

Operational Performance of Andhra Pradesh State Financial Corporation (APSFC)

Dr.P.S.Ravindra

Professor, Department of Management Studies, Vignana's Institute of Engineering for Women
Kapujaggatajupeta, VSEZ Post, Duvvada, Visakhapatnam, A.P, India,
Email: ravindra1608@gmail.com, Mob: 9885678557

Abstract:

Andhra Pradesh State Financial Corporation (APSFC), a State-Level Development Financial Institution (DFI), was established in 1956 for promoting Small and Medium Enterprises (SMEs) in the State of Andhra Pradesh under the provisions of the State Financial Corporation' (SFC) Act, 1951, with a prime focus on infusing entrepreneurial spirit among entrepreneurial class. It also provides term loans, working capital term-loans, and special-seed capital assistance to SMEs thereby contributing Balanced Regional Development. Today, more than six crore MSMEs contribute 8 percent to India's GDP, 6.11 percent to its total manufacturing output, and 24.6 percent in services.¹ India's MSMEs are at the heart of India's growth story. There are more than 6.3 crore MSMEs in the country generating employment for nearly 111 million Indians and creating nearly 1.3 million jobs every year. The entrepreneurial growth and development they contribute are not restricted to the urban areas only. Of the 55.8 million MSMEs, 59 per cent are based in rural India. The segment contributes close to 45 per cent to India's manufacturing output, over 40 percent to our exports, and about 8 percent to our GDP. However, how far this credit development is able to contribute to the development of micro small and medium industries needs an extensive examination. The present paper is concerned to analyze some of the direct effects of credit support given by APSFC to micro small and medium enterprises development in Andhra Pradesh over a period of time from 2007-08 to 2018-19.

Keywords: MSMEs, APSFC, Operational performance, Financial Performance

1. Introduction

A sound financial system is a prerequisite of a planned economic development in developing countries like India. The existing financial intermediaries like Development Banks (DB) or Development Financial Institutions (DFIs) have emerged for enlargement of entrepreneurial development, particularly MSMEs in India. The new and existing MSMEs, in backward regions are suffering from want of capital requirements and are not getting the much needed support from the existing financial system. The MSMEs deserve the special wider support of economic and political consideration for developing the MSMEs to meet the global competition. For the eradication of the MSMEs capital deficit DFIs have been adopted schemes of assistance conveniently to develop and promote the industrial sector of a growing economy like India.

The SFCs to constitute a unique set of institution, established in the various states in India under a separate Act. These SFCs have been set up for to faster the industrialization, particularly the micro, small and medium size enterprises development.

Under the various tams of financing institutions in the country for enlargement of MSMEs, the development banks, development financial institutions play a vibrant role, of which SFCs are widely known as a category of regional development banks and seems to form a unique set of financial institutions. The functions of SFCs are influenced by the state Govt., and the socioeconomic features of the economic environment in which they operate. The name SFCs was suggested as these are state sponsored statutory bodies. The funds of state govt. concerned, the RBI and the IDBI are employed in SFCs. The SFCs have special recovery powers on loans which are available to any corporate body registered under the companies Act. SFCs are statutory bodies and they are subject to detailed statutory provisions governing the policies, operations and mobilization of resources.

The role of SFCs was to provide the need-based financial assistance to the MSMEs in the form of giving loans and advances. SFCs have been empowered to render the financial assistance by way of terms loans, direct subscription to debentures, guarantees and discounting of bills of exchange. With the motive of expansion of the state industrial sector, SFCs are giving moderate assistance to floriculture, tissue culture, poultry forming, providing services to engineering, technical, financial management, marketing etc.

Globalization and trade liberalization have ushered new opportunities as well as challenges for SMEs in developing and transition economies. To add some woes, due to their size, SMEs are constrained by non-competitive real exchange rates, limited access to finance, cumbersome bureaucratic procedures in setting up, operating and growing a business, poor infrastructure, lack of effective institutional structures etc. To address the afore cited maladies, enabling a holistic environment for the development of SMEs, the comprehensive study on operational performance of APSFC is imminent, significant and dire need keeping in view the sanctions, disbursements, and recoveries of APSFC to SMEs in the Unified State of Andhra Pradesh in general and Sun Rise State of Andhra Pradesh in specific.

2. Research Methodology

2.1 Statement of the Problem:

SMEs are engines of economic growth and barometers of economic prosperity and progress. The study is diagnostic, innovative and empirical in nature. The uneven development of SMEs and untimely

distribution of loans and advances to SMEs spurs balanced regional growth across different States and Regions. The Financial Performance of SFCs in India does not cut impressive picture and their Operational Performance is in red.

Hence, an attempt has been made to evaluate the Operational Performance of SFCs in India in general and Andhra Pradesh prior and post-bifurcation in specific with a focus on SMEs.

2.2 Review of Literature

K.Sudarsan, V.Muralikrishan, Kota Sreenivas Murthy and D.Himachalam (2011) in their article pointed out that the financial assistance of APSFC to promote the micro, small and medium enterprises (MSME) in Chittoor district and its impact on performance of the SMEs and also made an attempt to study the problem faced by SMEs/ entrepreneurs in general and financial problems in particular and offered the viable suggestions to improve the conditions of the SMEs and their entrepreneurs in Chittoor District.

Alok Raj Bhatt (2012) in his article made a financial analysis to establish the relationship between the different components of the financial statements and examined the profitability position of the company.

C. Viswanatha Reddy (2013) examined that number 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 tune up the overall performance of the Corporation for Industrial development in Andhra Pradesh.

Reddy S.Marulu and Harika k (2014) made an attempt to examine the financial performance of APSFC in terms of sanctions, disbursements, purpose-wise classification of sanctions, Industry-wise classification of sanctions and disbursements and backward and other districts sanctions and disbursements.

N. Ravi Babu, M. Shankar and G. Sunanda (2015) observed variations in financial assistance provided to the three regions in the earlier A.P. A high degree of debt component in capital structure increases the risk and may lead to financial distress in adverse times. A high cost of funds employed makes it very difficult to improve the profitability of the Corporation. However, it has helped SMEs in all the regions and the issue of development of the backward regions has been addressed.

L M Bhole and JitendraMahakud (2017) evaluated the issues and intricacies of SFCs functioning in India. They opine SFCs promote SMEs of the States and also ensure Balanced Regional Development, higher investment, more employment generation and broad ownership of industries. SFCs operate as Regional Developmental Banks and assisting SMEs for their

modernization, technology up gradation and increase the scope and coverage their assistance. The resources of SFCs come from: a) Share Capital, Reserves, Bond Issues, Loans from RBI and State Governments; b) Re-Finance from RBI; c) Fixed Deposits from State Governments; d) Local Authorities and General Public; e) Assistance from IDA.

Review of Literature reveals that various studies have been made on APSFC over a period of time focusing on loans sanctioned and disbursed; number of applications; flow of assistance to the small scale sector; recovery; employment etc. However, they have not addressed the issue of year wise sanctions and disbursements of APSFC and forecast the Growth Rate of Sanctions and Disbursements and Principal Recovery of APSFC.

2.3 Objective of the Study:

The objectives include:

1. To examine the Operational Performance of APSFC during 2007-08 to 2017-18;
2. To elucidate the disbursements, sanctions and outstandings of APSFC to SMEs in Andhra Pradesh during the study period;

2.4 Research Methodology:

The study is explorative in nature. It is based on both the primary and secondary data. The sources of secondary include the office records, annual reports, performance and review reports of the SFCs in India and APSFC in specific. In addition, the published and unpublished data from the sources like Comptroller and Auditor General (CAG), Ministry of Statistics and Programme Implementation (MOSPI), State Finance Commission - Government of India form the basis of secondary data. The published articles from the standard journals and the literature from reputed books, unpublished dissertations constitute the secondary data.

3. Profile Of Andhra Pradesh State Finance Corporation [APSFC]

Andhra Pradesh State Financial Corporation (APSFC) is a state level development financial institution established in 1956 for promoting small and medium scale (SMEs) industries in Andhra Pradesh under the provisions of the State Finance Corporation (SFC) Act, 1951. The APSFC, a term lending Institution came into existence on 1.11.1956 by merger of Andhra State Finance Corporation and Hyderabad State Finance Corporation. The corporation has completed six decades of dedicated service in industrial financing of tiny, small and medium scale sector units and contributing to the balanced regional development of the state. The objectives of APSFC include industrialization of the state through balanced regional development, support promotion and development of tiny, small and medium scale industries and service sector units by extending need based credit, nurturing entrepreneurship, and generation of employment by acting as catalyst. APSFC is enjoying 60% of the market share in term lending in promoting First

Generation Entrepreneurs in Andhra Pradesh. As on 31.3.2017 APSFC has sanctioned Rs. 18,204.96 crores for 99,469 units in Andhra Pradesh & Telangana and generated direct and indirect employment to about 12.70 lakhs lakh persons. The corporation extends finance basically through two products the term loans and the working capital loans. The lines of activities financial by APSFC mainly include, Automobile, Engineering, Cold Storages, Furfural from Rice Husk, Rice Mills, Stone crushers, Ginning mills, Mineral Water Plants, Refineries, Ceramic industries, Feeding Mixing plants, Residential and Commercial complexes, Nursing Homes, Hotels, Power Projects, Tourism etc. The important sources of funds to the APSFC are: Share capital, Refinance from SIDBI and IDBI, loan from the State government, Issue of Bonds, and Fixed Deposits. The corporation extends the financial services to different forms of organization like proprietary, partnership, Hindu joint family units, private limited companies and registered co-operative societies. The APSFC established a network of 25 branches and six operational zonal offices covering 23 districts in the combined state of Andhra Pradesh apart from its head office in Hyderabad. After state bifurcation the head office of Andhra Pradesh state for 13 districts was located in Guntur.

4. Operational Performance Of Andhra Pradesh State Financial Corporation

Financial performance analysis is the process of determining the operating and financial characteristics of a firm from accounting and financial statements. The goal of such analysis is to determine the efficiency and performance of firm's management, as reflected in the financial records and reports. 8 performance is the indicator how efficiently the organization is managed and how effectively and efficiently the human and other resources are utilized in the firm. There are two types of firm performance financial and non-financial. Financial performance measurement is based on many decisions such as executive compensation, stock prices, stock risk, decisions related to investment, and many other cases. The management should be particularly interested in knowing the financial weakness of the firm to take suitable corrective actions. The future plans of the firm should be laid down in view of its financial strengths and weaknesses. Thus, financial analysis is the starting point for making plans before using any sophisticated forecasting and planning procedures.

4.1 Sanctions and Disbursements of APSFC

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 sanctions and disbursements dealt on 31st March of every year shown in Table I.

Table I. APSFC – SANCTIONS & DISBURSEMENTS

(in Crores)

Year	Gross Sanctions	Annual Growth Rate (%)	Disbursements	Annual Growth Rate (%)	% of Disbursements to Sanctions	Annual Growth Rate (%)
2007-08	1006.65	-	662.69	-	65.83	-
2008-09	885.67	-12.02	685.7	3.47	77.42	17.61
2009-10	1052.38	18.82	707.99	3.25	67.28	-13.11
2010-11	1386.38	31.74	904.35	27.73	65.23	-3.04
2011-12	1368.82	-1.27	936.89	3.60	68.45	4.93
2012-13	1430.12	4.48	951.41	1.55	66.53	-2.80
2013-14	1315.34	-8.03	882.76	-7.22	67.11	0.88
2014-15	694.59	-47.19	673.86	-23.66	97.02	44.56
2015-16	1261.99	81.69	758.11	12.50	60.07	-38.08
2016-17	999.5	-20.80	728.52	-3.90	72.89	21.33
2017-18	1031.87	3.24	713.42	-2.07	69.14	-5.14
Mean	1130.3		782.33			
S.D	225.99		107.29			
Correlation co-efficient= 0.898						
t-statistics = 4.39						
Degree of freedom = 10						
t-value = 2.14						

Source: Compiled from Annual Reports of APSFC

The APSFC is as premier state level financial institution, 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. 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 amount of sanctions has increased from ` 1006.65 Crores in 2007-08 to ` 1031.87 in 2017-18. The mean sanctions over the study period are ` 1130.3 Crores. The amount of disbursements increased from Rs. 662.69 Crores in 2007-08 to ` 713.42 Crores in 2017-18. The mean percentage of disbursements in relation to sanctions over the study period is 69.21 per cent. The correlation co-efficient of -‘t’ is 4.39 and Critical value of ‘t’ at 5 per cent level of significance is 2.14. As the calculated value is higher than the critical value, it is concluded that there is no close association between

gross sanctions and disbursements.

4.2 Flow of Credit to Small-Scale Sector

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 channelled to this sector. Table No II gives the data relating to the sanctions made to small-scale sector over the study period.

Table II - FLOW OF ASSISTANCE TO SMALL SCALE SECTOR

(` in Crores)

Year	Gross Sanctions	Sanctions to SSI	% of sanction to Gross Sanctions
2007-08	1006.65	372.03	36.96
2008-09	885.67	412.10	46.53
2009-10	1052.38	500.62	47.57
2010-11	1386.38	906.49	65.39
2011-12	1368.82	1064.25	77.75
2012-13	1430.12	1058.37	74.01
2013-14	1315.34	965.57	73.41
2014-15	694.59	612.52	88.18
2015-16	1261.99	948.59	75.17
2016-17	999.5	626.34	62.67
2017-18	1031.87	416.80	40.39
Mean	1130.3	716.69	62.54
SD	225.99	262.24	16.32
Correlation co-efficient= 0.815			
t-statistics = 3.77			
Degree of freedom = 10			
t-value = 2.085			

Source: Compiled from Annual Reports of APSFC

The amount of sanctions to small scale sector has increased from ` 372.03 Crores in 2007-08 to ` 416.80 in 2017-18. The mean sanctions to the sector over the study period are ` 716.69 Crores. The mean percentage of sanctions to small-scale sector in relation to gross sanctions during the study period is 63.4 per cent. The correlation coefficient between sanctions and disbursements over the study period is 0.815. The calculated value of -‘t- is 3.77, and the critical value of -‘t’ at 5 % level of significance is 2.085, as the calculated value is greater than the critical value, it can be said that there is no close association between gross sanctions by the Corporation and its assistance to small-scale sector.

4.3 Flow of Credit to Back-ward Areas

To promote balanced regional development APSFC has

focused separately on back-ward areas and created special products by establishing prerequisite goals. Balanced regional development is an important condition for the harmonious and smooth development of a country. It does not imply equal development of all regions of a country. Rather it indicates utilisation of development potential of all areas as per its capacity so that the benefit of overall economic growth is shared by the inhabitants of all the different regions of a country. Table No III gives the data relating to the sanctions to back-ward areas among gross sanctions.

The amount of sanctions to small scale sector has increased from ` 690.65 Crores in 2007-08 to ` 1049.45 Crores in 2017-18. The mean sanction to the backward areas is 1019.89 during the study period. The mean percentage of sanctions to backward areas in relation to gross sanctions during the study period is

90.23 per cent. The correlation coefficient between gross sanctions and sanctions to backward areas over the study period is 0.92. Calculated value of $-t$ is 1.096 and the critical value is 2.085. As the calculated

value is lesser than the critical value it can be said that there is a close association between gross sanctions and sanctions to backward areas.

Table III - FLOW OF ASSISTANCE TO BACKWARD AREAS

(` in Crores)

Year	Gross Sanctions	Sanctions to Backward Areas	% of sanction to Gross Sanctions
2007-08	1006.65	690.65	68.61
2008-09	885.67	754.36	85.17
2009-10	1052.38	947.72	90.05
2010-11	1386.38	1205.26	86.94
2011-12	1368.82	1301.08	95.05
2012-13	1430.12	1298.85	90.82
2013-14	1315.34	1251.48	95.14
2014-15	694.59	689.63	99.29
2015-16	1261.99	1101.39	87.27
2016-17	999.5	929.00	92.95
2017-18	1031.87	1049.45	101.70
Mean	1130.3	1019.89	
S.D	225.99	224.38	
Correlation co-efficient= 0.92			
t-statistics = 1.096			
Degree of freedom = 10			
t-value = 2.085			

Source: Compiled from Annual Reports of APSFC

4.4 Recovery Performance

Recovery of funds distributed among industrial units as per schedule is one of the key operational performances of the APSFC, as it directly affects resource mobilization required for the 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 the

profitability. On the other hand, poor recovery results in the mounting up of overdue. Therefore, the emphasis should be necessary 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 Table No. IV.

Table IV - RECOVERY PERFORMANCE OF APSFC

(` in Crores)

Year	Principal	% of Total Recovery Funds	Annual Growth Rate (%) of Principal	Interest	% of Total Recovery Funds	Annual Growth Rate (%) of Interest	Total Recovery Funds	Annual Growth Rate (%)
2007-08	421.72	67.81	13.61	200.22	32.19	38.30	621.94	20.54
2008-09	449.25	68.27	6.53	208.83	31.73	4.30	658.08	5.81
2009-10	528.04	67.26	17.54	257.08	32.74	23.10	785.12	19.30
2010-11	614.48	68.10	16.37	287.9	31.90	11.99	902.38	14.94
2011-12	636.14	65.82	3.52	330.33	34.18	14.74	966.47	7.10
2012-13	619.31	62.62	-2.65	369.68	37.38	11.91	988.99	2.33
2013-14	668.14	62.07	7.88	408.3	37.93	10.45	1076.44	8.84
2014-15	776.76	63.98	16.26	437.26	36.02	7.09	1214.02	12.78
2015-16	857.31	67.33	10.37	416.07	32.67	-4.85	1273.38	4.89
2016-17	778.31	66.25	-9.21	396.45	33.75	-4.72	1174.76	-7.74

2017-18	844.91	69.32	8.56	374.01	30.68	-5.66	1218.92	3.76
Mean	654.03	66.26	8.07	335.10	33.74	9.70	989.14	8.41
CAGR			5.44			5.85		6.31

During 2007-08 to 2017-18, the APSFC's continued efforts in the recovery front yielded impressive results. The total recovery grew ` 1218.92 Crores in 2017-18 from ` 621.94 Crores in 2007-08, registering a compounded annual growth rate of 6.31 per cent. The principal collections during the study period have gone up to ` 844.91 Crores in 2017-18, from ` 421.72 in 2007-08, registering a compounded annual growth rate of 5.44 per cent. The interest income rose to ` 374.01 Crores in 2017-18 from ` 200.22 Crores in 2007-08, registering a compounded annual growth rate of 5.85 per cent. This situation indicates the recovery efficiency of the APSFC over the study period.

5. Conclusion:

Finance is the basic input which forms the basis for all other key inputs of the business. In order to meet the capital requirements of industrial concerns, certain specialized financial institutions called developmental financial institutions (DFIs) have been established in the country in the post-independence era. Some of these institutions are meant for financing large-scale industries and some for financing the small-scale sector.

From the study of the operations of the APSFC, it is noticed that it occupies a premier place among all the SFCs in its lending operations. The sanctions and disbursements made by it have more volatile during the study period. It is due to constraints in resource mobilization and poor recovery performance. The percentage of sanctions and disbursements of SFC shows ups and downs during the study period. Recovery performance of the APSFC is good and continuously increasing during the study period. It reveals that the recovery policies, strategies and plans are good and implementing correctly by the corporation.

References:

- [1] Alok Raj Bhatt, 2012, "Financial Statement Analysis of Andhra Pradesh State Financial Corporation", Arth Prabandh: A Journal of Economics and Management, Vol.1, Issue 8.
- [2] C.Viswanath Reddy, 2013, "Efficiency Indexes in Resource Mobilization: A Study of APSFC", Indian Journal of Finance, Vol. 7, Issue 8.
- [3] G. Alivelu, K.Srinivasulu and M.Gopinath Reddy , 2009, "State Business and Performance of Manufacturing Sector in Andhra Pradesh – A Case Study", Working Paper, 31, IPPG Discussion Paper.
- [4] K.Sudarsan ,V.Muralikrishan, Kota Sreenivas Murthy and D. Himalchalam, 2011, "Andhra Pradesh State Financial Corporation for the Development of MSMEs – A Study of Tirupati Branch Chittoor District", International Journal of Research in Commerce, IT and Management, Vol.1, Issue 4.

- [5] N. Suseela Bharathi and R. Vijaya Bhaskar, 2014, "Entrepreneur Development through APSFC", Blue Ocean Research Center, Vol. 3, No. 3.
- [6] Reddy S. Marulu and Harika K, 2014, "Financial Performance of Andhra Pradesh State Financial Corporation", Asian Journal of Management, Vol.4, Issue 4.
- [7] R.V. Sankara Rao (2018)., A Study on Financial Performance of APSFC, International Journal of Research and Scientific Innovation (IJRSI) | Volume V, Issue VI, ISSN 2321–2705 , pp-111-114.
- [8] Reddy S.Marulu and Swamy B. Appala, 2013, "Determinants of Disbursements by Andhra Pradesh State Financial Corporation An Empirical Analysis", Vol. 3, Issue: 11.
- [9] SethiNanditha, 2012, "Andhra Pradesh State Financial Corporation (APSFC): A Turnaround Story", Journal of Case Research, Vol.3, Issue:2.
- [10] T.L. Sankar, R.K. Mishar and R. Nandagopal, 1994, "State Level Public Enterprises in India: An Overview", Economic and Political Weekly, Vol. 29, No.35.

About Author:



Dr. P. S. Ravindra is working as **Professor of Management & Dean of Administration** at **Vignan's Institute of Engineering for Women, Visakhapatnam**. He has a **Doctorate Degree** in Commerce and Management from Andhra University in 2011. He has more than 18 **years** of teaching experience in the area of Accounting and Finance. He has authored 5 books and 27 research Papers in various National and International Journals. He is a member in Indian Accounting Association & Indian Commerce Association also Associate Editor of *Pezzottaite Journals & International Journal of Commerce and Management Research*, Editorial Board Member of *International Journal of Management and Social Sciences Research (IJMSSR)*, *International Journal of Management, IT and Engineering (IJMIE)*, *Blue Ocean Research Journals (BORJ)*, *Elixir International Journal (EIJ)*, *Associated Asia Research Foundation (AARF) Journals*, *Scientific Journal of Management Science and Engineering (SJMSE)* and *Euro Asia Research and Development Association(EARD)*, *Anveshana Educational Research Foundation (AERF)*, *International Journal of Accounting and Financial Management Research (IJAFMR)* and *Journal of Accounting and Financial Management Research (JAFMR)*. He holds the **M.Com, M.BA, M.Phil** and **Ph.D Degrees**.