

Credit Deployment and Recovery Performance of Andhra Pradesh State Financial Corporation: An Empirical Study

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Abstract:

Andhra Pradesh State Financial Corporation (APSFC) was established on 1 November 1956 through the amalgamation of the erstwhile Andhra State Financial Corporation and Hyderabad State Financial Corporation, with the objective of providing financial assistance for industrial development, particularly to small and medium enterprises. Param Jyothi Article The effectiveness of a financial corporation depends not only on the volume of credit sanctioned but also on its actual deployment and subsequent recovery. Against this background, the present study examines the credit deployment and recovery performance of APSFC during the period from 2008–09 to 2015–16. The study focuses on credit sanctions, disbursements, the ratio of disbursements to sanctions, and recovery of principal and interest. Secondary data collected mainly from the Annual Reports of APSFC are analysed using percentages, annual growth rates, averages and compound annual growth rates. The study finds that credit sanctions fluctuated considerably during the study period, while disbursements remained comparatively stable. Recovery performance showed a generally positive trend and increased from ₹658.08 crore in 2008–09 to ₹1,273.38 crore in 2015–16. The study suggests that APSFC needs to strengthen credit appraisal, improve the conversion of sanctions into disbursements, and sustain effective recovery mechanisms to ensure efficient utilisation of financial resources.

Keywords: Credit Deployment, Sanctions, Disbursements, Recovery, APSFC, Principal Recovery, Interest Recovery, Financial Corporation.

1. Introduction

Industrial development requires adequate and timely availability of institutional finance. State Financial Corporations were established under the State Financial Corporations Act, 1951, to provide financial assistance to industrial enterprises at the state level. Andhra Pradesh State Financial Corporation (APSFC) came into existence on 1 November 1956 through the merger of the Andhra State Financial Corporation and Hyderabad State Financial Corporation. The Corporation was established with a mandate to promote and develop small and medium enterprises and to extend financial assistance to industrial entrepreneurs.

APSFC has played an important role in providing term finance and other forms of financial assistance to industrial enterprises in Andhra Pradesh. Its performance can be assessed through several dimensions,

among which credit deployment and recovery are particularly important. Sanctions indicate the amount of credit approved by the Corporation, whereas disbursements indicate the extent to which sanctioned assistance is actually released to borrowers. Thus, a high level of sanctions alone does not necessarily indicate effective credit deployment. The relationship between sanctions and disbursements provides an indication of the extent to which approved credit is translated into actual financial assistance.

Recovery is equally important for the sustainability of a financial institution. Timely recovery enables the Corporation to maintain liquidity and recycle its funds for further lending. On the other hand, weak recovery may lead to accumulation of overdue amounts, deterioration in asset quality and pressure on profitability. Therefore, an assessment of both credit deployment and recovery provides a more focused understanding of the operational effectiveness of APSFC.

2. Review of Literature

Appa Rao (1981) examined the role of APSFC in promoting small enterprises in Andhra Pradesh. The study highlighted the contribution of institutional finance to the development of small-scale industries and the broader industrialisation process in the State.

Parthasarathi (1989) studied the performance of State Financial Corporations from a comparative perspective and examined the role of institutional finance in supporting industrial development. His work provided an important basis for assessing the operational performance of State Financial Corporations

Mahanta examined the contribution of APSFC to the creation of small-scale industrial units and fixed capital formation. The study indicated that APSFC's contribution was relatively significant in backward districts, demonstrating the importance of institutional credit in promoting regional industrial development.

Nandita Sethi (2012) examined the turnaround strategy adopted for improving the performance of APSFC from 2001–02. The study considered important indicators such as sanctions, recoveries, profitability, capital adequacy and operating efficiency.

Viswanatha Reddy (2013) analysed the operational and financial performance of APSFC and examined sanctions, disbursements, recovery performance, net worth, capital adequacy, asset quality and NPAs.

Research Gap

The existing studies have examined APSFC from broad operational and financial perspectives. However, there is scope for a focused assessment of the relationship between credit sanctions, actual disbursements and recovery performance. The present study therefore concentrates specifically on credit deployment and recovery and extends the analysis up to 2015–16.

3. Objectives of the Study

The study has the following objectives:

1. To examine the trends in credit sanctions and disbursements of APSFC during the study period.
2. To analyse the extent of credit deployment by comparing disbursements with sanctions.
3. To examine the trend in recovery of principal and interest by APSFC.
4. To assess the growth and overall recovery performance of APSFC during the study period.
5. To suggest measures for improving credit deployment and recovery performance of APSFC.

4. Scope of the Study

The study focuses on the credit deployment and recovery performance of APSFC, with particular attention to credit sanctions, disbursements and the recovery of principal and interest. The study also examines the relationship between sanctioned and disbursed amounts to assess the extent to which approved credit was actually deployed. The analysis covers the period from 2008–09 to 2015–16, with 31 March 2016 as the final observation date.

5. 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 covers the period from 2008–09 to 2015–16 and examines credit sanctions, disbursements, the ratio of disbursements to sanctions, and recovery of principal and interest. The collected data are analysed using percentages, annual growth rates, averages and compound annual growth rates to assess the trends and performance of the Corporation during the study period.

6. Analysis of Credit Deployment Performance

Credit deployment is examined through two major indicators: sanctions and disbursements. Sanctions represent the amount approved by APSFC, while disbursements represent the amount actually released to borrowers.

Table 1: Credit Sanctions and Disbursements of APSFC (₹ crore)

Year	Sanctions	Disbursement s	Disbursements as % of Sanctions	Growth in Sanctions (%)	Growth in Disbursements (%)
2008–09	885.67	685.70	77.42	—	—
2009–10	1,052.38	707.99	67.28	18.82	3.25
2010–11	1,386.38	904.35	65.23	31.74	27.73
2011–12	1,368.82	936.89	68.45	-1.27	3.60
2012–13	1,430.12	951.41	66.53	4.48	1.55
2013–14	1,315.34	882.76	67.11	-8.03	-7.22
2014–15	694.59	673.86	97.02	-47.19	-23.66
2015–16	1,261.99	758.11	60.07	81.69	12.50

Source: Compiled from Annual Reports of APSFC.

Interpretation

The data indicate considerable fluctuations in credit sanctions during the study period. Sanctions increased from ₹885.67 crore in 2008–09 to ₹1,386.38 crore in 2010–11, before reaching ₹1,430.12 crore in 2012–13. However, sanctions declined sharply to ₹694.59 crore in 2014–15. The following year witnessed a substantial recovery, with sanctions increasing to ₹1,261.99 crore in 2015–16. Disbursements followed a comparatively moderate pattern. They increased from ₹685.70 crore in 2008–

09 to ₹951.41 crore in 2012–13, declined to ₹673.86 crore in 2014–15 and subsequently increased to ₹758.11 crore in 2015–16.

The ratio of disbursements to sanctions fluctuated between 60.07% and 97.02%. The highest ratio was recorded in 2014–15, when disbursements represented 97.02% of sanctions. However, this was largely associated with the exceptionally low level of sanctions during that year. In 2015–16, the ratio declined to 60.07%, indicating that a relatively smaller proportion of sanctioned assistance was converted into actual disbursement.

For the period as a whole, the average annual sanctions were approximately ₹1,174.41 crore, while average annual disbursements were approximately ₹812.63 crore. The compound annual growth rates from 2008–09 to 2015–16 were approximately 5.19% for sanctions and 1.44% for disbursements, indicating that sanctions grew faster than actual disbursements.

7. Recovery Performance of APSFC: Recovery is a critical aspect of credit management because the funds recovered from existing borrowers can be recycled for further lending. The recovery performance of APSFC is examined through the recovery of principal and interest.

Table 2: Recovery Performance of APSFC (₹ crore)

Year	Principal Recovery	Interest Recovery	Total Recovery	Growth in Total Recovery (%)
2008–09	449.25	208.83	658.08	—
2009–10	528.04	257.08	785.12	19.30
2010–11	614.48	287.90	902.38	14.94
2011–12	636.14	330.33	966.47	7.10
2012–13	619.31	369.68	988.99	2.33
2013–14	668.14	408.30	1,076.44	8.84
2014–15	776.76	437.26	1,214.02	12.78
2015–16	857.31	416.07	1,273.38	4.89

Source: Compiled from Annual Reports of APSFC

Interpretation

The recovery performance of APSFC shows a generally positive trend during the study period. Total recovery increased from ₹658.08 crore in 2008–09 to ₹1,273.38 crore in 2015–16, representing a substantial improvement over the period. Total recovery increased consistently from 2008–09 to 2014–15, although the rate of growth varied across years.

Principal recovery increased from ₹449.25 crore in 2008–09 to ₹857.31 crore in 2015–16. This indicates a considerable improvement in the recovery of the principal amount from borrowers. Interest recovery also increased from ₹208.83 crore in 2008–09 to ₹437.26 crore in 2014–15, although it declined to ₹416.07 crore in 2015–16.

The highest annual growth in total recovery during the period was 19.30% in 2009–10, while the lowest positive growth was 2.33% in 2012–13. Total recovery recorded a decline of 7.74% in 2016–17 in later data, but that year is outside the present study period and is therefore not considered here. The available data through 2015–16 show that APSFC had strengthened its recovery position during the period under

study. The compound annual growth rate of total recovery from 2008–09 to 2015–16 was approximately 9.89%, which was higher than the corresponding CAGR of sanctions and disbursements. This indicates that recovery performance expanded at a faster rate than credit deployment during the study period.

8. Relationship Between Credit Deployment and Recovery

The combined analysis of sanctions, disbursements and recoveries provides an important picture of APSFC's credit operations. During the study period, sanctions fluctuated considerably, whereas disbursements showed a relatively moderate movement. At the same time, total recovery increased from ₹658.08 crore to ₹1,273.38 crore.

The higher growth in recovery compared with sanctions and disbursements suggests that APSFC made considerable progress in recycling previously deployed funds. However, the relatively lower growth of disbursements indicates that an increase in sanctioned credit did not always translate proportionately into actual deployment.

The distinction between sanctions and disbursements is particularly important for evaluating credit deployment. For example, sanctions increased sharply by 81.69% in 2015–16, while disbursements increased by only 12.50%. This indicates a substantial gap between approved credit and actual release during that year. Therefore, APSFC needs to pay attention not only to increasing sanctions but also to ensuring timely conversion of sanctions into disbursements.

9. Supporting Indicator: Asset Quality

Although the present study focuses primarily on credit deployment and recovery, Net NPA provides a useful supporting indicator of the quality of the Corporation's credit portfolio.

Table 3: Selected Asset-Quality Indicator

Year	Net NPA (%)
2008–09	5.99
2009–10	5.53
2010–11	2.87
2011–12	3.11
2012–13	3.34
2013–14	4.83
2014–15	5.94
2015–16	5.78

Source: Annual Reports of APSFC.

The Net NPA ratio declined substantially from 5.99% in 2008–09 to 2.87% in 2010–11, indicating improvement in asset quality during the initial part of the study period. Subsequently, the ratio increased and reached 5.94% in 2014–15, before marginally declining to 5.78% in 2015–16. The movement of Net NPA indicates that, despite improvement in overall recovery, asset-quality concerns remained relevant towards the end of the study period. Hence, stronger recovery mechanisms and continuous monitoring of borrowers are necessary to maintain the quality of the loan portfolio.

10. Major Findings

The major findings of the study are as follows:

1. Credit sanctions showed considerable fluctuations during the study period, increasing from ₹885.67 crore in 2008–09 to ₹1,430.12 crore in 2012–13, declining sharply in 2014–15 and recovering to ₹1,261.99 crore in 2015–16.
2. Disbursements increased from ₹685.70 crore to ₹758.11 crore during the study period, although they remained below the level of sanctions in most years.
3. The average annual disbursement-to-sanction ratio was about 71.14%, indicating that a significant portion of sanctioned assistance was not immediately converted into disbursements.
4. Recovery performance improved considerably, with total recovery increasing from ₹658.08 crore in 2008–09 to ₹1,273.38 crore in 2015–16.
5. Principal recovery increased substantially, from ₹449.25 crore to ₹857.31 crore during the study period.
6. Interest recovery also improved overall, although it declined from ₹437.26 crore in 2014–15 to ₹416.07 crore in 2015–16.
7. The CAGR of total recovery was approximately 9.89%, which was higher than the CAGR of sanctions and disbursements.
8. The Net NPA ratio declined initially but increased during the later part of the study period, indicating the need for continued attention to asset quality

11. Suggestions

Based on the findings, the following measures are suggested:

1. Improve conversion of sanctions into disbursements: APSFC should strengthen follow-up with sanctioned borrowers and reduce procedural delays so that approved credit is released in a timely manner.
2. Strengthen credit appraisal: Careful assessment of the financial viability, repayment capacity and risk profile of borrowers should be undertaken before sanctioning loans.
3. Strengthen recovery mechanisms: Regular monitoring of repayment schedules and early identification of stressed accounts can improve recovery performance.
4. Focus on overdue accounts: Special recovery measures should be adopted for overdue loans to prevent temporary repayment problems from developing into persistent defaults.
5. Improve post-disbursement monitoring: Continuous monitoring of financed units can help APSFC identify operational and financial difficulties at an early stage.
6. Maintain asset quality: Since the Net NPA ratio increased during the later years of the study period, greater attention should be given to credit monitoring and recovery.
7. Promote productive credit utilisation: Disbursed funds should be monitored to ensure that they are utilised for the purposes for which the assistance was sanctioned.
8. Balance credit expansion with recovery: APSFC should pursue credit growth together with effective recovery so that expansion in lending does not adversely affect the quality of its loan portfolio.

12. Conclusion

The study examined the credit deployment and recovery performance of Andhra Pradesh State Financial Corporation during 2008–09 to 2015–16. The analysis indicates that APSFC continued to provide

substantial financial assistance to industrial enterprises, although the volume of sanctions and disbursements fluctuated considerably. The gap between sanctions and disbursements shows that increasing credit approvals do not necessarily result in a corresponding increase in actual credit deployment. At the same time, the recovery performance of APSFC showed a generally positive trend. Total recovery almost doubled from ₹658.08 crore in 2008–09 to ₹1,273.38 crore in 2015–16, while principal recovery increased substantially. The relatively higher growth in recovery compared with credit deployment indicates improvement in the Corporation's capacity to recycle financial resources. However, the increase in Net NPA during the later years highlights the need for continued attention to asset quality and borrower monitoring.

Overall, the study suggests that the future effectiveness of APSFC depends not merely on increasing credit sanctions but on ensuring timely disbursement, productive utilisation of credit, efficient recovery and sustained asset quality. A balanced approach to credit deployment and recovery can strengthen the Corporation's ability to support industrial development while maintaining financial sustainability.

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