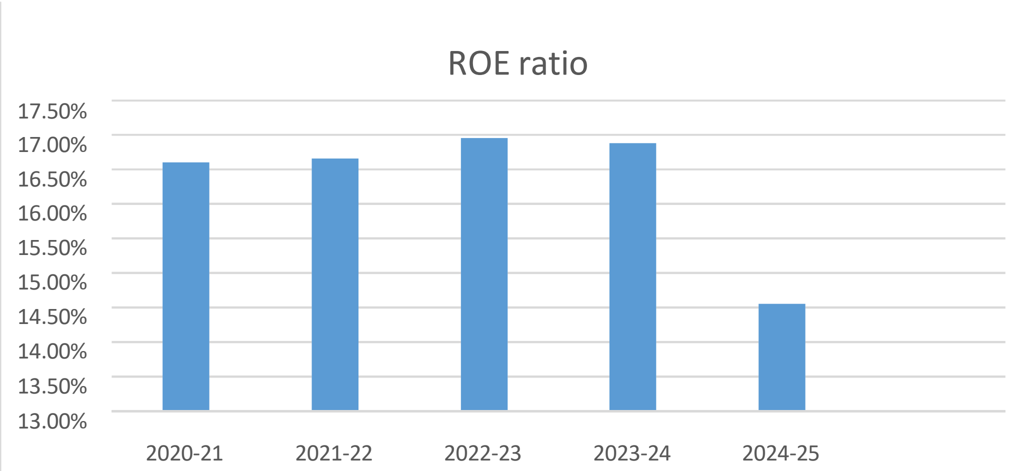
Table : Non-Performing Loan (NPL) Ratio (in crores)

Years	Gross Advances (₹Cr)	Gross NPL (₹ Cr)	NPL Ratio (%)
2020-21	11,43,308.65	14,999.34	1.31%
2021-22	13,80,514.22	16,140.96	1.17%
2022-23	16,14,229.61	18,019.03	1.12%
2023-24	25,07,827.61	31,173.32	1.24%
2024-25	**26,43,500.05**	**35,222.64**	**1.33%**

Analysis

HDFC Bank's gross advances nearly doubled from ₹11.43 lakh crore in 2020-21 to ₹26.43 lakh crore in 2024-25, showing strong loan growth. While gross nonperforming loans increased from ₹14,999 crore to ₹35,223 crore, the NPL ratio remained relatively stable, declining from 1.31% to 1.12% by 2022-23 before slightly rising to 1.33% in 2024-25. This indicates that despite rapid credit expansion, the bank has maintained good asset quality and effective risk management.

Graph : Non-Performing Loan (NPL) Ratio



INTERPRETATION

The line graph of HDFC Bank's **Non-Performing Loan (NPL) ratio** shows the proportion of gross non-performing loans to total advances over five years.Overall, the graph demonstrates that HDFC Bank has consistently kept its NPLRatio low, reflecting prudent lending, effective monitoring, and the ability to Manage credit risk even during periods of rapid growth.

2. Provisions Coverage Ratio (PCR)

Provision Coverage Ratio (PCR) measures the percentage of non-performing assets (NPAs) covered by a bank's provisions.

Formula

PCR= (Total Provisions/Gross NPLs) ×100

Favourable >70% (Adequate provisions to cover bad loans)

Neutral 50% - 70% (Moderate risk coverage)

Unfavourable <50% (Insufficient provisioning, risk of loss)

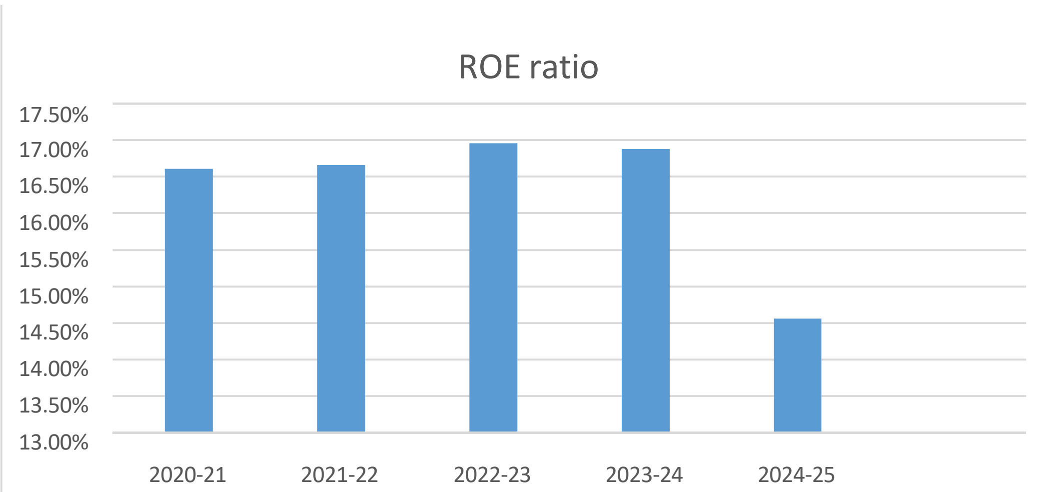
Table - Provisions Coverage Ratio (PCR)

Year	Gross NPL (₹ Cr)	Total Provisions (₹ Cr)	(PCR) (%)
2020–21	14,999.34	15,702.85	105%
2021–22	16,140.96	15,061.83	93%
2022–23	18,019.03	11,919.66	66%
2023–24	31,173.32	23,492.15	75%
2024–25	**35,222.64**	**27,648.50**	**78%**

Analysis

From 2020-21 to 2024-25, HDFC Bank's gross NPAs increased from ₹14,999 crore to ₹35,223 crore due to loan growth, especially after the HDFC Ltd merger. Total provisions fluctuated but rose to ₹27,648 crore in 2024-25, improving the PCR to 78%. Overall, despite rising NPAs, the bank maintained healthy provisioning and strong asset quality.

Graph : Provisions Coverage Ratio (PCR)



INTERPRETATION

Overall, the graph reflects HDFC Bank's dynamic approach to provisioning, with an initial very strong buffer, a period of lower coverage, and then renewed strengthening of provisions in recent years to maintain sound asset quality andf stability.

3. Capital Adequacy Ratio

Formula

CAR= (Total Capital/Risk Weighted Assets) ×100Capital Adequacy Ratio (CAR) measures a bank's financial strength by assessing its capital relative to risk-weighted assets (RWA). A higher CAR indicates strong capital buffers to absorb losses, while a declining CAR suggests rising credit risk. In HDFC Bank's case, CAR helps evaluate whether HDFC Bank's Credit Appraisal Process ensures that approved loans are of high quality, preventing financial instability.

Favourable >15% (Strong capital buffer, good risk management)

Neutral 12% - 15% (Sufficient but slightly lower capital cushion) Unfavourable <12% (Capital risk, potential regulatory concerns)

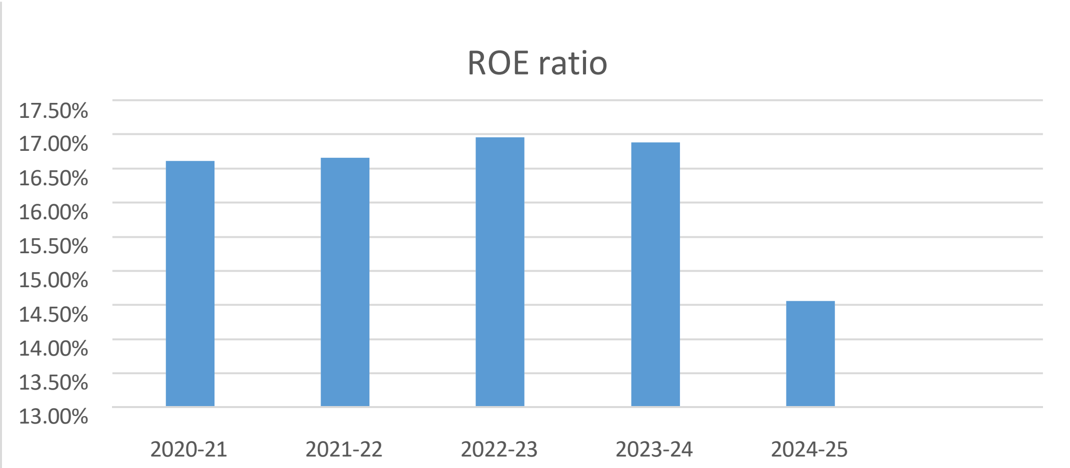
Table : Capital Adequacy Ratio

Years	Total Capital (₹ Cr)	RWA (₹ Cr)	CAR Ratio (%)
2020-21	2,12,546.30	11,31,143.88	18.79%
2021-22	2,55,734.50	13,53,510.85	18.89%
2022-23	3,05,564.85	15,86,634.96	19.26%
2023-24	4,64,002.82	24,68,028.06	18.80%
2024-25	**5,20,000.00**	**26,10,500.00**	**19.91%**

Analysis

From 2020-21 to 2024-25, HDFC Bank's total capital and risk-weighted assets grew significantly, reflecting its expanding business. Despite this, the CAR remained strong and stable around 19%, well above regulatory requirements, indicating the bank's prudent capital management and ability to absorb potential risks while supporting growth. Despite this rapid growth, the **Capital Adequacy Ratio (CAR) remained consistently high, fluctuating between 18.79% and**
19.91%, well above the regulatory minimum of around 10-11%.

Graph : Capital Adequacy Ratio



INTERPRETATION

The graph represents the Capital Adequacy Ratio (CAR) of a bank for the period from 2020–21 to 2024–25. The horizontal axis shows the financial years, while the vertical axis indicates the CAR in percentage. The CAR measures the bank's capital strength in relation to its risk-weighted assets and reflects its ability to absorb financial losses.

During 2020–21, the CAR was about 18.8%, which slightly increased to 18.9% in 2021– 22. This upward movement continued in 2022–23, reaching approximately 19.2%, indicating improved capital management and financial stability. In 2023– 24, the CAR declined marginally to around 18.8%, possibly due to increased lending activities or higher risk-weighted assets. However, in 2024–25, the CAR rose significantly to nearly 19.9%, the highest in the given period, showing strong capital positioning and effective risk management.

5 . FINDINGS, SUGGESTIONS AND CONCLUSION.

5.1 FINDINGS

1. The NPL ratio stayed very low, between 1.12% and 1.33%, throughout the period. This demonstrates strong asset quality, prudent lending, and effective credit risk management, even during rapid loan growth.

2. PCR fluctuated from 105% in 2020–21 to 66% in 2022–23 and improved to 78% in 2024– 25. The bank maintained adequate provisions to cover NPAs, reflecting a strong buffer against potential credit losses while adjusting dynamically to portfolio changes.

3..CAR remained strong and stable around 18.8–19.9% across the five years, well above regulatory requirements. This indicates robust capital buffers, strong financial stability, and the ability to absorb potential losses while supporting growth.

5.2 SUGGESTIONS

a) The bank should ensure that loan growth and deposit growth go hand in hand. If deposits fail to keep pace, it may lead to liquidity issues, compelling the bank to rely increasingly on external borrowing.

b) With the dip in the Provision Coverage Ratio (PCR) during 2022-23, the bank needs to continue to increase provisions to be better prepared for future non-performing loans.

c) While home loans are a major part of the bank's lending, it's always safer to have a mix of different types of loans.

d) Concentration risk can be cushioned by the bank through increased lending to large business and SMEs.

5.3 CONCLUSION

HDFC Bank's credit appraisal and risk management framework has been instrumental in sustaining its financial stability, growth, and profitability. The bank has demonstrated strong lending discipline, reflected in a generally healthy Credit-Deposit Ratio, low NPL levels, and robust Provisions Coverage Ratio, indicating prudent credit screening and effective monitoring of borrower performance. Risk-weighted assets have been managed carefully, ensuring that growth in total assets is balanced with controlled exposure to credit risk, while the consistently high Capital Adequacy Ratio underscores a strong buffer against potential losses.

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