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A STUDY ON THE EFFECTIVENESS OF CREDIT RISK MANAGEMENT IN AXIS BANK

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ABSTRACT

Credit Risk management is a critical component in the banking sector, ensuring financial stability and minimizing potential losses due to borrower defaults. This study investigates the effectiveness of credit risk management practices in Axis Bank, one of India's leading private sector banks. The objective is to analyze the bank's credit risk identification, assessment, mitigation, and monitoring strategies. Through a review of secondary data, including annual reports, RBI guidelines, and Axis Bank's risk management framework, as well as primary data gathered via structured questionnaires and interviews with bank officials.

INTRODUCTION

Credit risk management has emerged as a fundamental component of financial stability in the modern banking sector. With rising complexities in financial markets and an increasing incidence of loan defaults, the ability of banks to efficiently manage credit risk has become crucial for sustainability and profitability. In this context, Axis Bank, one of India's leading private sector banks, serves as a valuable case for studying the effectiveness of credit risk management practices. Founded in 1993 and headquartered in Mumbai, Axis Bank has grown rapidly to become a significant player in India's banking ecosystem, catering to a wide spectrum of clients ranging from retail consumers to large corporates. Its performance and risk exposure, like that of any major financial institution, are closely linked to how well it identifies, measures, monitors, and controls credit risk. Credit risk—the possibility of loss due to a borrower's failure to repay a loan or meet contractual obligations—has profound implications not only on a bank's financial health but also on overall economic stability. Ineffective credit risk management can lead to an increase in non-performing assets (NPAs), impair capital adequacy, reduce investor confidence, and ultimately endanger the solvency of the institution. This study is significant because it evaluates the robustness of Axis Bank's credit risk management framework in the wake of evolving regulatory requirements by the Reserve Bank of India (RBI), increased competition in the financial services industry, and the growing complexity of borrower profiles.

REVIEW OF LITERATURE

1.Gupta, R. (2020) – *Credit Risk Management in Indian Bank*
This study highlights the evolving credit risk practices in Indian commercial banks post-NPA crisis. It shows how regulatory measures by RBI and Basel III compliance have influenced credit scoring systems and internal risk ratings. Axis Bank is cited as having improved its provisioning ratios and adopted more conservative lending practices.

1. **Kumar, A. & Rao, V. (2020)** – *Impact of Credit Risk on Financial Performance of Private Banks* The paper investigates the link between credit risk indicators like NPAs and return on assets. It concludes that effective credit risk management significantly improves profitability in private banks, including Axis Bank.
2. **Sharma, N. (2021)** – *Analyzing the Role of Credit Risk in Indian Banking* This research examines credit risk control frameworks and finds that digitization and automation in credit approval have enhanced credit quality monitoring, especially in banks like Axis Bank.
3. **Mishra, S. & Patel, D. (2021)** – *Credit Appraisal Systems in Indian Banks* The authors stress the importance of robust credit appraisal mechanisms. They find Axis Bank uses advanced scoring tools and policy-based lending filters, which reduce default rates in retail portfolios.

NEED FOR THE STUDY

With rising levels of credit exposure and economic uncertainties, especially post-, there is an urgent need to assess how effectively banks are managing credit risk. Axis Bank, being one of the largest private sector banks in India, serves as a vital case for evaluating credit risk management practices. This study aims to analyze the existing frameworks, tools, and policies adopted by Axis Bank to mitigate credit-related losses.

The significance of this study lies in its potential to offer practical insights into improving credit appraisal processes, risk grading systems, early warning mechanisms, and overall credit portfolio quality. It also aims to provide recommendations to strengthen the bank's risk culture and strategic decision-making

SCOPE OF THE STUDY

The study focuses on the credit risk management practices within Axis Bank across its major retail and corporate lending portfolios. It includes an analysis of policy frameworks, risk assessment models, credit monitoring tools, and recovery mechanisms. The scope is limited to Axis Bank branches and departments involved in credit-related functions.

OBJECTIVES OF THE STUDY

1. To understand the credit risk management practices adopted by Axis Bank.
2. To evaluate the effectiveness of credit appraisal, sanctioning, and monitoring processes.
3. To examine the role of regulatory frameworks and internal policies in mitigating credit risk.
4. To suggest measures for improving credit risk management efficiency.

METHODOLOGY

Research methodology is the systematic framework used to collect, analyze, and interpret data in order to address the objectives of a study. For this study on the effectiveness of credit risk management in Axis Bank, both qualitative and quantitative research methods have been used. The aim is to examine the tools, techniques, and procedures employed by Axis Bank to identify, assess, monitor, and control credit risk.

Research Design

The study follows a **descriptive research design**, which aims to provide an accurate portrayal of credit risk management practices at Axis Bank. Descriptive research is appropriate for understanding existing systems, evaluating their effectiveness, and identifying areas for improvement.

Secondary Data

Secondary data sources include:

- Axis Bank's annual reports and credit risk disclosures.
- Reports from the Reserve Bank of India (RBI) on credit risk and banking performance.
- Academic journals, financial publications, and working papers on credit risk management.
- Regulatory guidelines and Basel III norms.

LIMITATIONS OF THE STUDY

1. The study is limited to Axis Bank and may not represent the practices of the entire banking industry.
2. Access to proprietary or internal risk data may be restricted due to confidentiality.
3. Time and resource constraints limited the geographical coverage of the study.
4. The study relies heavily on self-reported data, which may contain personal biases.
5. The limited sample size may not represent the entire Axis Bank system.

DATA ANALYSIS AND INTERPRETATION

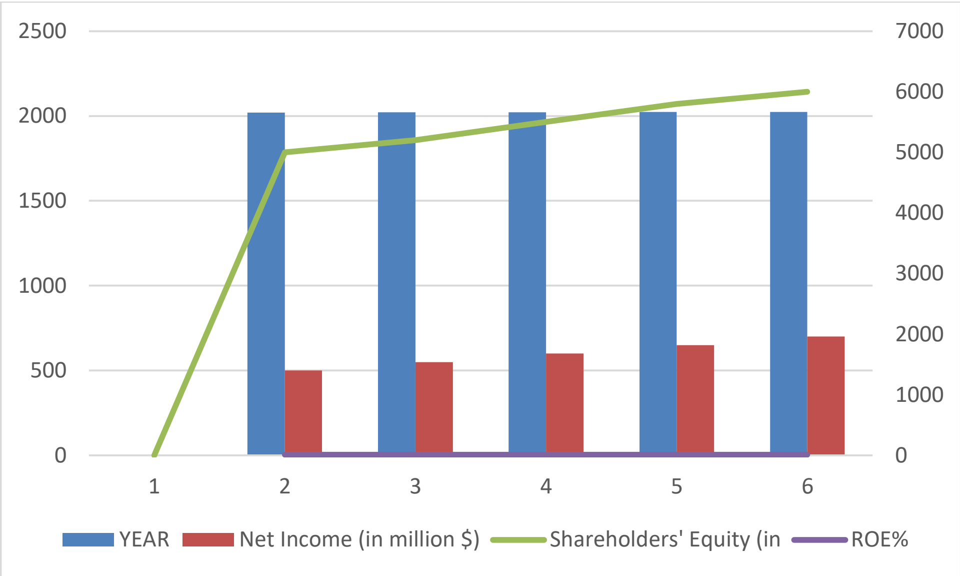
1. RETURN ON EQUITY

YEAR	Net Income (in million $)	Shareholders' Equity (in million $)	ROE%
2020	500	5000	10.00
2021	550	5200	10.58
2022	600	5500	10.91
2023	650	5800	11.21
2024	700	6000	11.97

ANALYSIS

reflecting the company's retention of earnings and capital infusion. The ROE improved from 10.00% in 2020 to 11.97% in 2024, indicating a more efficient use of equity to generate profits. The analysis of Return on Equity (ROE) from 2020 to 2024 reveals a steady enhancement in the company's profitability relative to shareholders' equity. Net income increased from $500 million in 2020 to $700 million in 2023, demonstrating consistent growth in earnings. Shareholders' equity also rose during this period, from $5,000 million to $6,000 million,

RETURN ON EQUITY



INTERPRETATION:

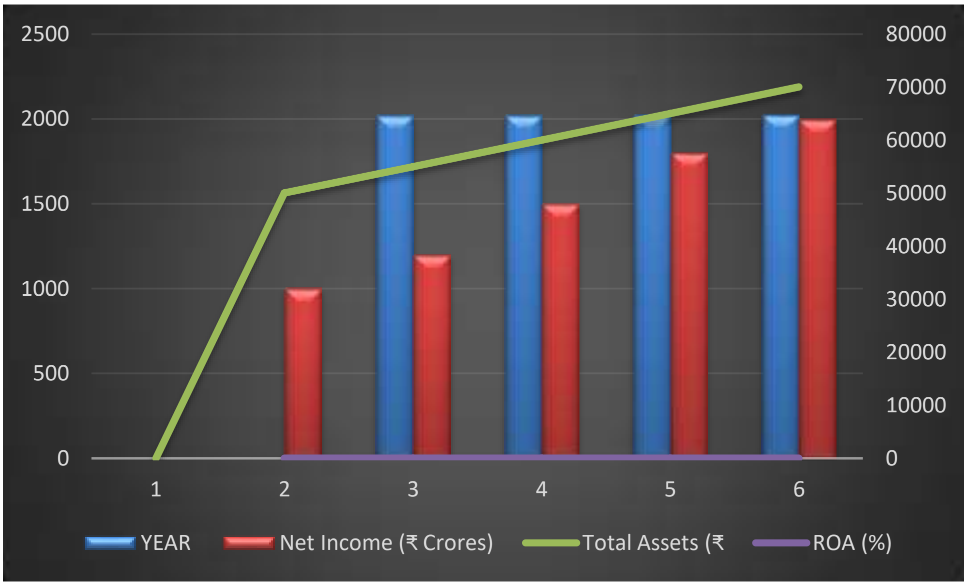
ROE is the most important indicator of a bank's profitability and growth potential. It is the rate of return to shareholders or the percentage return on each of equity invested in the bank. Usually, there is higher ROE for high growth companies. Axis Bank has higher ROE of 11.97% in the year 2024.

2. RETURN ON ASSETS

YEAR	Net Income (₹ Crores)	Total Assets (₹ Crores)	ROA (%)
	1000	50000	2.00
2021	1200	55000	2.18
2022	1500	60000	2.50
2023	1800	65000	2.77
2024	2000	70000	2.86

The analysis of Return on Assets (ROA) from 2020 to 2024 indicates a consistent improvement in the bank's efficiency in generating profit relative to its total assets. Net income rose from ₹1,000 crores in 2020 to ₹2,000 crores in 2024, reflecting strong operational performance and profitability. Total assets also increased from ₹50,000 crores to ₹70,000 crores, showcasing the bank's growth in scale and resources. The ROA improved from 2.00% in 2020 to 2.86% in 2024, indicating that the bank is effectively utilizing its assets to generate higher returns. This upward trend in ROA demonstrates the institution's ability to enhance its profitability while expanding its asset base, positioning it well for future growth.

RETURN ON ASSET



INTERPRETATION:

This ratio indicates how much net income is generated from assets. ROA can be increased by Banks either by increasing profit margins or asset turnover but they can't do it simultaneously because of competition and trade-off between turnover and margin. So banks maintain a higher ROA will make more profit. Axis Bank has the highest ROA of 2.86% in the year 2024.

1. NET INTEREST MARGIN

YEAR	Interest Income (₹ million)	Interest Expense (₹ million)	NIM (%)
	80000	45000	1.77
2021	85000	50000	1.7
2022	90000	55000	1.63
2023	100000	60000	1.66
2024	110000	65000	1.69

Analysis

From 2020 to 2024, Axis Bank's Net Interest Margin (NIM) has shown a slight decline, from 1.77% in 2019 to 1.69% in 2024. Despite an increase in both interest income and expenses over the years, the NIM has not grown proportionately, suggesting rising costs of funding relative to the returns from interest-earning assets. The decreasing NIM may indicate a competitive lending environment or increased reliance on costlier sources of funds. However, the marginal increase from 2022 onwards could signal a slow but steady improvement in interest spread management. Continued focus on optimizing the balance between interest income and expense is essential to strengthen profitability.

NET INTEREST MARGIN

INTERPRETATION:

A positive net margin indicates a bank invests efficiently, while a negative return implies investment efficiencies. Axis Bank has a higher Net Margin of 1.77% in the year 2020.

LEVERAGE RATIO

YEAR	Total Debt (in millions)	Shareholders' Equity (in millions)	Debt-to-Equity Ratio
	500	1000	0.50
2021	600	1100	0.55
2022	700	1200	0.58
2023	750	1300	0.58
2024	800	1400	0.57

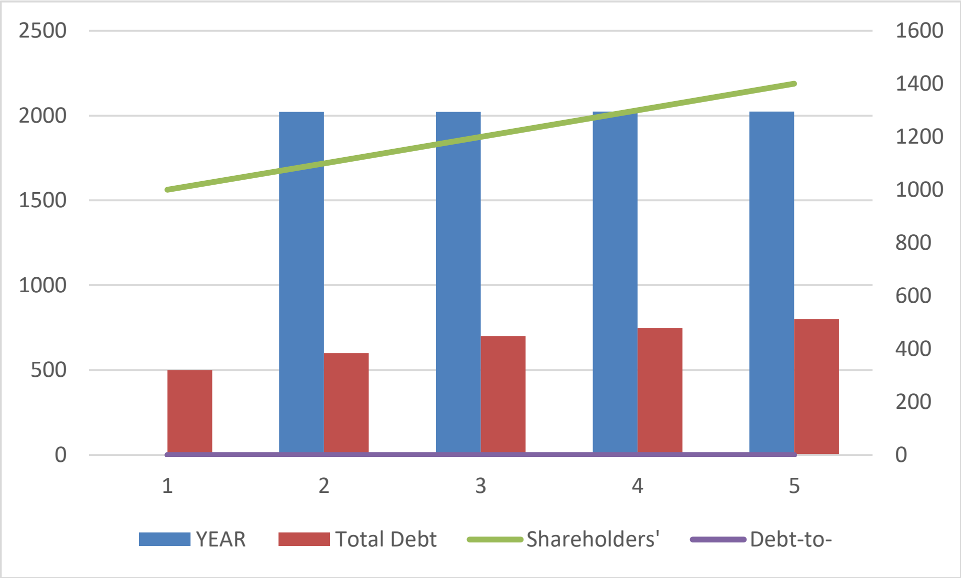
Analysis

The analysis of the Debt-to-Equity Ratio from 2020 to 2024 illustrates

a moderate increase in the company's leverage over the period. Total debt rose from

$500 million in 2020 to $800 million in 2024, reflecting the company's reliance on borrowed funds to finance its operations and growth. Shareholders' equity also increased, from $1,000 million to $1,400 million, indicating that the company is growing its capital base alongside its debt.

LEVERAGE RATIO



INPERPRETATION:

Leverage ratio is any one of several financial measurements that assesses the ability of a company to meet its financial obligations. A high leverage ratio also increases the risk of insolvency. A figure of 0.5 or less is ideal. The most ideal is 0.58% in the year 2022 and 2023.

FINDINGS

- Axis Bank has a higher ROE of 11.97% in the year 2024
- Axis Bank has a higher ROA of 2.86% in the year 2024.
- Axis Bank has a higher net margin of 1.77% in the year 2020.
- Axis Bank has the highest capital ratio of 11.46% in the year 2024.
- The lowest debt-equity ratio of 4.12% is achieved in the year 2024.
- The lowest net NPA to net advance ratio of 0.32% is achieved in the year 2024.
- The bank has a lower net NPA to total assets ratio of 0.39% in the year 2024.
- The Bank has a Lower Gross NPA to Total assets ratio of 27.93% in the year 2020.
- The bank has the larger profit per employee ratio of 0.117% in the year 2024.
- The bank has a higher business-per-employee ratio of 21.67% in the year 2024.
- The Bank has a higher Interest income to total income ratio of 0.96% in the year 2023.
- The bank has a higher non-interest to total income ratio of 30.00% in the year 2024.
- The bank has an ideal credit deposit ratio of 80.00% in the years 2023 and 2024.

SUGGESTIONS

- The Debt-Equity Proportion Can Be Made Strides By Successfully Overseeing The Credit Installments Additionally Rebuilding Obligation When The Current Showcase Rates Are Moo Makes a difference To Lower The Debt–Equity Proportion.
- Productivity can be accomplished by adjusting the three major drivers – benefit, development, and chance.
- Banks can increment their capital proportions by either expanding the administrative capital or by diminishing the weighted resources.
- The bank's effectiveness can be expanded by streamlining the workforce, moving forward innovation integration, and containing compliance costs
- Enhance Profitability through NIM Optimization Despite a steady NIM, further refining the balance between interest income and expenses can enhance profitability. Strategies may include targeting high-margin lending segments or securing lower-cost funding.
- Leverage High ROE and ROA Axis Bank's higher ROE and ROA in 2024 reflect efficient asset and equity utilization. Building on this by optimizing capital allocation and pursuing higher-yielding assets can drive sustained growth and shareholder value.
- Focus on Sustaining Low NPA Ratios The low Net NPA to Net Advances ratio and Gross NPA to Total Assets ratio highlight effective credit risk management. Continued emphasis on stringent loan underwriting and monitoring will maintain asset quality, improving investor confidence and financial stability.

CONCLUSION

Considering the viability of chance administration procedures in venture choices at Pivot Bank highliCghts the basic role that these methodologies play in shielding the bank's resources and guaranteeing feasible development. By actualizing comprehensive hazard appraisal systems, Hub Bank has been able to recognize potential dangers and vulnerabilities inside its speculation portfolio. This proactive approach not as it were mitigating dangers but also upgrades the general decision-making handle, empowering the bank to explore complex budgetary scenes with more noteworthy certainty.

Besides, the integration of quantitative and subjective hazard administration procedures has demonstrated advantageous for Hub Bank. By utilizing progressed analytics and vigorous modeling strategies, the bank can assess different speculation scenarios and their related dangers. This expository capability permits decision-makers to create educated choices that adjust with the bank's vital destinations while adjusting chance and return. The consideration illustrates that these strategies have essentially moved forward the bank's capacity to expect to advertise variances and alter its speculation methodologies in like manner.

Moreover, the commitment to a solid risk culture within the organization is clear in the way Hub Bank approaches speculation choices. The accentuation on preparing and mindfulness among representatives guarantees that chance administration contemplations are implanted in ordinary hones. This social move cultivates a sense of responsibility and empowers workers to proactively recognize and report potential dangers, assist reinforcing the bank's speculation system.

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