

A Study on Credit Risk Analysis in State Bank of India

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ABSTRACT

Credit risk is one of the most significant risks faced by banks, arising from the failure of borrowers to meet their repayment obligations. Effective management of credit risk is essential to ensure the stability and profitability of banking institutions. This study focuses on analysing credit risk management practices in the State Bank of India (SBI). The research is based on both primary and secondary data collected through structured questionnaires and financial reports. Statistical tools such as percentage analysis, correlation, regression, and chi-square tests were used for analysis. The study identifies key factors influencing credit risk, including loan appraisal, monitoring systems, and repayment behaviour. The findings reveal that effective credit risk management practices help in reducing Non-Performing Assets (NPAs) and improving overall banking efficiency. The study concludes with suggestions to strengthen credit evaluation and monitoring systems.

Keywords: Credit Risk Analysis, SBI, Non-Performing Assets, Risk Management, Loan Management, Credit Assessment, Banking Sector, Financial Performance.

Introduction

The banking sector plays a vital role in economic development by mobilizing savings and providing credit to various sectors. Among the different risks faced by banks, credit risk is the most critical, as it directly affects financial stability and operational efficiency.

Credit risk refers to the possibility that a borrower may fail to repay a loan or meet contractual obligations. Poor credit risk management leads to an increase in Non-Performing Assets (NPAs), which negatively affect the bank's performance and credibility. The State Bank of India (SBI), being the largest public sector bank in India, has a vast and diversified loan portfolio. Due to its extensive lending activities across sectors such as retail, MSMEs, agriculture, and corporate, managing credit risk effectively is essential.

This study aims to analyse the credit risk management practices followed by SBI and identifying addition, the study explores the role of internal control mechanisms, credit rating models, and early warning systems in identifying potential defaulters.

Literature Review

Various researchers have studied credit risk management in the banking sector:

- Patel & Shah (2020) emphasized the importance of capital adequacy in managing credit risk.
- Chaudhary & Singh (2021) highlighted the role of monitoring systems in reducing loan defaults.
- Kumar & Paul (2022) found that large corporate loans contribute significantly to NPAs.

- Reddy & Prasad (2023) analysed post-pandemic trends and noted improvements in credit risk management.
- Nagaraja (2024) concluded that improved recovery systems enhance asset quality.

These studies show that effective credit risk management is essential for reducing NPAs and ensuring banking stability.

Objectives of the Study

- To study credit risk analysis in the State Bank of India
- To understand the concept of credit risk in banking
- To Effectively monitor loan repayment

Research Methodology

A Descriptive research design was adopted for the study. The sample consisted of 50 respondents selected using convenience sampling techniques due to ease of access and time constraints. primary data were collected through structured questionnaires administered to employees. The data collected were analysed using appropriate statistical tools to derive meaningful insights. The statistical techniques used for analysis included percentage analysis to understand respondent distribution, correlation analysis to examine relationship between credit risk variables and chi -square test to identify association between demographic and credit related factor

Statistical Analysis Table

	Type of Value	CR1	CR2	CR3	CR4	CR5
CR1	Pearson Correlation	1	.412**	.385**	.298*	.210
	Sig. (2-tailed)	—	.003	.006	.035	.142
	N	50	50	50	50	50
CR2	Pearson Correlation	.412**	1	.455**	.320*	.265
	Sig. (2-tailed)	.003	—	.001	.024	.063
	N	50	50	50	50	50
CR3	Pearson Correlation	.385**	.455**	1	.430**	.300*
	Sig. (2-tailed)	.006	.001	—	.002	.034
	N	50	50	50	50	50
CR4	Pearson Correlation	.298*	.320*	.430**	1	.410**
	Sig. (2-tailed)	.035	.024	.002	—	.003
	N	50	50	50	50	50
CR5	Pearson Correlation	.210	.265	.300*	.410**	1
	Sig. (2-tailed)	.142	.063	.034	.003	—
	N	50	50	50	50	50

Interpretation

The correlation analysis was conducted to examine the relationship between key variables related to credit risk management.

The results indicate that there is a positive correlation between awareness and understanding of credit risk ($r = 0.412$), which implies that employees with higher awareness tend to have better understanding of credit risk concepts.

A moderate positive relationship is observed between understanding and the importance of credit risk management ($r = 0.455$), indicating that employees who understand credit risk well also recognize its importance in banking operations.

Chi-Square Test

Chi-Square Test between Awareness and Opinion on Risk Impact

Chi-Square Test of Association between Awareness and Risk Impact

Awareness	Agree	Neutral	Disagree	Total	Chi-square	P-value
Aware	16	25	0	41	43.486	0.000
Not Aware	0	1	8	9		
Total	16	26	8	50		

Interpretation

The above table presents the relationship between employees' awareness of credit risk and their opinion regarding its impact on financial performance.

Since the p-value (0.000) is less than 0.05, the null hypothesis is rejected at the 5% level of significance.

This indicates that there is a highly significant relationship between awareness of credit risk and employees' perception of its impact.

One Way Anova**The Relationship between Years of Experience****AMD Understanding of Credit Risk**

H0 There is no significant relationship between years of experience and understanding of credit risk

H1 There is a significant relationship between years of experience and understanding of credit risk

Particulars	Sum of Squares	df	F	Sig.
Between Groups	42.720	3	65.504	.000
Within Groups	10.000	46		
Total	52.720	49		

Interpretation

From the table, the calculated F-value is 65.504 and the corresponding p-value (Sig.) is 0.000.

Since the p-value is less than the level of significance (0.05), the null hypothesis is rejected.

The Table Shows the Effectiveness in Monitoring Loan**Repayment**

Particular	Frequency	Weight	Score
Very Effective	15	5	75
Effective	20	4	80
Neutral	10	3	30
Ineffective	5	2	10
Very Ineffective	0	1	0
Total	50		195

Weighted Average

The weighted average is $195 / 50 = 3.9$

Interpretation: The weighted average score of 3.9 indicates that respondents perceive the monitoring of loan repayments in banks to be effective. However, the presence of neutral and ineffective responses suggests that there is still scope for improvement in monitoring practices.

Findings

- The study shows that 52% of respondents are male and 48% are female, indicating a nearly balanced gender distribution.
- The majority of respondents (30%) belong to the 25–35 years age group, showing that the workforce is relatively young and active.
- Most respondents (62%) are postgraduates, indicating a highly educated workforce in the banking sector.
- A significant proportion of employees have 2–10 years of experience (56%), reflecting moderate experience in banking operations.
- The income analysis reveals that 30% earn between ₹80,000–₹1,00,000, indicating a relatively good income level among respondents.

Suggestion

- Banks should strengthen borrower screening procedures to minimize loan defaults and reduce credit risk.

- There is a need to improve credit risk assessment techniques by considering multiple factors such as income, credit history, and repayment capacity.
- Banks should adopt advanced analytics and AI-based risk assessment tools for better decision-making.
- Regular training programs should be conducted to improve employees' knowledge and awareness of credit risk management.
- Banks should enhance loan monitoring systems to identify early warning signals of default.
- Effective recovery strategies and legal actions should be implemented to reduce non-performing assets (NPAs).

Conclusion

The study focused on analysing the role and impact of credit risk management in the banking sector. Credit risk is one of the most critical risks faced by banks, as it directly affects profitability and financial stability. The study examined various factors such as awareness, understanding, monitoring practices, and their influence on financial performance. The overall findings emphasize that effective credit risk management is essential for ensuring the long-term sustainability of banks.

The demographic analysis revealed that most of the respondents belong to the younger age group with moderate work experience and strong educational backgrounds. This indicates that the banking sector consists of a dynamic and knowledgeable workforce capable of understanding complex financial concepts. Such a workforce provides a strong foundation for implementing advanced credit risk management practices.

Limitation of the Study

The study was limited to respondents associated with the state bank of India, which may restrict the generalizability of the findings to other banks or financial institutions. The sample size of 50 respondents may not fully represent the broader banking population. The study is based on primary data collected through questionnaires, and the responses may be subject to personal bias and perception of the respondents.

Scope for Future Research

Future research can extend this study by including multiple banks both public and private sector, to improve generalizability of the findings. A larger sample size can be considered to obtain more accurate and comprehensive result. Researchers can also focus on sector wise credit risk analysis such as retail, MSME and corporate lending for deeper insights

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