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An Empirical Study on The Operational and Financial Performance of Andhra Pradesh State Financial Corporation

Prof. D. Anjaneyulu

Department of Commerce
Sri Krishnadevaraya University, Ananthapuramu, Andhra Pradesh, India-515003,
anjiskucom@gmail.com

Abstract:
The Andhra Pradesh State Financial Corporation (APSFC) was established in 1956 with the objective of promoting and developing small and medium-scale industries in Andhra Pradesh. As a state-level financial institution, APSFC has played an important role in providing institutional finance to industrial units, particularly small-scale enterprises and units located in backward areas. The present study examines the operational and financial performance of APSFC with particular reference to sanctions, disbursements, financial assistance to small-scale industries and backward areas, recovery performance and selected financial indicators. The study is based on secondary data obtained mainly from the annual reports of APSFC. For ensuring consistency with the period of analysis, the financial performance assessment is restricted to information available up to 31 March 2014. The study indicates that APSFC maintained a significant role in industrial finance and that its net worth improved during the period. However, fluctuations in profitability and an increase in net non-performing assets towards the end of the period indicate the need for continued attention to recovery and financial management. The study suggests strengthening recovery mechanisms, improving credit monitoring, maintaining asset quality and ensuring efficient deployment of financial resources.

Keywords: APSFC, Sanctions, Disbursements, Recovery, Small-Scale Industries, Backward Areas, Net Worth, NPA, Financial Performance.

1. Introduction

Industrial development requires adequate and timely finance, particularly for small and medium-scale enterprises that often face difficulties in obtaining finance from conventional sources. To meet the financial requirements of industrial units at the state level, State Financial Corporations were established under the State Financial Corporations Act, 1951.

The Andhra Pradesh State Financial Corporation (APSFC) came into existence on 1 November 1956 through the merger of the erstwhile Andhra State Financial Corporation and Hyderabad State Financial Corporation. The Corporation was established with the objective of promoting and developing small and medium-scale industries and supporting industrial development in the state.

APSFC provides financial assistance to eligible industrial and service-sector units through term loans and other forms of financial assistance. It also supports programmes relating to modernisation, renovation, expansion and diversification of industrial units. The Corporation has therefore played an important role in promoting entrepreneurship and industrial development, particularly in small-scale and backward areas.

The performance of a financial corporation can be assessed through both operational and financial indicators. Sanctions and disbursements indicate the extent of credit deployment, while recovery reflects the effectiveness of loan management. Financial indicators such as net worth, capital adequacy, non-performing assets, operating profit and net profit provide an indication of the financial soundness of the Corporation.

Against this background, the present study examines the operational and financial performance of APSFC, focusing on credit deployment, assistance to small-scale industries and backward areas, recovery performance and selected financial indicators. The analysis is restricted to information available up to 31 March 2014.

2. Review of Literature

Appa Rao (1981) examined the role of Andhra Pradesh State Financial Corporation in promoting small enterprises in Andhra Pradesh. The study highlighted the contribution of APSFC to the creation of industrial units and fixed capital formation, particularly in the small-scale sector.

Parthasarathi (1989) studied the performance of State Financial Corporations and evaluated their role in providing institutional finance to industrial units. The study emphasised the importance of financial assistance provided by State Financial Corporations for industrial development.

Mahanta examined the contribution of APSFC to the creation of small-scale industrial units and fixed capital formation in Andhra Pradesh. The study also observed that the contribution of APSFC was relatively higher in backward districts, indicating its role in promoting regional industrial development.

Nandita Sethi (2012) examined the turnaround strategy adopted by APSFC management and assessed its performance using indicators such as sanctions, recoveries, profitability, capital adequacy and operating efficiency. The study highlighted the importance of management strategies in improving the performance of APSFC.

Reddy (2013) examined the operational and financial performance of APSFC with reference to sanctions, disbursements, recoveries, profitability, capital adequacy and asset quality. The study provided a comprehensive assessment of the Corporation's financial and operational position.

The existing studies indicate that APSFC has been examined from different operational and financial perspectives. However, there is scope for bringing together its credit deployment, assistance to priority sectors, recovery performance and financial indicators within a single framework. The present study attempts to examine these dimensions using information available up to 31 March 2014.

3. Objectives of the Study

1. To examine the trends in sanctions and disbursements of APSFC during the study period.
2. To analyse the pattern of financial assistance provided to small-scale industries and backward areas.
3. To assess the recovery performance of APSFC during the study period.
4. To evaluate the financial performance of APSFC using selected financial indicators.
5. To suggest measures for improving the operational and financial performance of APSFC.

4. Research Methodology

The study is descriptive and analytical in nature and is based primarily on secondary data. The required information has been collected mainly from the Annual Reports of Andhra Pradesh State Financial Corporation (APSFC) and relevant published studies. The study examines the operational and financial performance of APSFC up to the final observation date of 31 March 2014**,** covering sanctions, disbursements, financial assistance to small-scale industries and backward areas, recovery performance and selected financial indicators. The collected data are analysed using percentages, growth rates, averages and comparative analysis to assess the trends and performance of the Corporation during the study period.

Scope of the Study

The study focuses on the operational and financial performance of APSFC, with particular attention to its credit deployment, sector-wise financial assistance, recovery performance and overall financial soundness during the study period. It also examines the Corporation's role in providing financial assistance to different sectors and assesses its performance through selected financial indicators.

Limitations

The study is based on secondary information available in published sources. Further, the analysis is restricted to information available up to 31 March 2014 and therefore does not consider subsequent developments.

5. Operational Performance of APSFC

APSFC's operational performance can be assessed mainly through its sanctions, disbursements, assistance to priority sectors and recovery performance. Sanctions indicate the amount of financial assistance approved, while disbursements indicate the actual deployment of funds.

The available evidence in the source indicates that APSFC maintained substantial lending activity over the years. The Corporation also gave considerable importance to small-scale industries and backward areas. Its lending activities covered eligible industrial and service-sector units and included assistance for modernisation, expansion, renovation and diversification.

The source also reports that APSFC had sanctioned substantial financial assistance over the period covered by its historical review and had maintained an important position among State Financial Corporations.

However, because some of the source tables combine periods extending beyond 31 March 2014, those later figures are not incorporated into the present 2014-cut-off analysis.

6. Assistance to Small-Scale Industries and Backward Areas

APSFC was established with an important developmental objective of promoting industrialisation, particularly among small and medium-scale enterprises. The available evidence indicates that small-scale industries constituted a major beneficiary of APSFC assistance. The Corporation also provided financial assistance to industries located in backward areas. This reflects its developmental role in promoting balanced regional industrial development rather than focusing exclusively on commercially attractive locations. The source indicates that small-scale industries received a dominant share of APSFC's financial assistance during several periods. Thus, APSFC's lending pattern demonstrates its dual role of providing institutional finance and supporting regional and small-scale industrial development.

7. Recovery Performance of APSFC

Recovery of loans is an important indicator of the operational efficiency and financial sustainability of a financial institution. Effective recovery enables the Corporation to recycle its financial resources and extend assistance to additional industrial units.

The available evidence indicates that APSFC maintained a significant recovery effort during the period under consideration. However, fluctuations in recovery performance were observed across different periods. The source specifically notes variations in recovery growth across the historical periods examined.

The recovery position therefore requires continuous monitoring. Effective follow-up of borrowers, timely identification of overdue accounts and appropriate recovery measures are important for maintaining the financial health of the Corporation.

8. Financial Performance of APSFC

Financial performance is assessed using selected indicators such as net worth, capital adequacy ratio, net NPA, operating profit and net profit.

Table 1: Financial Performance of APSFC

Particulars	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14
Net Worth (₹ crore)	266.59	332.19	377.16	409.00	433.39	445.11
Capital Adequacy Ratio (%)	13.94	15.09	16.24	15.63	14.51	13.26
Net NPA (%)	5.99	5.53	2.87	3.11	3.34	4.83
Operating Profit (₹ crore)	44.58	99.65	100.28	112.12	98.10	93.58
Net Profit (₹ crore)	42.85	67.68	67.33	68.33	63.35	40.14

Source: Annual Reports of APSFC, as reproduced in the source article.

Interpretation

The financial position of APSFC shows improvement in net worth during the period. Net worth increased from ₹266.59 crore in 2008–09 to ₹445.11 crore in 2013–14. Operating profit increased substantially up to 2011–12 but declined thereafter. Net profit also declined from ₹68.33 crore in 2011–12 to ₹40.14 crore in 2013–14. Net NPA declined considerably from 5.99% in 2008–09 to 2.87% in 2010–11, but subsequently increased to 4.83% in 2013–14. Thus, while APSFC's net worth

strengthened, the decline in profitability and increase in net NPA towards the end of the period indicate the need for greater attention to recovery and asset quality.

9. Major Findings of the Study

1. APSFC maintained a significant role in providing institutional finance to industrial units, particularly small-scale industries.
2. Financial assistance to small-scale industries constituted an important component of the Corporation's lending activities.
3. APSFC also gave considerable attention to industries located in backward areas, reflecting its developmental and regional objectives.
4. Recovery performance showed an overall positive movement, although fluctuations were observed during different periods.
5. Net worth of APSFC improved consistently and reached ₹445.11 crore as on 31 March 2014.
6. Operating profit and net profit showed a decline after 2011–12, indicating some pressure on profitability.
7. Net NPA, after declining in the earlier period, increased to 4.83% in 2013–14, highlighting the need for stronger recovery and credit-monitoring mechanisms.

10. Suggestions

- APSFC should strengthen its loan recovery mechanism to ensure timely recovery of principal and interest and to control the accumulation of overdue loans.
- The Corporation should continue to provide appropriate financial support to small-scale industries while ensuring proper appraisal of projects and repayment capacity.
- Greater emphasis should be placed on post-disbursement monitoring so that financial and operational difficulties faced by assisted units can be identified at an early stage.
- APSFC should maintain a proper balance between expansion of credit and asset quality so that increased lending does not result in a corresponding increase in non-performing assets.
- The Corporation should regularly evaluate branch-wise and sector-wise performance to identify areas requiring improvement and strengthen operational efficiency.
- Effective resource mobilisation and prudent financial management should be given greater attention to maintain profitability and strengthen the long-term financial position of the Corporation.

11. Conclusion

The study concludes that Andhra Pradesh State Financial Corporation has played an important role in providing institutional finance and supporting industrial development in the state, particularly through assistance to small-scale industries and backward areas. The operational performance of the Corporation reflects its developmental role, while its financial indicators show that net worth strengthened considerably up to 31 March 2014. At the same time, the decline in operating and net profit after 2011–12 and the increase in net NPA to 4.83% in 2013–14 indicate areas requiring managerial attention. The future performance of APSFC therefore depends on maintaining a balance between credit expansion and asset quality, strengthening recovery mechanisms, improving post-disbursement monitoring and

ensuring efficient utilisation of financial resources. Continued attention to these areas would help the Corporation fulfil its developmental objectives while maintaining financial sustainability.

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