

A STUDY ON CREDIT RISK MANAGEMENT IN EMERGING MARKETS: CHALLENGES AND SOLUTIONS -ULTRATECH CEMENT

¹ S. Swapna, ² Asthapuram Om Pooja

¹ Associate Professor, ² MBA Student

Department of MBA

Sree Chaitanya College of Engineering, Karimnagar

ABSTRACT

Credit risk management is a crucial aspect of financial and banking operations that involves identifying, assessing, and mitigating the risk of loss arising from a borrower's failure to repay loans or meet contractual obligations. This study examines the strategies, tools, and frameworks adopted by financial institutions to manage credit risk effectively while maintaining profitability and regulatory compliance. It focuses on the entire credit lifecycle, including credit appraisal, rating systems, loan sanctioning, monitoring, and recovery processes.

The research highlights the importance of internal credit rating models, risk-based pricing, portfolio diversification, and adherence to regulatory guidelines such as those prescribed by the Basel Accords and the Reserve Bank of India (RBI). It also explores the role of technology and data analytics in improving risk prediction and early warning systems. The findings reveal that a sound credit risk management system not only reduces the incidence of non-performing assets (NPAs) but also strengthens the overall creditworthiness and sustainability of financial institutions. The study concludes that credit risk management is essential for ensuring financial stability, investor confidence, and long-term growth in the banking and lending sectors.

I. INTRODUCTION

Credit risk refers to the probability of loss due to a borrower's failure to make payments on any type of debt. Credit risk management, meanwhile, is the practice of mitigating those losses by understanding the adequacy of both a bank's capital and loan loss reserves at any given

time – a process that has long been a challenge for financial institutions.

The global financial crisis – and the credit crunch that followed – put credit risk management into the regulatory spotlight. As a result, regulators began to demand more transparency. They wanted to know that a bank has thorough knowledge of customers and their associated credit risk. And new Basel III regulations will create an even bigger regulatory burden for banks.

To comply with the more stringent regulatory requirements and absorb the higher capital costs for credit risk, many banks are overhauling their approaches to credit risk. But banks who view this as strictly a compliance exercise are being short-sighted. Better credit risk management also presents an opportunity to greatly improve overall performance and secure a competitive advantage.

Credit Risk

Credit risk – the risk of financial loss due to an unexpected deterioration of counterparty credit quality – has doubtless been brought into sharp focus over recent years, but it has also played a significant role in the majority of financial crises prior to this time. This ongoing need to have accurate measurement and efficient management of credit exposure is a foundation stone for firms; therefore it is essential that they are equipped with a complete gamut of tools and techniques to achieve this.

Our comprehensive credit risk solution covers provides single name and portfolio credit risk analysis by means of three components: current and potential exposure, expected credit loss and credit value-at-risk.

The solution's counterparty structure allows users to drill down to the individual subsidiaries of an organization. The full legal structure can be implemented with distinction between branches and legally independent subsidiaries. Subsidiaries can be consolidated based on the percentage ownership. Additionally, flexible analysis by country is available.

Financial product / Instrument coverage

All credit exposure calculations applied consistently for any type of financial product/instrument from deposits to exotic options. Specific instruments for credit risk include collateral, guarantees, credit lines, credit line opening, credit default swaps, total return swaps and credit spread options

Trade credit arises when a firm sells in products or services on Credit and does not receive cash immediately. It is an essential marketing tool, acting for the moment of goods through production and distribution stages to customer. Affirm grants trade credit. To protect is sales form the competitors and to attract the potential customers to by its products at favorable terms. Trade creates "Accounts receivable or trade debtors" that the firm is expected to in the near futures. The customers from whom receivable or book debits have to be collected in the future is called trade debtors or simply as debtors and represent the firms clime or asset.

A credit sale has characteristics:

- i) It involves an element of risk that should be carefully analyzed. Cash sales are totally risk less, but not the credit sales as the cash sales as the cash payment are yet too received.
- ii) It is based on economic value to the buyer, the economic value goods services passes immediately at the time of sales while the seller expects on the equivalent value to be received later on.
- iii) It implies futurity the buyer will make the cash payment for goods services received by him in future period. debtors constituted a substantial portion of customer assets several firms. For e.g.:- In India, traders Debtors after inventories are the major components of current assets. They from 1/3rd of current assets in India. Granting credit and

creating Dr's amount to the blocking of the firms founds.

Thus trade debtors represent investment as substantial amount are tide-up in trade debtors it needs careful analysis and proper management.

Need and importance of the study

Credit risk management is one of the key areas of financial decision-making. It is significant because, the management must see that an excessive investment in current assets should protect the company from the problems of stock-out. Current assets will also determine the liquidity position of the firm.

The goal of Credit risk management is to manage the firm current assets and current liabilities in such a way that a satisfactory level of working capital is maintained. If the firm cannot maintain a satisfactory level of working capital, it is likely to become insolvent and may be even forced into bankruptcy.

Scope of the study

The scope of the study is limited to collecting financial data published in the annual reports of the company every year. The analysis is done to suggest the possible solutions. The study is carried out for 5 years .

Credit risk is the risk arising from the uncertainty of an obligor's ability to perform its contractual obligations. Credit risk could stem from both on- and off-balance sheet transactions. An institution is also exposed to credit risk from diverse financial instruments such as trade finance products and acceptances, foreign exchange, financial futures, swaps, bonds, options, commitments and guarantees.

OBJECTIVES OF THE STUDY:

- To analysis the credit policies of UltraTech Cement Limited
- To find out debtor turnover ratio and average collection period.
- To find out whether it is profitable to extend credit period or reduce credit Period.
- To suggest measures to increase profits.

- How all areas of business are influenced by Credit Risk Management?
- How to manage information to create a volume driven business.

II. RESEARCH METHODOLOGY

The data used for analysis and interpretation from annual reports of the company. that is secondary forms of data. DDR, ACP and Increase in credit period analysis are the Techniques used for calculation purpose.

The project is presented by using tables, graphs and with their interpretations.

Primary data:

Primary data is collected from the Execute of the organization

Secondary data:

Secondary data obtained from the annual reports, books, magazines and websites.

LIMITATIONS

- The study is based on only secondary data.
- The period of study was 2020-24 financial years only.
- Another limitation is that of standard ratio with which the actual ratios may be compared generally there is no such ratio, which may be treated as standard for the purpose of comparison because conditions of one concern differ significantly from those of another concern.
- The accuracy and correctness of ratios are totally dependent upon the reliability of the data contained in financial statements on the basis of which ratios are calculated.

III. LITERATURE REVIEW

Good risk management at a strategic level helps protect an organization's reputation, safeguard against financial loss, minimize disruption to services and increase the likelihood of achieving business objectives successfully.

This also gives assurance on how an organization's business is managed and at the same time will satisfy any compliance requirements of the organization, where an internal control mechanism is established. Internal control includes:

The establishment of clear business objectives, standards, processes and procedures
Clear definition of responsibilities
Measurement of inputs, outputs and performance outcomes in relation to objectives
Performance Management
Financial controls over expenditure and budget.

What does it require?

The establishment and understanding of a risk management policy and framework

The identification, assessment and judgement of threats to the achievement of clear business objectives

Effecting the right action to anticipate and mitigate against risk - this includes establishing effective internal controls to counter key risks

Where necessary, to take reasonable and calculated risks based on well informed management decisions

Balancing risks by design control to give reasonable assurance to contain risks and offer value for money

Monitoring risks and reviewing progress

Quantifying risks by assessing any potential costs or benefits arising from possible impact

How to identify risks?

Step 1 - Clarity of Objectives

Be clear first of all about the overall objectives of the organisation and understand how departmental objectives are aligned to the delivery of same. Think about:

What needs to be done

By when

Who is accountable for delivery.

Step 2 - Identify Risks

With your objectives in mind, ask the following questions:

What can go wrong?

How and why can it happen?

What do we depend on for continued success?

What could happen?

Consult with staff and others as appropriate and consider a range of possible scenarios including the best and worst cases. Be as creative with this process as possible. Consider the

'cause and effect' and scope of the risk and state as clearly as possible to avoid misunderstanding and misinterpretation. Try to quantify where possible based on what the effect might be.

Go back to Step 1 above and do the same for external risks by considering the relationship between the organisation and its wider environment and follow the steps above. Consider potential external cause of business disruption, issues affecting relationship with partners, suppliers and any possible changes in government policy and legislation.

Step 3 - Assess Risks

Identify existing controls and their effectiveness
Assess what other controls may be necessary
Determine likelihood / impact - use a bespoke template:

Likelihood of risk occurring is used as a qualitative description of probability or frequency

Impact is the outcome of the risk impacting and is expressed qualitatively or quantitatively, i.e. being a loss, injury, disadvantage or gain. NB - there may be a range of possible outcomes.

Set out a realistic timeframe for managing / mitigating risk.

Step 4 - Address Risks

This involves practical steps to managing and controlling risks. Think about:

what actions or responses are required to control risks

what are the associated cost of these actions

are the costs proportionate to the risk that it is controlling

What information is needed to make an informed decision to accept, manage, avoid, transfer or reduce the risks

Is it better to work to eliminate or innovate through taking reasonable calculated risks.

Step 5 - Review, Quantify and report Risks

Although policy may dictate a review and half yearly update should be enacted, risk owners need to regularly review to ensure there is ongoing relevant management of risks

Advice should be sought where quantification / confirmation is needed, i.e. Finance or Audit Department

Build into the current reporting structure via the business planning round. Where key risks need to be considered, ensure it is given priority within the agreed framework.

Risk Defined

Risk: is the actual exposure of something of human value to a hazard and is often regarded as the product of probability and loss - *Source: Smith K 2001; Environmental Hazards Assessing Risk and Reducing Disaster: London: Routledge: 6 -7.*

Risk Assessment: The evaluation of a risk to determine its significance, either quantitatively or qualitatively.

Risk Management: Determines the levels at which risk acceptability is set and methods of risk reduction are evaluated and applied.

Resilience: The ability at every relevant level to detect, prevent and, if necessary handle disruptive challenges. *Source: CCS Resilience*

Business Continuity: A proactive process which identifies the key functions of an organisation and the likely threats to those functions; from this information plans and procedures which ensure that key functions can continue, whatever the circumstances, can be developed.

CREDIT POLICY VARIABLES:

In establishing an optimum credit policy. The financial manager must consider the important decisions variables which influence the level of receivables.

The major controllable decision variable include the following –

Credit standards

Credit analysis

Credit terms

Collection policies and procedures

CREDIT STANDARDS

The term credit standards represent the basic criteria for the extension of credit to customers. The quantitative basic of establishing credit standards or factors such as credit rating, credit reference, average payment period and certain financial ratio's since we are interested in illustrating the trade – off between benefit and cost to the firm as a whole.

We do not consider here these individual components of credit standards. To illustrate the effect,

- We have divided the overall standards into –
- Tight or restrictive and
- Liberal or non- restrictive i.e., to say our aim is to show what happens to the trade-off
- when standards are relaxed or alternatively, tighten.
- The trade – off with reference to credit standards covers –

The collection cost

The average collection period or investment in receivables

Levels of bad debts losses and

Level of sales.

These factors should be considered while deciding whether to relax credit standards or not.

If standards are relaxed, it means more credit will be extended while. If credit standards are tightened. Less credit will be extended.

The implication of four factors are elaborated below –

WHY DO COMPANIES GRANT IN INDIA;-

Companies in practice feel the necessity of granting credit reason;-

COMPETITION ;-

Generally the higher the degree of competition, the more the credit granted by a firm however, there are exceptions such as firms in the electronics industry in India.

COMPANIES BARGAINING POWER ;-

If A Company has higher bargaining power vis-à-vis its buyers, no or less credit. The company will have a string bargaining power if it has a strong product, monopoly, and brand image, large size or strong financial position.

BUYER REQUIREMENT ;-

In a number of business sectors buyers or dealers are not able to operate with extend credit this is particularly so, in the case of industrial products.

BUYERS STATUS ;-

Large buyers demand easy credit terms because bulk purchasers and higher bargaining power some companies follow a policy of not giving much credit to small retailers since it is quite difficult to collect dues from them.

RELATIONSHIP WITH DEALERS ;-

Companies some times extend credit to dealers to build long –term relationship with or to reward them for their loyalty.

MARKETING TOOL ;-

Credit is used as a marketing tool, particularly when a new product is launched or when a new company wants to push its week products.

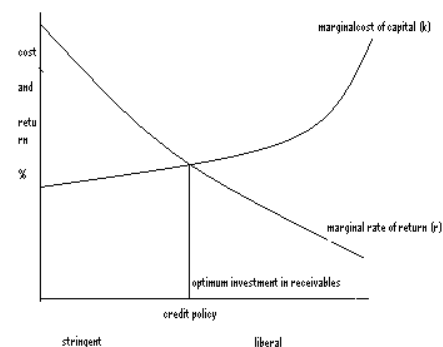
INDURSTRY PRACTICE ;-

Small companies have been found guided by industry practice or norm more than the large companies. Some times companies continue giving credit because of past practice rather than industry practice.

TRYNIST DELAY ;-

This is a forced reason for extended credit in the case of a number of companies in India most companies evolved systems to minimize the impact of such delays some of them take the help of banks to control cash flows in such situations.

The graph represents the optimum level of receivables :



Optimum level of receivables.

IV. DATA ANALYSIS AND INTERPRETATION

DATA ANALYSIS:-

The calculations using in Data analysis are –

DTR (Debtor's turnover ratio)

ACP (Average collection period)

Calculation of DTR :-

This measures a relationship between debtor's and sales.

$DTR(Crs) = \frac{\text{credit sales (or) sales}}{\text{Debtors}}$

Calculation for: 2025:-
 $DTR = \frac{22936.17}{1203.19} = 19.06$

Calculation for: 2024:-
 $DTR = \frac{20279.80}{1281.02} = 15.83$

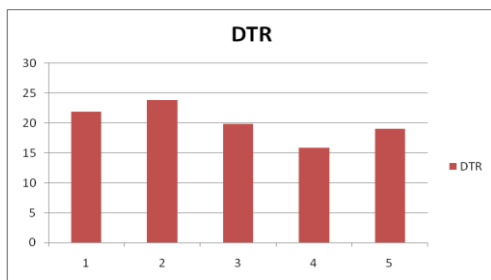
Calculation for: 2023:-
 $DTR = \frac{20174.94}{1017.24} = 19.83$

Calculation for: 2022:-
 $DTR = \frac{18270.69}{765.96} = 23.85$

Calculation for: 2021:-
 $DTR = \frac{13205.64}{602.29} = 21.92$

DTR from 2021 to 2025 are :-

Year	DTR
2021	21.92
2022	23.85
2023	19.83
2024	15.83
2025	19.06



Interpretation:

The Debtors turnover ratio of Ultratech cements is in the fluctuation stage because the increase and decreased in debtors to the total sales. In the current year i.e. 2025 the ratio is 19.06.

Calculation of ACP:-

The ACP calculation is compared with the firm's stated credit period to judge The collection

efficiency. The ACP measures the quantity of receivables.

Since, it indicates the speed of their collect ability.

$ACP(Crs) = \frac{\text{Debtors}}{\text{Credit sales}} \times 360$

Calculation for: 2025:-
 $ACP = \frac{360}{19.06} = 18.88$

Calculation for: 2024:-
 $ACP = \frac{360}{15.83} = 22.74$

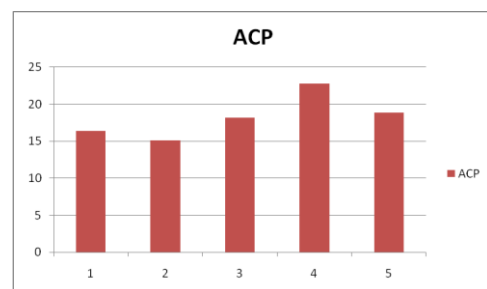
Calculation for: 2023:-
 $ACP = \frac{360}{19.83} = 18.15$

Calculation for: 2022:-
 $ACP = \frac{360}{23.85} = 15.09$

Calculation for: 2021 :-
 $ACP = \frac{360}{21.92} = 16.41$

ACP from 2021 to 2025 are :-

Year	ACP
2021	16.41
2022	15.09
2023	18.15
2024	22.74
2025	18.88



Interpretation:

The Average collection period of Ultratech cements in the year 2024 was very high as compared with all the years. As compared with the credit sales to the ratio in the year 2025 was 18.88.

V. FINDINGS:-

- Debtor's turnover ratio increasing every year from 2021 to 2025.
- Average collection period decreasing every year from 2021 to 2025.
- The scenario analysis was conducted assuming credit period to be 80 days and 100 days. The result should that while credit period is 100 days the company is getting profits. When the credit period is 80 days the company is getting losses.
- Based on the report it is concluded that credit policies are decided by zonal manager so, powers are centralized.
- Credit standards are determined based on economic conditions.
- Credit is 90 days and if credit is paid before that period the company will give cash discount.

VI. SUGGESTIONS:-

- It is suggested to management to increase credit period to 100 days. So that company can earn profits.
- It is suggested to management to offer more incentives for prompt payment of credit. So that receivables are paid promptly by dealers.
- In management can be little bit liberal in credit policies so that more profits are achieved.
- Relaxing credit standards will enable to increases the customers.

VII. CONCLUSIONS

Although a relatively young discipline, credit risk management has matured rapidly. Improved risk measurement and reporting techniques paired with comprehensive credit risk policies can provide extremely effective protection against credit risk losses. The best risk management techniques are operational and legal, with collateral providing the best financial risk mitigation. Credit insurance and credit default swaps offer financial protection against default, but each at its own cost—which must be compared to the benefits of reducing the specific risk it is intended to mitigate.

In view of these limitations, we believe that an alternative approach is now needed which should have two components. First we believe that the regulatory capital regime should seek directly to assess the extent to which a firm's earnings are vulnerable to stress losses of any type - a measure we refer to as regulatory equity at risk - and should then establish a capital requirement which is sufficient to provide a high level of assurance that the firm could survive such a stress event and still remain solvent during a work out period. Secondly we argue that there needs to be much more explicit regulatory oversight of the liquidity management arrangements in place at the firm, since effective liquidity management arrangements rather than capital provide the primary protection against any stress events affecting the firm

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