

Operational And Financial Performance Of Andhra Pradesh State Financial Corporation (APSFC) : An Overview

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ABSTRACT

Andhra Pradesh State Financial Corporation [APSFC] is a term lending institution established in 1956 by merger of Andhra State Financial Corporation and Hyderabad State Financial Corporation for promoting small and medium-scale industries (SMEs) in Andhra Pradesh under the provisions of the State Financial Corporations Act, 1951. The APSFC as premier state level financial institution and as an integral part of the development financing system in the country has gained prominence for playing its role in the achievement of rapid and high quality industrial growth in Andhra Pradesh. It offers a package of assistance to the entrepreneurs to enable them to translate their project ideas into reality. The corporation has launched many entrepreneur-friendly schemes to provide term loans, working capital term loans, and special and seed capital assistance to suit the needs of various categories of entrepreneurs. The Corporation has completed five and half decades of dedicated service in industrial financing of tiny, small and medium-scale sector units and has been consistently contributing to the balanced regional development of the state. It has been continuously doing its best in every possible area of its operations to retain its premier position among the SFCs in the country. In order to provide an instant picture of the performance of the APSFC during the last ten years, the researcher undertook the present study. In this paper, the researcher has made an attempt to examine the no. of applications sanctioned with applied amount, flow of assistance in terms of sanctions and disbursements, flow of assistance to the small-scale sector, Recovery performance of the Corporation, Income and expenditure, Operating and net profit, Growth in net worth, Capital adequacy ratio, Asset quality and reduction of NPAs, Cost of borrowings and return on average assets. At the end of the analysis, some viable and useful suggestions are offered to tone up the overall performance of the Corporation for industrial development in Andhra Pradesh.

Keywords: Sanctions, Disbursements, Recovery Performance, Net Worth, Capital Adequacy Ratio, Asset Quality, NPAs

JEL Classification: G32, G33

INTRODUCTION

Andhra Pradesh State Financial Corporation came into being as a premier Financial Institution on November 1, 1956, with the avowed objectives of purveying financial assistance and managerial support to industrial entrepreneurs in Andhra Pradesh. It is clear that the APSFC is concentrating on industries so as to bring about a balanced industrial development in Andhra Pradesh. It has been providing financial support to various categories of industries in the State. However, the overall progress of the industrial sector has not been up to the mark due to various constraints. There is a need to strengthen the financial base of the Corporation and its operational efficiency. The present paper deals with both operational and financial performance of the Corporation over a period of a decade.

REVIEW OF LITERATURE

Reddy (2012) in his paper "*Industrial Financial Services by APSFC - A Study*" highlighted the relationship between sanctions and disbursements, gross sanctions and sanctions granted to the SSI sector - purpose wise, constitution wise, loan type wise, social-class wise, region wise, classification of assistance and some viable and useful suggestions were offered to tone up the overall performance of the Corporation for industrial development in Andhra Pradesh.

Bhat (2012) in his article "*Financial Statement Analysis of Andhra Pradesh State Financial Corporation*" analyzed the operational and financial performance of the APSFC, and suggested that the Corporation has to reduce the operating expenses to improve the profitability and should frame a good credit policy to speed up the collection period.

Athma and Lakshmi (2012) in their article "*APSFC: Performance Since Inception*" made an attempt to examine the trends in the performance of APSFC since inception and also analyzed the purpose wise, constitution wise, loan type wise and industry wise sanctions and disbursements of loans and highlighted that there has been a substantial improvement in the performance of the Corporation.

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Garg and Gupta (2011) in their article “*State Financial Corporations and Industrial Development (A case study of PFC and HFC)*” attempted to evaluate the role played by SFCs in the development of industry in their respective states, i.e. Punjab and Haryana.

Rani and Rao (2010) in their book, “*Development Financial Institutions In India: Changing Role and Strategies*” pointed out the role and operational performance of development financial institutions in economic development in general, supported by the case study of APSFC in particular.

Alivelu, Srinivasulu and Reddy (2009) in their article “*State Business and Performance of The Manufacturing Sector in Andhra Pradesh - A Case Study*” attempted to enquire into the politics of state business relations, how it has affected industrial development in general, and the expansion of financial institutions like the APSFC in the state of AP in particular.

STATEMENT OF THE PROBLEM

Andhra Pradesh is one of the fast developing industrial states in the country. With a strong agricultural base, abundant natural resources and a peaceful industrial climate with skilled labour force, the State has tremendous potential and offers scope for fast industrial development. In order to meet the financial needs of medium and small-scale industries in the state, the APSFC came into existence on the November 1, 1956 with a view to serving the existing as well as prospective entrepreneurs from all over the state. The APSFC has been functioning through its 25 Branch Offices, 2 Field Offices and 6 Zonal Offices apart from its Head office at Hyderabad. The APSFC as a premier state level financial institution and as an integral part of the development financing system in the country has gained prominence for playing its responsibility in the achievement of rapid and high quality industrial growth in the State. It offers a package of assistance to entrepreneurs to enable them to translate their project ideas into reality. It has been continuously doing its best in every possible area of its operations to retain its premier position among SFCs in the country. With this backdrop, in the present study, the researcher has made an attempt to provide an overall picture of the performance of APSFC during the last 10 years. The present study entitled “Operational and Financial Performance of Andhra Pradesh State Financial Corporation (APSFC) : An Overview” is a modest attempt in this direction, which focuses attention on operational and financial performance parameters of the Corporation.

OBJECTIVES OF THE STUDY

- 1) To evaluate the number of applications sanctioned with the applied amount.
- 2) To examine the flow of assistance in terms of sanctions and disbursements made by the Corporation.
- 3) To highlight the flow of assistance to the small-scale sector vis-à-vis total sanctions made by the Corporation.
- 4) To study the recovery performance of APSFC over the study period.
- 5) To analyze the association between income and expenditure of the Corporation during the period under study.
- 6) To assess the growth in Net Worth, Capital Adequacy Ratio and the Cost of Borrowing by the Corporation.
- 7) To diagnose the asset quality and reduction in NPAs by APSFC over a decade.
- 8) To suggest feasible ways and means to improve the overall performance of the Corporation for the cause of industrial development in the State.

RESEARCH METHODOLOGY

❖ **Research Design:** In view of the objectives of the study listed above, an exploratory research design was adopted. Exploratory research is one that lays particular emphasis on analysis and interpretation of the existing and available information and it makes use of secondary data.

❖ **Sources of Data:** The study is based on secondary data and on discussions with the concerned personnel. The secondary data consisted of the annual reports of APSFC ranging for the last 10 years. Various other sources like journals, magazines, published books and websites were also considered for the present study.

❖ **Tools of Analysis :** The data collected for the study was analyzed logically and meaningfully to arrive at meaningful conclusions. The statistical tools applied for data analysis are Percentages, Simple growth rate, Compound Annual Growth Rate, Mean, Variance, Standard Deviation, Correlation and T-test.

❖ **Scope and Period of The Study:** Firstly, the binary concepts like sanctions, disbursements, sanctions to small-scale industries, purpose-wise, region-wise sanctions, etc., were used for measuring the operational performance of the Corporation to answer various objectives of the study. Secondly, the study is based on the annual reports of the Corporation for a period of 10 years from 2001-02 to 2010-11.

❖ **Limitations of The Study:** The information used is primarily from historical annual reports available to the public, and the same doesn't indicate the current situation of APSFC. Detailed analysis could not be carried for the research work because of the limited time span.

HYPOTHESIS

H₀₁: There is no significant variation between sanctions and disbursements over the study period.

H₀₂: There is no significant variation between gross sanctions and sanctions made to the small-scale sector.

DATA ANALYSIS & INTERPRETATION

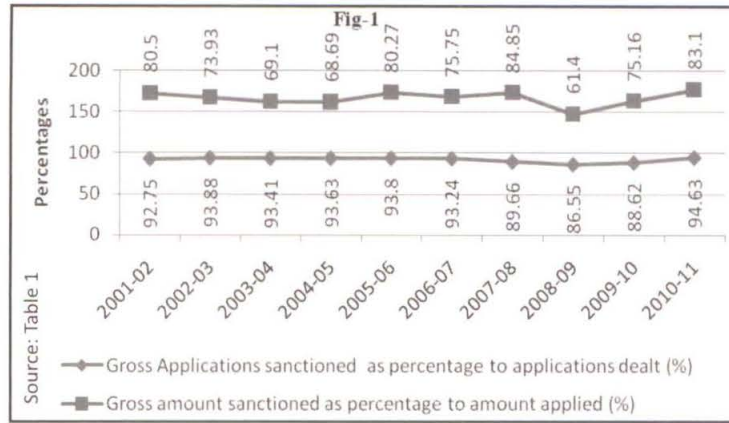
SECTION-I: OPERATIONAL PERFORMANCE OF THE APSFC

Although profit is the criterion of efficiency of management of APSFC, it, however, should not be judged only in terms of its financial record. Financial Corporations are channels through which society achieves modernity, entrepreneurial and industrial growth. Thus, it's true that profitability can be found in and flows from an enhanced sense of business ethics, innovation techniques and improvement in management practices and operational working. Hence, the present section aims to analyze and evaluate the performance of APSFC in terms of its assistance to the industrial units in Andhra Pradesh on the following parameters :

- ❖ No of applications sanctioned with the applied amount.
- ❖ Flow of Assistance in terms of Sanctions and Disbursements.
- ❖ Flow of Credit to the Small-Scale Sector.
- ❖ Recovery performance of the Corporation over a period of one decade.
- ❖ **Number of Applications Sanctioned With The Applied Amount :** The APSFC has posted brilliant performance in its business operations with improvement in the key operational areas of sanctions and disbursements during the study period. The data relating to the gross applications sanctioned was taken as the percentage of applications dealt with as on March 31 of every year. The amount sanctioned as percentage of total amount applied is shown in the Table 1. The Table 1 provides an opportunity of critical assessment of the functioning of the Corporation. The number of applications approved and assistance sanctioned by the Corporation on an average per annum in relation to the total applications dealt with by the Corporation as on 31st March of every year was 92.02 per cent. It implies that the number

Year	Applications dealt on 31st March for Sanctions	Gross Applications sanctioned (percentage to applications dealt)	Total amount applied	Amount sanctioned (percentage to amount applied) (Gross sanctions)
2001-02	1463	1357 (92.75)	511.44	411.71 (80.50)
2002-03	1438	1350 (93.88)	567.90	419.85 (73.93)
2003-04	1321	1234 (93.41)	623.05	430.58 (69.10)
2004-05	1273	1192 (93.63)	676.48	464.69 (68.69)
2005-06	1226	1150 (93.80)	729.92	585.96 (80.27)
2006-07	1287	1200 (93.24)	930.33	704.75 (75.75)
2007-08	1373	1231 (89.66)	1186.32	1006.65 (84.85)
2008-09	1458	1262 (86.55)	1442.30	885.66 (61.40)
2009-10	1328	1177 (88.62)	1400.09	1052.38 (75.16)
2010-11	1492	1412 (94.63)	1668.17	1386.38 (83.10)
Mean Percentage		92.02		75.30

Source: Compiled from the Annual Reports of APSFC (2001-02 to 2010-11)



applications that were either rejected or were pending with the Corporation constituted around 8 per cent each year. Further, the year-wise analysis of the applications sanctioned indicates that the sanctioning ranged between 86.55 per cent and 94.63 per cent, reflecting the positive approach of the Corporation in extending financial assistance to industrial entrepreneurs. The sanctions of the APSFC as percentage of the amount applied reveal a fluctuating trend. It can be observed from the Table 1 that the amount sanctioned out of the total amount applied for was 75.30 per cent, and out of the total amount applied for by the entrepreneurs, 25 per cent applications were either rejected or were pending with the Corporation. The year 2008-09 showed a drastic fall in the situation. The gross sanctions as percentage to the applied amount ranged between a maximum of 84.85 per cent in 2007-08, and a minimum of 61.4 per cent in 2008-09. It shows that the whole amount applied for had not been sanctioned. The graphical relationship between these factors is depicted in the Figure 1.

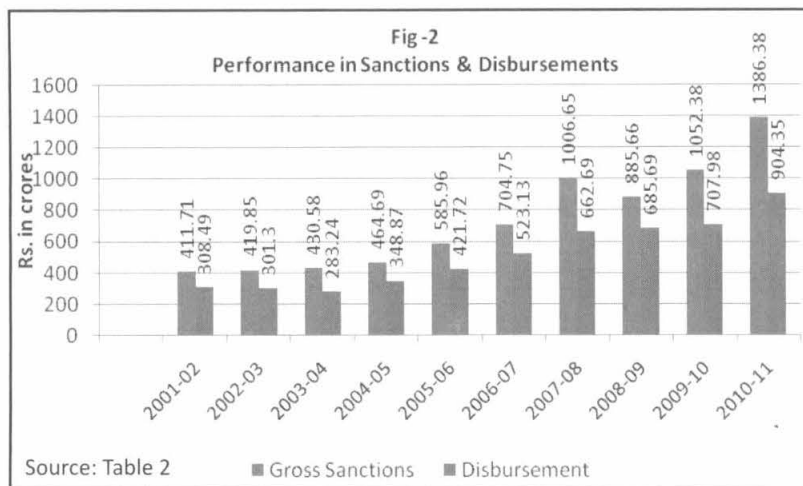
❖ **Flow Of Assistance In Terms Of Sanctions And Disbursements:** The APSFC as a premier state level financial

Table 2 : Flow of Assistance In Terms Of Sanctions And Disbursements (₹ In crores)

Year (1)	Gross Sanctions (2)	Annual Growth Rate (%)	Disbursement (3)	Annual Growth Rate (%)	(3) as percentage of (2)
2001-02	411.71	--	308.49	--	74.92
2002-03	419.85	1.97	301.30	3.30	71.76
2003-04	430.58	2.55	283.24	1.71	65.78
2004-05	464.69	7.92	348.87	4.87	75.07
2005-06	585.96	26.09	421.72	4.65	71.97
2006-07	704.75	20.27	523.13	16.27	74.22
2007-08	1006.65	42.83	662.69	12.07	65.83
2008-09	885.66	-12.01	685.69	10.77	77.42
2009-10	1052.38	18.82	707.98	21.48	67.27
2010-11	1386.38	31.73	904.35	81.07	65.23
Mean	734.86		514.74		70.94
Variance	112691.21		46463.85		20.68
Range	974.67		621.11		12.19
No. of Observations	10		10		10
Correlation Co-efficient		0.988			
t- Statistics		1.736			
Degrees of freedom		18			
t- Critical value (two-tail)		2.106			

Source: Compiled from the Annual Reports of APSFC (2001-02 to 2010-11)

institution and as an integral part of the development financing system in the country has gained prominence for playing its role in the achievement of rapid and high quality industrial growth in the state of Andhra Pradesh. It offers a package of assistance to the entrepreneurs to enable them to translate their project ideas into reality. It has been continuously doing its best in every possible area of its operations to retain its premier position among the SFCs in the country. The Table 2 and Figure 2 represents the data relating to sanctions and disbursements made by it during the period 10 years. The amount of sanctions increased from ₹ 411.71 crores in 2001-02 to ₹1386.38 crores in 2010-11. The mean sanctions over the study period were ₹ 734.86 crores. The amount of disbursements increased from ₹ 308.49 crores in 2001-02 to ₹ 904.35 crores in 2010-11. The mean disbursements over the study period were ₹ 514.75 crores. The mean percentage of disbursements in relation to sanctions over the study period is 70.94 per cent. The correlation coefficient between sanctions and disbursements over the study period is 0.9887. Calculated Value of $-t'=1.736$ and Critical value of $-t'= 2.106$. As the calculated value is less than the critical value, thus, the null hypothesis (H_{01}) is accepted. Thus, it can be said that there is a close association between gross sanctions and disbursements.



❖ **Flow Of Credit To The Small - Scale Sector :** The small-scale sector plays a vital role in generating employment, dispersal of industries to semi-urban and rural areas, promoting entrepreneurship, narrowing economic imbalances, effective utilization of locally available resources. The promotion of small-scale industries has directly resulted in equitable distribution of national income, wealth and economic opportunities and equitable distribution of economic power. Therefore, a significant amount of sanctions and disbursements were channeled to this sector. The Table 3 gives the data relating to the sanctions made to the small-scale sector over the study period. The amount of sanctions to the small-scale sector increased from ₹ 247.54 crores in 2001-02 to ₹ 906.49 crores in 2010-11. The mean sanctions to this sector over the study period were ₹ 384.48 crores. The mean percentage of sanctions to the small-scale sector in relation to gross sanctions during the study period is 53.24 per cent. The correlation coefficient between sanctions and disbursements over the study period is 0.901. Calculated Value of $-t'= 2.824$ and Critical value of $-t'= 2.100$. As the calculated value is greater than the critical value, thus, the null hypothesis (H_{02}) is rejected. Thus, it can be said that there is a no close association between gross sanctions and sanctions given to the small-scale sector.

❖ **Recovery Performance:** Recovery of funds distributed among industrial units as per schedule is one of the key components of operational performance of the APSFC, as it directly affects resource mobilization required for further lending activities. Further, regular periodical and prompt recovery of funds from the borrowers makes the SFCs to maintain liquidity, resulting in the improvement of profitability. On the other hand, poor recovery results in mounting up of overdues. Therefore, the emphasis should be on better recovery performance in the APSFC to achieve better operational results and the consequent generation of high profitability. The data relating to the recovery performance of the Corporation is provided in the Table 4. During 2001-02 to 2010-11, APSFC's continued efforts in the recovery front yielded impressive results. The total recovery grew to ₹ 902.38 crores in 2010-11 from ₹ 338.25 crores in 2001-02, registering a compound annual growth rate of 13.00 per cent. The principal collections during the study period went up to ₹ 614.48 crores in 2010-11 from ₹ 200.00 crores in 2001-02, registering a compound annual growth rate of

Year (1)	Gross Sanctions (2)	Sanctions to SSI Sector (3)	(3) as percentage of (2)
2001-02	411.71	247.54	60.12
2002-03	419.85	255.72	60.91
2003-04	430.58	260.11	60.41
2004-05	464.69	272.80	58.71
2005-06	585.96	285.50	48.72
2006-07	704.75	331.96	47.10
2007-08	1006.65	372.03	36.95
2008-09	885.66	412.10	46.53
2009-10	1052.38	500.62	47.57
2010-11	1386.38	906.49	65.38
Mean	734.861	384.487	53.24
Variance	112691.2	40303.14	81.70
Range	974.67	658.95	28.42
Observations	10	10	10
Correlation Co-efficient		0.901	
t-statistics		2.824	
Degrees of freedom		18	
t - Critical (two-tail)		2.100	
Source: Compiled from the Annual Reports of APSFC (2001-02 to 2010-11)			

Year	Principal	Annual Growth Rate (%)	Interest	Annual Growth Rate (%)	Total	Annual Growth Rate (%)
2001-02	200.00(59.12)	--	138.25(40.87)	--	338.25	--
2002-03	263.63(64.53)	31.81	144.86(35.46)	4.78	408.49	20.76
2003-04	319.60(70.99)	21.23	130.62(29.01)	-9.83	450.21	10.21
2004-05	331.10(73.35)	3.59	120.29(26.64)	-7.90	451.39	0.26
2005-06	352.19(73.04)	6.36	129.95(26.95)	8.03	482.14	6.81
2006-07	371.18(71.94)	5.39	144.77(28.05)	11.40	515.95	7.01
2007-08	421.72(67.80)	13.61	200.22(32.19)	38.30	621.94	20.54
2008-09	449.25(68.26)	6.52	208.83(31.73)	4.30	658.08	5.81
2009-10	528.04(67.25)	17.53	257.08(32.74)	23.10	785.12	19.30
2010-11	614.48(68.09)	16.36	287.90(31.90)	11.98	902.38	14.93
Mean (%)	68.44	13.61	31.56	9.35		11.73
CAGR		13.00		8.00		11.00
Note: Figures in parenthesis indicates percentages to total.						
Source: Compiled from the Annual Reports of APSFC (2001-02 to 2010-11)						

8.00 per cent. The interest income rose to ₹ 287.90 crores in 2010-11 from ₹ 138.25 crores in 2001-02, registering a compound annual growth rate of 11.00 per cent. This situation indicates the recovery efficiency of APSFC over the study period. Further, the recovery performance of the Corporation over the study period is depicted in the Figure 3.

❖ **Lead Position:** During the study period under review, the Corporation ensured its top position among its peers in the country. With its brilliant performance in all key operational areas of Sanctions, Disbursements and Recoveries, the Corporation is likely to retain its numero uno position among all SFCs in the country for ten years in a row.

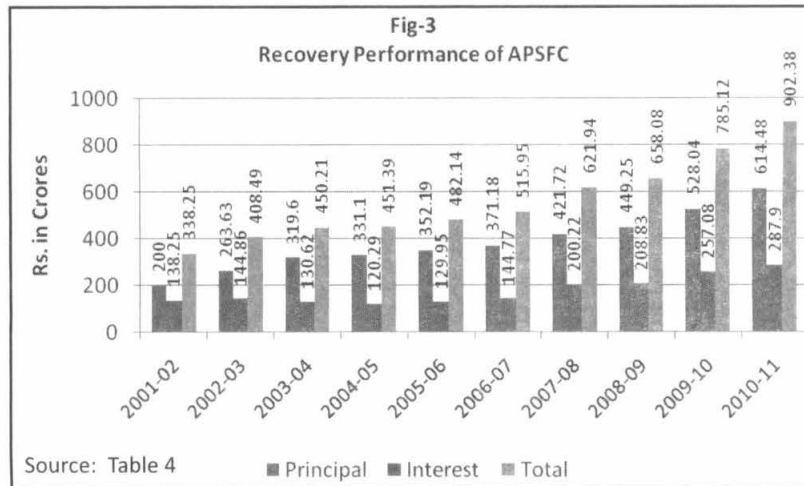


Table 5 : Income and Expenditure of APSFC (₹ in crores)

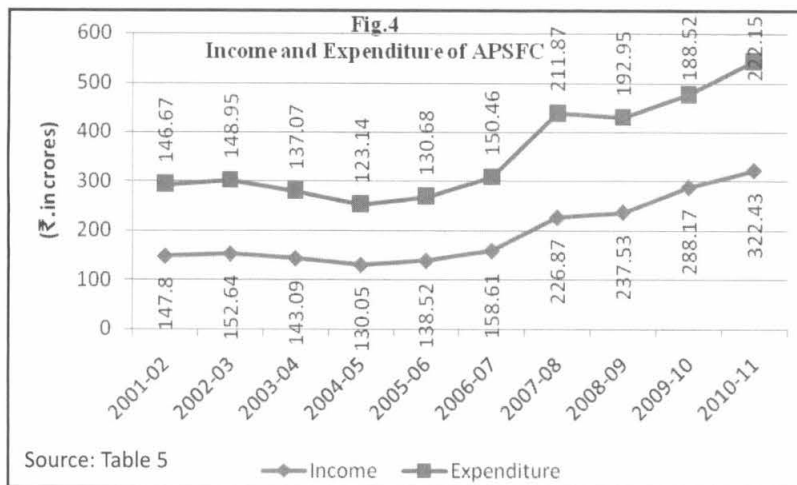
Year (1)	Income (2)	Annual Growth Rate	Expenditure (3)	Annual Growth Rate (3) as percentage of (2)	Annual Growth Rate
2001-02	147.80	--	146.67	99.23	--
2002-03	152.64	3.27	148.95	97.58	-1.66
2003-04	143.09	-6.25	137.07	95.79	-1.83
2004-05	130.05	-9.11	123.14	94.68	-1.15
2005-06	138.52	6.51	130.68	94.34	-0.35
2006-07	158.61	14.50	150.46	94.86	0.55
2007-08	226.87	43.03	211.87	93.38	-1.56
2008-09	237.53	4.69	192.95	81.23	-13.01
2009-10	288.17	21.31	188.52	65.41	-19.47
2010-11	322.43	11.88	222.15	68.90	5.33
Mean	194.57	9.98	165.25	88.54	-3.68
CAGR		9.00			-4.00

Source: Compiled from the Annual Reports of APSFC (2001-02 to 2010-11)

SECTION-II: FINANCIAL PERFORMANCE OF THE APSFC-AN OVERVIEW

❖ **Income and Expenditure of APSFC:** Income is the amount of money a person or organization received over a period of time either as payment for work, goods, or services, or as profit on capital. Expenditure is the spending of money on something. If the income is greater than the expenditure, the result would be the net profit and vice-versa. The data relating the income and expenditure of the Corporation over the study period is provided in the Table 5. The data provided in the Table 5 reveals that the Corporation's income increased to ₹ 322.43 crores in 2010-11 from ₹ 147.80 crores in 2001-02, with an average of ₹ 194.57 crores per annum. Similarly, the expenditure increased to ₹ 222.15 crores in 2010-11 from ₹ 146.67 crores in 2001-02, with an average of ₹ 165.25 crores per annum. The expenditure as percentage of income declined from 99.23 per cent in 2001-02 to 68.90 per cent in 2010-11. The mean percentage of expenditure relating to income is at 88.54 per cent. It may be concluded that the Corporation achieved a significant growth in interest income, mainly due to an increase in the loan portfolio. Increase in other income was due to an increase in income by way of service charges, upfront fee and rental amount. The spread between income and expenditure is depicted in the Figure 4.

❖ **Profitability Performance:** Profit means the excess of income over expenditure during a particular period of time. Operating profit is the profit earned from a firm's normal core business operations. This value does not include any



Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Operating Profit	1.13	3.69	6.01	6.90	7.83	8.15	15.00	44.58	99.65	100.28
Net Profit	-13.12	2.36	10.10*	13.15*	24.58*	27.21*	89.51*	42.85	67.67	67.33

*Provisions on NPAs written back.
Source: Compiled from the Annual Reports of APSFC (2001-02 to 2010-11)

Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Net worth	90.74	107.85	109.89	112.35	112.35	113.78	266.04	266.58	332.19	377.15
Annual Growth Rate (%)	--	18.85	1.89	2.23	0	1.27	133.81	0.20	24.61	18.85

Source: Compiled from the Annual Reports of APSFC (2001-02 to 2010-11)

profits earned from the firm's investment and the effects of interest and taxes. It is also known as Earnings before Interest and Taxes. Net Profit, often referred to as the bottom line, is a measure of the profitability of an organization after accounting for all the costs. The operating and net profit position of the Corporation during the study period is provided in the Table 6. It is observed from the Table 6 that the operating profit of the Corporation recorded a manifold increase from ₹ 1.13 crores in 2001-02 to ₹ 100.28 crores in 2010-11. The Corporation's net profit increased from ₹ -13.12 crores in 2001-02 to ₹ 67.33 crores in 2010-11 after providing for taxation, NPAs and additional provision requirement towards retirement benefits of the employees. The net profit during 2008-09, 2009-10 and 2010-11 recorded a tangible jump from ₹ 42.85 crores in 2008-09 to ₹ 67.33 crores in 2010-11. The growth in net profit was driven both by an increase in interest and non-interest income.

❖ **Net worth of APSFC:** Net worth is the total assets minus the total outside liabilities of a business concern. For a company, this is called shareholder's preference and may be referred to as the Book value. Net worth is stated at a particular time in a year. A consistent increase in net worth indicates good financial health. Net worth can be used to determine creditworthiness because it gives a snapshot of the company's investment history. The data relating to net worth of the Corporation over the study period is given in the Table 7. The net worth of the Corporation recorded a manifold increase during the study period. It increased from ₹ 90.74 crores in 2001-02 to ₹ 377.15 crores in 2010-11. The growth in the net worth was primarily on account of increased net profit earned by the Corporation.

❖ **Capital Adequacy Ratio (CAR):** Capital Adequacy Ratio (CAR) is also called Capital Risk (weighted) Assets Ratio (CRAR), which is a ratio of a firm's capital and its risk. Capital Adequacy Ratios are a measure of the amount of a bank's core capital expressed as percentage of its risk weighted assets. Capital Adequacy Ratio is defined as:

$$CAR = \frac{\text{Tier - 1 Capital} + \text{Tier - 2 Capital}}{\text{Risk Weighted Assets}}$$

Tier - 1 Capital: (Paid-up Capital + Statutory Reserves + Disclosed Free Reserves) - (Equity Investments in Subsidiaries + Intangible Assets + Current and b/f Losses).

Tier - 2 Capital: (A) Undisclosed Reserves, (B) General Loss Reserves (C) Hybrid Debt Capital Instruments and Subordinated Debts.

The per cent threshold varies from bank to bank (10% in case a common requirement for regulations) is set by the banking regulators of different countries. The details of the Capital Adequacy Ratio of the Corporation during the study period are provided in the Table 8.

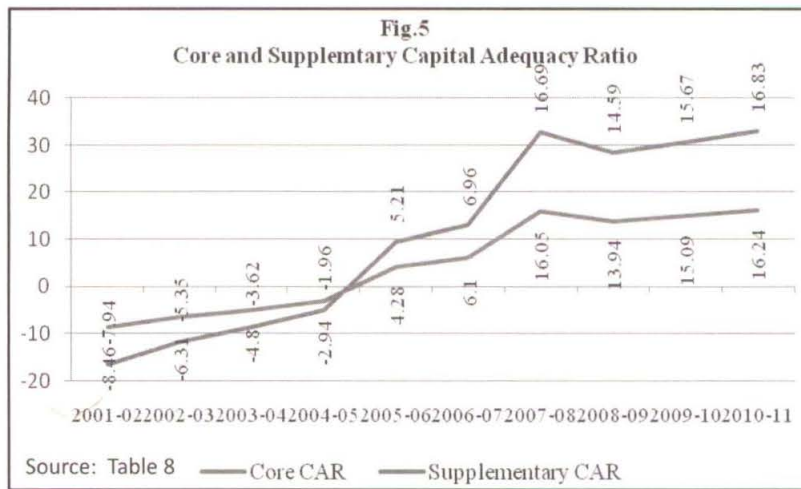
$$CAR = \frac{\text{Tier - 1 Capital} + \text{Tier - 2 Capital}}{\text{Risk Weighted Assets}} \geq 10\%$$

Year	Core CAR	Supplementary CAR
2001-02	-8.46	-7.94
2002-03	-6.31	-5.35
2003-04	-4.80	-3.62
2004-05	-2.94	-1.96
2005-06	4.28	5.21
2006-07	6.10	6.96
2007-08	16.05	16.69
2008-09	13.94	14.59
2009-10	15.09	15.67
2010-11	16.24	16.83
Mean	4.92	5.71

Source: Compiled and calculated from the Annual Reports of APSFC (2001-02 to 2010-11)

The Core Capital Adequacy Ratio increased from -8.46 per cent in 2001-02 to 16.24 per cent in 2010-11. The standard CAR stipulated by RBI for commercial banks is 9 per cent. Therefore, the CAR of the Corporation was lower during 2001-02 to 2006-07 and was higher during 2007-08 to 2010-11 than the ratio stipulated by the RBI. Similarly, the supplementary Capital Adequacy Ratio increased from -7.94 per cent in 2001-02 to 16.83 per cent in 2010-11. In spite of an increase in the risk weighted assets, which are moving up from time to time, as a consequence of enhanced loans and advances, there was an increase in the Capital Adequacy Ratio, mainly on account of the higher net profit, resulting in an increase in reserves and surpluses. Further, the behavior of Core Capital Adequacy Ratio and Supplementary Capital Adequacy Ratio is depicted in the Figure 5.

❖ **Asset Quality and Reduction In NPAs:** Financial institutions are concerned with their loans since that provides earnings for the Institution. Loan quality and asset quality are two terms with basically the same meaning. Government bonds and treasury bills are considered as good-quality loans, whereas junk bonds, corporate credit to low credit score firms, etc., are bad quality loans. A bad quality loan has higher profitability of becoming a non-performing asset with no return. A Non-performing asset is a classification used by financial institutions that refers to loans that are in jeopardy of default. Once the borrower has failed to make interest or principal repayment for 90 days,

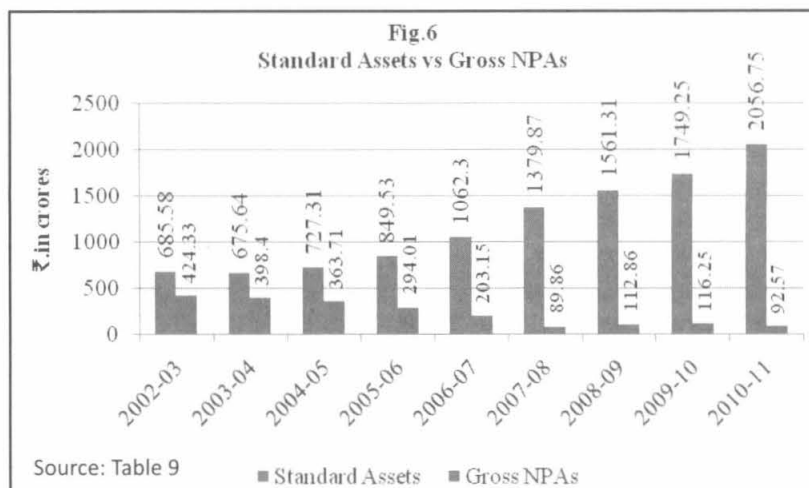


Year	Standard Assets (1)	Gross NPAs (2)	(2) as percentage of (1)
2001-02	N.A.	N.A.	--
2002-03	685.58	424.33	61.89
2003-04	675.64	398.40	58.97
2004-05	727.31	363.71	50.01
2005-06	849.53	294.01	34.61
2006-07	1062.30	203.15	19.12
2007-08	1379.87	89.86	6.51
2008-09	1561.31	112.86	7.23
2009-10	1749.25	116.25	6.65
2010-11	2056.75	92.57	4.50

Source: Compiled from the Annual Reports of APSFC (2001-02 to 2010-11)

the loan is considered to be a non-performing asset. NPAs are problematic for financial institutions since they depend on interest payment for income. The data relating to the gross NPAs of the Corporation over 10 years is given in the Table-9. The data provided in the Table 9 depicts that the standard assets created by the Corporation increased from ₹ 685.58 crores in 2002-03 to ₹ 2056.75 crores in 2010-11. The gross NPAs declined from ₹ 424.33 crores in 2002-03 to ₹ 92.57 crores in 2010-11. With the enhanced standard asset portfolio, the Corporation brought down the ratio of gross NPAs to standard assets to 4.50 per cent in 2010-11 from 61.89 per cent as in 2002-03. The Corporation had already put in place a loan recovery policy and is continuously modifying the same based on the experience of the Corporation, and feedback received from the branch offices with an objective to bring down the NPAs. APSFC is regular in conducting the NPA review meeting at regular intervals. Since recent years, the Corporation has been conducting special campaigns for settlement of NPAs at its various branch and zonal offices. APSFC restructured 81 deserving loan accounts involving an outstanding amount of ₹130.55 crores during the financial year 2010-11. The graphical relationship between standard assets and gross NPAs is provided in the Figure 6.

❖ **Cost of Borrowings:** 'Cost of funds' is an important criterion of resource mobilization in order to bring a reasonable spread between cost and return. The method of calculating the cost of funds applied by the SFCs usually differs from the methods followed by other corporate bodies. In the case of equity funds, the rates of dividend were declared by the State Government even before the issues were made. Further, the SFCs were not allowed to declare a higher dividend than the rates prescribed by the State Government. However, regarding the debt, the rates of interests were uniformly fixed by the IDBI and the quantum of debt to be raised was also specified in the provisions of the SFCs Act. The year-



Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Cost of Borrowings (%)	11.75	11.33	10.50	10.14	8.92	8.49	8.19	8.57	8.30	8.38

Source: Compiled from the Annual Reports of APSFC (2001-02 to 2010-11)

wise cost of debt funds are given in the Table 10. It is observed from the Table 10 that the cost of borrowings of APSFC consistently declined from 11.75 per cent in 2001-02 to 8.38 per cent in 2010-11. It is because of the redemption of old bonds with higher interest rate, and the issue of new bonds at a lower rate. Further, the pre-payments and raising of funds from banks and deposits obtained at lower interest rates helped the Corporation to save interest cost marginally and decreased the weighted average cost of borrowings over the study period.

❖ **Performance In Certain Key Areas of Operations:** The financial ratio income per employee is a measure of management efficiency. Operating profit per employee takes the organization's operating profit from the income statement and divides it by the number of employees needed to produce that income. It is calculated by using the formula :

$$\text{Income Per Employee} = \frac{\text{Operating Income}}{\text{Number Of Employees}}$$

Alternative measures include revenue generated per employee or net income per employee. However, operating income is considered a superior measure since it looks at labour costs, and it's not affected by non-operating or one time adjustments to net income. Net income per employee or revenue per employee is a company's net income divided by the number of employees. In general, the higher the value, the more efficiently a company uses its employees; however, the numbers are directly comparable when comparing firms of a very similar nature. There are no rules about what constitutes a good level of income per employee, or a bad level. Per employee sanction is calculated by taking gross sanctions and dividing it by the number of employees working for a firm.

Return On Average Assets (ROAA) is an indicator used to assess the profitability of a firm's assets. It is most often used by banks and other Financial Institutions (FIs) as a means to gauge their performance. As ROAA is calculated at period ends, it does not reflect all the highs and lows, but is merely an average of the period. ROAA is calculated by taking net income and dividing it by the average total assets, and the final ratio is expressed in percentage terms. This metric displays how efficiently a company is utilizing its assets. From the data provided in the Table 11, the following inferences may be drawn:

a) There was a substantial improvement in per employee operating profit and net profit per employee over the study period. Per Employee Operating Profit increased from ₹ 0.09 lakhs in 2001-02 to ₹ 20.14 lakhs in 2010-11. Per Employee Net Profit also increased from a negative performance of ₹ -27.31 lakhs in 2001-02 to ₹ 13.52 lakhs in 2010-11. Thus, the Corporation has shown a better performance in the later part of the study period.

Table 11 : Key Performance Indicators of APSFC (₹ in lakhs)

Year	Per Employee Operating Profit	Per Employee Net profit	Per Employee Sanctions	Return on Average Assets (%)
2001-02	0.19	-27.31	70.14	N.A.
2002-03	0.67	-28.92	77.00	N.A.
2003-04	1.12	-27.68	80.63	N.A.
2004-05	1.32	2.51	88.72	1.29
2005-06	1.51	4.74	112.90	2.28
2006-07	1.59	5.29	137.16	2.24
2007-08	2.98	17.76	200.53	5.80
2008-09	8.35	8.02	165.56	2.27
2009-10	19.28	13.09	203.56	3.17
2010-11	20.14	13.52	278.39	2.84
Mean	5.715	-1.898	141.46	2.84
N.A.: Not Available				
Source: Compiled from the Annual Reports of APSFC (2001-02 to 2010-11)				

b) Per employee sanctions also increased from ₹ 70.14 lakhs in 2001-02 to ₹ 278.39 lakhs in 2010-11. It is due to an increase in the sanctions and reduction in the number of employees.

c) The Return On Average Assets (ROAA) increased to 3.17 per cent in 2009-10 from 1.29 per cent in 2004-05 and further, it declined to 2.84 per cent in 2010-11. It is because of growth in net profit of the Corporation, which was driven both by an increase in interest and non-interest income.

ACHIEVEMENTS OF ANDHRA PRADESH STATE FINANCIAL CORPORATION (APSFC)

The following are some of the milestone achievements of the Corporation since its inception:

- ❖ The Corporation (till March 31, 2011) had sanctioned ₹11,134 crores for 92,689 units in Andhra Pradesh.
- ❖ The Corporation disbursed ₹ 7,634 crores to 72,297 units - 70% to Tiny/SSI sector as on March 31, 2011.
- ❖ The Corporation recovered ₹ 8,382 crores including interest since inception till March 31, 2011.
- ❖ The Corporation has established an unblemished repayment track record since inception.
- ❖ The Corporation maintained a consistent record of earning operating profit throughout its history.
- ❖ The Corporation created a total investment of around ₹ 23,656 crores.
- ❖ The Corporation generated direct and indirect employment to about 11 lakh persons.
- ❖ APSFC channelled a significant share of assistance of around 70% to tiny and small scale industries in the State.
- ❖ APSFC industrialized the backward areas by extending 50% of its assistance to industries coming up in notified backward areas.
- ❖ APSFC is enjoying 60% of the market share in term lending in promoting first generation entrepreneurs in Andhra Pradesh.

CONCLUSION

On the basis of the above data analysis, the following conclusions may be drawn:

- 1) Despite the lower growth registered in the manufacturing sector (in GDP) in the recent past, the Corporation achieved highest sanctions, disbursements and recoveries. So far, the Corporation has made cumulative net effective sanctions amounting to ₹ 8341.86 crores for 73,927 units in Andhra Pradesh. The gross sanctions registered a robust growth from ₹ 411.71 crores in 2001-02 to ₹ 1386.38 crores in 2010-11. The Corporation, with its excellent performance, has retained its number one position among all the SFCs in the country for ten years in succession.

- 2) Several steps initiated by the Corporation during the study period yielded fruitful results in the area of recoveries. The total recoveries in the year stood at ₹ 902.38 crores in 2010-11 as against ₹ 338.25 crores in 2001-02, registering a compound annual growth rate of 11.00 per cent.
- 3) The Corporation recorded the highest operating profit during the later part of the study period, mainly because of increased interest income. The operating profit of the Corporation went up to ₹100.28 crores in 2010-11 from ₹ 1.13 crores in 2001-02.
- 4) The net worth of the Corporation increased to ₹ 377.15 crores in 2010-11 from ₹ 90.74 crores in 2001-02. It was mainly due to increased net profit earned by the Corporation during the later part of the study period.
- 5) The Corporation's core capital adequacy ratio rose to 16.24 per cent in 2010-11 from 8.46 per cent in 2001-02. This increase in the Capital Adequacy Ratio occurred mainly on account of the higher net profit, resulting in an increase in reserves and surpluses.
- 6) The Corporation, with a view to bring down the non-performing assets substantially, had a special focus on up gradation of NPAs by enhancing collections and containing the NPAs. The Gross NPAs as percentage of total assets came down from 61.89 per cent in 2002-03 to 4.50 per cent in 2010-11.
- 7) The cost of borrowings of APSFC consistently declined from 11.75 per cent in 2001-02 to 8.38 per cent in 2010-11. It happened because of the redemption of old bonds with higher interest rate and the issuance of new bonds at a lower rate.
- 8) During the later part of the study period, the APSFC recorded an improved performance in employee productivity in terms of per employee operating profit and per employee net profit.
- 9) The Corporation reviews the existing schemes on a regular basis, modifies them wherever required and introduces new schemes to suit the changing needs of the customers. During the year 2010-11, the Corporation launched two new schemes, viz., MSME-MTL Scheme (revised) and MTL Schemes at concessional terms to meet the working capital and other business needs of the industrial units and service enterprises.
- 10) The Corporation was putting its efforts to further improve the operational and financial parameters and aimed to reduce NAPs to around 2 per cent in 2011-12, and retain its benchmark status - of the number one position - among all the SFCs in the country. Further, the Corporation is enjoying this position for the last 10 successive years and aimed for a significant place in MSME lending in the state of Andhra Pradesh.

SUGGESTIONS

In the light of above conclusions, the author has offered the following suggestions :

- 1) The APSFC, which is meant for supporting industrial development in the state, has been only a term lending institution and neglected the promotional activities. It is suggested that the Corporation should discharge its twin objectives of financial assistance as well as managerial support. The Corporation needs to strengthen its financial base to serve better the industrial sector, for which the Government of Andhra Pradesh should extend financial support in the form of equity and advances to the Corporation.
- 2) As a sound resource mobilization policy, the Corporation should ensure timely recovery of its dues and tap the capital market to the fullest extent for raising funds through the issue of bonds, shares and deposits.
- 3) It is suggested that the small-scale sector be given priority only based on the viability of the project, skill, capacity and repaying capability of the entrepreneurs. This consideration would also benefit the entrepreneurs.
- 4) For effective achievement of the objectives of the Corporation, it should conduct regular and periodical inspections to review the progress of the assisted units to release further installments of sanctioned assistance. This would ensure that the assistance given by it is utilized for the purpose for which it is sanctioned.
- 5) To improve its recovery performance, it is suggested that APSFC should make an in-depth review of the default portfolio, and the reasons for the default should be analyzed and appropriate recovery strategies should be adopted in order to recover the due amount from the loanee concerns.

6) The Corporation is mainly depending on its debt capital without having a sound equity base. In this context, the Corporation has to give weightage to the leverage impact on its profitability. If the leverage gives a positive impact, the Corporation has to go in for any amount of debt and vice-versa.

SCOPE FOR FUTURE RESEARCH

As an integral part of the development financing system in the country, the APSFC has gained prominence for playing its role in the achievement of rapid and high quality industrial growth in Andhra Pradesh. Since its inception, the corporation has launched many entrepreneur-friendly schemes to provide term loans to suit the needs of tiny, small and medium-scale sector entrepreneurs and has been contributing to the balanced regional development of the state. However, the operational performance of the Corporation depends upon its financial performance. A poor and inadequate resource base affects the operational efficiency and profitability of the Corporation in discharging its duties. So, there is a need for continuous evaluation of operational and financial performance of the Corporation. Hence, there is vast scope for further research on various aspects, viz., Role of APSFC in promoting SMEs in Andhra Pradesh, Recovery performance of the Corporation, Impact of Leverage on Shareholders' Profitability, Efficiency Index in Resource Mobilization, Clients Perception on Financial Services by APSFC, etc.

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