

ADVANCES AND RECOVERY PERFORMANCE OF ANDHRA BANK

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Abstract: Commercial banks are the major source of institutional finance to all the sectors in the country. Commercial banks accept deposits from the people and make these funds available for business, industrial and individuals lending. Every commercial bank will provide loans and advances from these deposits keeping in view the safety, liquidity and profitability of the funds. Banks should not keep the deposits idle in the bank because they have to pay interest to the depositors. Commercial banks are doing most profitable activity in lending the surplus funds in the form of loans and advances, cash credit and overdrafts against various types of securities and commodities and documents of title of goods. At the same time, banks have to make sure that the loans and advances to be recovered without any loss and delay. But, in recent times, almost every public and private bank has been facing the problem of menacing NPAs from wilful defaulters, big and small entrepreneurs, corporate entities, industrialists etc., which leads the recovery performance of the banks becoming poor. With regard to advances and recovery performance of the commercial banks, especially the public sector commercial banks has been declining due to the non-recovery of the advances both principal and the interest instalments. Non-recovery of the loans also reflects the decline in productivity and efficiency and lowering the profitability of commercial banks. In this backdrop, an attempt is made to examine the lending and recovery performance of the banks, for which one of the public sector banks i.e., Andhra Bank has been selected as the sample bank.

Key Words: Lending, Liquidity, Priority Sector, Liabilities, Overdraft, Cash Credit, Title of Goods, advances, Recovery.

1. INTRODUCTION:

Banks are essentially intermediaries for short term credit. They lend advances for short period requirements mainly for the working capital needs of different enterprises. These advances are mostly repayable at any time by the customer when they demanded. The commercial banks have been following three important principles i.e., safety, liquidity and profitability in the sanction of advances to the public. Nationalized banks have to adhere to these principles in the application of their sources. According to Banking Companies Acquisition and Transfer of Undertaking Act, 1970, under Section 8, the public sector banks need to follow these rules in their functions, with regard to matters of credit policy involving public interest. While granting loans and advances, the banker enquires about the purpose of the borrower for which the advances are sought. Generally, advances are provided for meeting the working capital needs of a business enterprise. For speculative and unproductive purposes like social functions and ceremonies or the repayment of a previous loan or for pleasure trips loans are not advanced. Sometimes, banks may give long-term loans also for the capital expenditure to establish a business unit and for purchasing fixed assets. After the two phases of nationalization of major commercial banks, loans for initial expenses to start small enterprises, trade, and industries etc., have been given by the banks.

Initially, there were no specific targets which were fixed with regard to priority sector lending. On the recommendations of the Internal Working Group made in September 2005 under the chairmanship of C.S. Murthy, set up in Reserve Bank of India to examine, review and recommend changes, if any, in the existing policy on priority sector lending including the segments constituting the priority sector, targets and sub-targets, etc. and the suggestions received from banks, financial institutions, public and the Indian Banks' Association (IBA), it was agreed to include only those sectors which impact the large sections of the population such as the weaker sections, and the sectors which are employment-intensive such as agriculture, cottage, tiny and small and medium enterprises as part of the priority sector. Reserve Bank of India has issued several guidelines¹, instructions and directives to the banks in respect of lending to the priority sector from time to time. In order to enable the banks to have all instructions at one place, a master circular, incorporating the existing guidelines, instructions and directives on the priority sector lending have been prepared and enclosed. This master circular consisted of the current instructions on 'Priority Sector

¹ RBI, Master Circular on Priority Sector Lending Targets and Classification, July 1, 2015.

Lending-Targets and Classification' and issued on the subject on December 15, 2015. The guidelines on priority sector lending were revised later vide circular dated April 23, 2015. The priority sector loans sanctioned under the guidelines issued prior to April 23, 2015 will continue to be classified under priority sector till repayment or their maturity or renewal.

2. NEED FOR THE STUDY:

Lending is one of the vital functions of any commercial bank. It is also the major source of income for the banks. The total income and profitability of a bank depends on the volume of its advances. But at the same time if these advances are not fully recovered it will have a negative impact on the efficiency and performance of banks. Every commercial bank has to maintain balance between its advances and recovery. Banks lend deposits and other funds collected from the people and provide these funds in the form of loans and advances to different sectors in the economy. If the banks are able to recover the total advances given to different individual and organisations, banks can exist for a longer period with efficient functioning; otherwise the very existence of banks will be in danger. Hence, it is essential to evaluate the lending and recovery performance of sample public sector commercial bank i.e., Andhra Bank.

3. OBJECTIVES OF THE PAPER:

The main objective of the present paper is to evaluate the lending and recovery performance of the public sector Andhra Bank based on some parameters i.e., total advances and recovery, priority and non-priority sector lending, lending and recovery of agriculture sector, MSME sector, housing sector, education sector and vehicle loans and recovery etc. for a period of ten years.

4. METHODOLOGY:

The required data of the sample Andhra Bank has been collected from the secondary sources such as the annual reports from 2006-07 to 2015-16 of the sample bank, financial newspapers, journals, magazines, and reports of various committees. The collected data has been classified, tabulated and analyzed in a significant manner. For the analysis of the data simple statistical tools have been applied such as percentages, averages, ratios, and compounded annual growth rate and simple correlation.

5. ANALYSIS OF THE DATA:

An attempt is made to focus on the total advances and recovery performance, priority and non-priority sector advances and other important sectors such as agriculture, MSME, housing sector, vehicle sector of the sample Andhra Bank.

Total Advances and Recovery:

Lending is the very crux and crucial for commercial banks as well as credit administration. By granting loans and advances banks earn income. While lending is the main source of profitability, it can also become a source of loss because of the presence of risk element. Recovery of advances is an important parameter to evaluate the performance of a commercial bank. Every bank has to increase its recovery advances in its total lending to reduce the non-performing assets. Hence, it requires efficiency and wisdom on the part of the banker in the process of lending and recovery of various kinds of loans and advances. Therefore, an attempt (in the table-1) has been made to evaluate the total lending and recovery of advances of the sample Andhra bank.

Table-1: Total Advances and Recovery of Andhra Bank (Rs. in Crores)

| Year | Total Advances | Total Recovery | Non-Recovery of Advances | % of Recovery | % of NPAs |
|---------|----------------|----------------|--------------------------|---------------|-----------|
| 2006-07 | 28,233.42 | 27,835.33 | 398.09 | 98.59 | 1.41 |
| 2007-08 | 34,556.57 | 34,186.81 | 369.76 | 98.93 | 1.07 |
| 2008-09 | 44,428.00 | 43,772.90 | 366.36 | 98.53 | 0.83 |
| 2009-10 | 56,505.00 | 54,053.11 | 468.89 | 95.66 | 0.86 |
| 2010-11 | 72,154.00 | 70,449.55 | 985.81 | 97.64 | 1.38 |
| 2011-12 | 84,684.00 | 81,868.79 | 1,773.21 | 96.68 | 2.12 |
| 2012-13 | 100,138.00 | 94,723.36 | 3,649.64 | 94.59 | 3.71 |
| 2013-14 | 110,649.00 | 101,949.63 | 5,694.37 | 92.14 | 5.29 |
| 2014-15 | 129,576.00 | 119,265.84 | 6,688.16 | 92.04 | 5.31 |
| 2015-16 | 1,36,371.00 | 124,929.48 | 11,441.53 | 91.61 | 8.39 |

Source: Annual Reports of Andhra Bank

The table-1 analyses the total lending of Andhra Bank has increased from Rs. 28,233 crores to Rs. 1,36,371 crores between 2006-07 and 2015-16. It has increased nearly five times over a decade period. The non-recovery total

advances have also grown from Rs.398 crores to Rs.11,441 crores for the same period. With regard to recovery percentage it has shown a decreasing trend from 98.59 percentage in the year 2006-07 to 91.61 percent at the end of March 2015-16. It is found that the percentage of NPAs have increased from 1.41 percent to 8.39 percent over the same decade period.

Priority and Non-Priority Sector Advances:

Commercial banks have to maintain proportionate balance in providing lending to both priority and non-priority sectors in their total lending. But, in India the priority sector is still largely depending upon the money lenders in rural areas due to lack of interest by the banks in lending finance to this sector inspite of the Reserve Bank of India guidelines i.e., 40 percent of the total lending of a commercial bank is to be allocated to the priority sector. Hence, it is significant to analyze the percentage of priority and non-priority sectors lending by Andhra Bank, which is presented in the table-2:

Table- 2: Priority and Non-Priority Sector Lending of Andhra Bank (in Crores)

| Year | Priority Sector Lending | % in Priority Sector Lending | Non-Priority Sector Lending | % of Non-Priority Sector Lending | Total Lending |
|---------|-------------------------|------------------------------|-----------------------------|----------------------------------|---------------|
| 2006-07 | 11,427.00 | 40.47 | 16,806.42 | 59.53 | 28,233.42 |
| 2007-08 | 13,297.56 | 38.48 | 21,259.01 | 61.52 | 34,556.57 |
| 2008-09 | 14,955.42 | 33.88 | 29,183.84 | 66.12 | 44,428.00 |
| 2009-10 | 19,012.00 | 34.87 | 35,510.00 | 65.13 | 56,505.00 |
| 2010-11 | 23,082.42 | 32.31 | 48,352.94 | 67.69 | 72,154.00 |
| 2011-12 | 27,026.96 | 32.31 | 56,615.04 | 67.69 | 84,684.00 |
| 2012-13 | 35,132.02 | 35.71 | 63,240.98 | 64.29 | 100,138.00 |
| 2013-14 | 41,919.69 | 38.94 | 65,724.31 | 61.06 | 110,649.00 |
| 2014-15 | 45,507.52 | 36.13 | 80,446.48 | 63.87 | 129,576.00 |
| 2015-16 | 54,545.38 | 40.00 | 81,825.62 | 60.00 | 1,36,371.00 |

Source: Annual Reports of Andhra Bank

The table-2 exhibits the percentage of priority and non-priority sector lending of Andhra Bank for a period of ten years. Andhra Bank’s lending to the priority sector has decreased from 40.47 percent in 2006-07 to 32.31 percent till the year 2011-12, later it gradually improved to 40 percent at the end of march 2015-16. Whereas this percentage of non-priority sector advances has shown an increasing trend from 59.53 percent in 2006-07 to 67.69 percent in the year 2011-12, and it constantly declined to 60 percent in the year 2015-16. It is observed that as one of the public sector banks in India, Andhra Bank has almost been following the guidelines given by the RBI in maintaining the total lending proportionately between the priority and non-priority sector during the study period.

Agricultural Lending and Recovery Performance:

Agriculture is the first and foremost important sector within the priority sector. As per the directives given by the RBI, Andhra bank reached the target by allocating eighteen percent of its total advances to this sector, which is shown in the table-3.

Table-3: Agriculture Lending and Recovery performance of Andhra Bank (Rs. in Crores)

| Year | Agriculture Advances | Recovery of Advances | Non-Recovery Advances | % of NPAs |
|---------|----------------------|----------------------|-----------------------|-----------|
| 2006-07 | 5,150 | NA | NA | NA |
| 2007-08 | 6,156 | 6,143.26 | 12.74 | 0.04 |
| 2008-09 | 6,833 | 6,816.00 | 17.00 | 0.04 |
| 2009-10 | 8,642 | 8,616.00 | 26.00 | 0.28 |
| 2010-11 | 10,369 | 10,253.00 | 116.00 | 1.12 |
| 2011-12 | 12,459 | 12,089.15 | 369.85 | 2.97 |
| 2012-13 | 16,450 | 16,039.96 | 410.04 | 2.50 |
| 2013-14 | 20,894 | 20,329.96 | 564.04 | 2.78 |
| 2014-15 | 19,892 | 18,835.30 | 1,056.70 | 5.34 |
| 2015-16 | 24,080 | 22,985.00 | 1,095.00 | 4.40 |

Source: Annual Reports of Andhra Bank

In the table-3, it is evident that the total agricultural lending by Andhra Bank has increased from Rs.5,150 crores in 2006-07 to Rs.24,080 crores in 2015-16, which shows an increase of four and half times in total agriculture lending. But, it is understood that as the agricultural advances increased, it also caused an increase in agricultural NPAs from 0.04 percent to 4.40 percentage during the study period. Simple correlation has been applied to show the relationship between advances and recovery variable and it is found that as the correlation is 0.87 percent there is positive effect between two variables.

Advances and Recovery of MSME Sector:

The contribution of micro, small and medium enterprises in creating employment opportunities is very significant in Indian economy. Besides, it also constitutes more than forty percent of Indian exports. Therefore, both central and state governments are providing several incentives for the new entrepreneurs to establish small and medium enterprises. But the advances given to this sector are not being fully recovered. Therefore, a glance into the MSME lending and recovery is shown in the table-4.

Table-4:- Lending and Recovery of MSME Advances of Andhra Bank (Rs. in Crores)

| Year | MSME Lending | Recovery of Advances | Non-Recovery Advances | % of NPAs |
|---------|--------------|----------------------|-----------------------|-----------|
| 2006-07 | 3,250 | NA | NA | NA |
| 2007-08 | 3,989 | 3,918.60 | 70.40 | 0.20 |
| 2008-09 | 5,356 | 5,295.00 | 61.00 | 0.14 |
| 2009-10 | 6,450 | 6,284.00 | 166.00 | 2.00 |
| 2010-11 | 7,112 | 6,758.00 | 354.00 | 3.18 |
| 2011-12 | 8,849 | 8,423.44 | 425.56 | 3.24 |
| 2012-13 | 12,249 | 11,826.73 | 422.27 | 2.50 |
| 2013-14 | 13,917 | 13,388.22 | 528.78 | 2.90 |
| 2014-15 | 16,952 | 15,813.00 | 1,139.00 | 6.00 |
| 2015-16 | 23,277 | 21,454.00 | 1,823.00 | 7.83 |

Source: Annual Reports of Andhra Bank

The table-4 examines the lending to the MSME sector by Andhra Bank has been increased from Rs.3,250 crores in the year 2006-07 to Rs.23,277 crores in 2015-16, whereas, non-recovery advances have also increased from Rs. 70.40 crores to Rs.1,823 for the same period. The percentage of NPAs in MSME sector also grew from 0.20 percent to 7.83 percent (2015-16) during the study period. It is found that there is a high degree of positive correlation between lending and non-recovery of advances in this sector resulting an increase of NPAs over the study period. As the correlation is 0.92 between advances and recovery, it is inferred that positive relationship existed between the two variables.

Lending and Recovery of Housing Advances:

Housing is one of the basic needs of people to lead a dignified life in the society. Now a days, this sector has been growing at a fast pace indicating much growth in the lending of home loans of all commercial banks. Therefore, in the recent times all the Indian banks have either established separate departments within the banks or set up separate banks for the home loans in both private and public sector to serve to the growing needs of this sector. Hence, housing sector advances and recovery performance of sample Andhra bank has been evaluated in the table-5.

Table-5: Lending and Recovery of Housing Advances of Andhra Bank (Rs. in Crores)

| Year | Housing Advances | Recovery of Housing Loans | Non-Recovery Loans | % of NPAs |
|---------|------------------|---------------------------|--------------------|-----------|
| 2006-07 | 1,774 | 1,757.15 | 16.85 | 0.95 |
| 2007-08 | 2,032 | 2,989.55 | 42.45 | 1.40 |
| 2008-09 | 2,810 | 2,790.33 | 19.67 | 0.70 |
| 2009-10 | 3,480 | 3,460.51 | 19.49 | 0.56 |
| 2010-11 | 4,479 | 4,463.32 | 15.68 | 0.35 |
| 2011-12 | 4,865 | 2,885.09 | 25.91 | 0.89 |
| 2012-13 | 5,085 | 5,031.10 | 53.90 | 1.06 |
| 2013-14 | 5,585 | 5,511.28 | 73.72 | 1.32 |
| 2014-15 | 6,519 | 6,450.55 | 68.45 | 1.05 |
| 2015-16 | 7,651 | 7,566.84 | 84.16 | 1.10 |

Source: Annual Reports of Andhra Bank

The table-5 shows the housing advances, which have inflated from Rs.1,774 crores in 2006-07 to Rs.7,651 crores in the year 2015-16, showing four times growth during the study period. Whereas, the non-recovery of housing advances have increased from Rs.16.85 crores to Rs.84.16 crores resulting a slight increasing trend in housing NPAs between Rs.0.95 percentage to Rs.1.10 percent during the study period.

Lending and Recovery of Educational Advances:

Lending to education sector is one of the important parameters in evaluation of banks performance as it increases human resources in the country in future. Advances to individuals for education including for vocational courses up to Rs.10 lakhs irrespective of the sanctioned amount are considered as eligible for priority sector. In the table-6 it is observed that the advances to education have increased almost double from Rs.905 crores in the year 2006-07 to Rs.1,781 crores in 2015-16. Whereas the non-recovery advances have shown an increasing trend from Rs.14 crores to Rs.32.06 crores during the same period. In the same proportion the percentage of NPAs in this sector has registered a slight increasing trend from 1.2 percent in the year 2007-08 to 1.8 percent in the year 2015-16 (table-6).

Table-6: Educational Advances and Recovery of Andhra Bank (Rs. in Crores)

| Year | Educational Advances | Recovery of Advances | Non Recovery Advances | % of NPAs |
|---------|----------------------|----------------------|-----------------------|-----------|
| 2006-07 | 905 | NA | NA | NA |
| 2007-08 | 1,167 | 1,153.00 | 14.00 | 1.20 |
| 2008-09 | 1,390 | 1,377.49 | 12.51 | 0.90 |
| 2009-10 | 1,647 | 1,629.21 | 17.79 | 1.08 |
| 2010-11 | 1,621 | 1,599.93 | 21.07 | 1.30 |
| 2011-12 | 1,515 | 1,490.76 | 24.24 | 1.60 |
| 2012-13 | 1,343 | 1,319.63 | 23.37 | 1.74 |
| 2013-14 | 1,409 | 1,382.23 | 26.77 | 1.90 |
| 2014-15 | 1,603 | 1,571.15 | 32.23 | 2.01 |
| 2015-16 | 1,781 | 1,748.94 | 32.06 | 1.80 |

Source: Annual Reports of Andhra Bank

Lending and Recovery of Vehicle Advances:

The vehicle advances come under the category of secured loans. As it is a secured loan the risk is somewhat less for the banks in the recovery of vehicle advances. The lending and recovery performance of vehicle advances has been analyzed (table-7).

Table-7: Vehicles Advances and Recovery of Andhra Bank (Rs. in Crores)

| Year | Vehicle Advances | Recovery of Advances | Non Recovery Advances | % of NPAs |
|---------|------------------|----------------------|-----------------------|-----------|
| 2006-07 | NA | NA | NA | NA |
| 2007-08 | 3,317 | 3,238.72 | 78.28 | 2.36 |
| 2008-09 | 4,891 | 4,768.73 | 122.28 | 2.50 |
| 2009-10 | 5,990 | 5,864.21 | 125.79 | 2.10 |
| 2010-11 | 7,000 | 6,864.20 | 135.80 | 1.94 |
| 2011-12 | 7,821 | 7,698.99 | 122.01 | 1.56 |
| 2012-13 | 9,997 | 9,849.04 | 147.96 | 1.48 |
| 2013-14 | 14,082 | 13,675.03 | 406.97 | 2.89 |
| 2014-15 | 13,959 | 13,545.81 | 413.19 | 2.96 |
| 2015-16 | 16,054 | 15,660.68 | 393.32 | 2.45 |

Source: Annual Reports of Andhra Bank

In the table-7, it is observed that the vehicle advances have grown by nearly five times between 2006-07 and 2015-16. In the same way the non-recovery vehicle advances have also increased in the same proportion of the vehicle loans from Rs.78.28 crores to Rs.393.32 crores in the same period. The NPAs in the same category has shown almost constant, (i.e., 2.36% to 2.45%) during the study period.

6. SUMMARY OF FINDINGS:

After going through the above analysis of the data, the following summary of findings were observed:

- The total lending of Andhra Bank has increased nearly five times and the recovery percentage of total advances has shown a decreasing trend from 98.59 percentages in the year 2006-07 to 91.61 percent at the end of March 2015-16.
- It is found that the percentage of NPAs have increased from 1.41 percent to 8.39 percent over a decade period.
- It is observed that Andhra Bank has almost been following the guidelines given by the RBI in providing advances to the priority and non-priority sector proportionately during the study period.
- The total agricultural lending has shown an increase of four and half times and NPAs in this sector also increased by four times.
- It is found that there is a significant increase of NPAs in the MSME sector, which shows that there is a high degree of positive correlation between lending and non-recovery of advances in this sector.
- The housing advances have shown four times growth and the percentage of NPAs in this sector has registered a slight increasing trend from 1.2 percent in the year 2007-08 to 1.8 percent in the year 2015-16, which is very less in comparison with that of other sectors.
- It is observed that the vehicle advances have grown by nearly five times between 2006-07 and 2015-16. The NPAs in the same category has shown almost constant (i.e., 2.36% to 2.45%) during the study period.

7. CONCLUSION:

Andhra Bank, being one of the public sector banks in India, has been playing a vital role in catering to the financial needs of various sectors i.e., priority and non-priority sectors, agriculture, MSMEs, Housing sector, personal, vehicle and educational advances in the process of financial inclusion as per guidelines given by the RBI. The total NPAs of the bank have increased tremendously by eight times and its overall recovery performance has decreased by seven times. Keep in view that the NPAs will have a negative impact on the performance of the bank, the authorities should take stringent measures against the wilful defaulters, identifying the genuine customers and verifying their credentials before sanctioning the advances, keeping supervision on customers not to diverting the loans to other unproductive purposes in order to reduce NPAs. These actions will certainly help the bank in improving its recovery performance and curtail the NPAs in the bank.

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