

CHAPTER 6

**PERFORMANCE OF COMMERCIAL
BANKS IN SRIKAKULAM DISTRICT**

6.1 Performance of Commercial Banks

6.1 PERFORMANCE OF COMMERCIAL BANKS

6.1.1 Deposits - Srikakulam District

Commercial Banks in the district comprise of eighteen Public sector banks and six private sector banks. Out of eighteen public sector banks, State Bank of India and Andhra Bank occupies major market share in banking business due to their wide net work of branches and presence in rural, semi-urban and urban areas. The other public sector banks have a little or no presence in rural areas and have branches in district head quarters and semi-urban areas. Only one private sector bank has operated in the district till 2006 and slowly other private sector banks have entered into the market and have only urban presence. Hence, two major public sector banks are playing a predominant role in the economic development of the district in addition to the Regional Rural Bank and Co-operatives.

Table No.6.1 exhibits the deposits of public sector banks and private sector banks from 2000-01 to 2010-11. Deposits of public sector banks have increased from Rs.56436.6 lakhs in 2001 to Rs.258452 lakhs in 2010 and declined to Rs.219680 lakhs (negative growth rate of -15 per cent) by March end 2011. The growth rate of deposits varied between 1 per cent and 36 per cent during the reference period. Only 1 per cent increase in deposits has been observed in 2003-04 despite of their branch net work. Compound growth rate of deposits collected by Public Sector Banks was 14.56 per cent.

Growth of Deposits of Public and Private Sector Banks in Srikakulam District

(Rupees in lakhs)

Year end March	Pub. Sector Banks (Deposits)	% Growth	Private Sector Banks (Deposits)	% Growth	Total deposits	% Growth
2001	56436.6	13	4561.04	13	60997.68	13
2002	72956	29	4080	-11	77036	26
2003	84667.3	16	4050	-1	88717.27	15
2004	85245	1	3820	-6	89065	0
2005	92547	9	4250	11	96797	9
2006	101740	10	4538	7	106278	10
2007	120837	19	6483	43	127320	20
2008	148769	23	10166	57	158935	25
2009	189721	28	18029	77	207750	31
2010	258452	36	15616	-13	274068	32
2011	219680	-15	19401	24	239081	-13
CGR%	14.56		15.58		14.64	

(Source: Annual credit plans of various years)

Table: 6.1

Although public sector banks were successful in mobilizing deposits, their growth rate was hit by severe fluctuations. The period 2001 to 2004 shows a downward movement and thereafter, an upsurge was found till 2010. Highest growth rate of 36 per cent was found in 2010 due to increase in deposits from Rs. 189721 lakhs to Rs. 258452 lakhs.

Deposits of private sector banks have increased from Rs.4561.04 lakhs to Rs.19401 lakhs during the study period. Growth rate varied between 7 per cent and 77 per cent during seven years of study period. However, negative growth rate has been registered in four years due to poor deposit mobilization (Fig 6.1). Highest growth rate has been recorded in 2008-09 due to increase in deposits from Rs.10166 lakhs to Rs.18029 lakhs.

**Growth% of Deposits in Public Sector Banks and Private Sector Banks
in Srikakulam District**

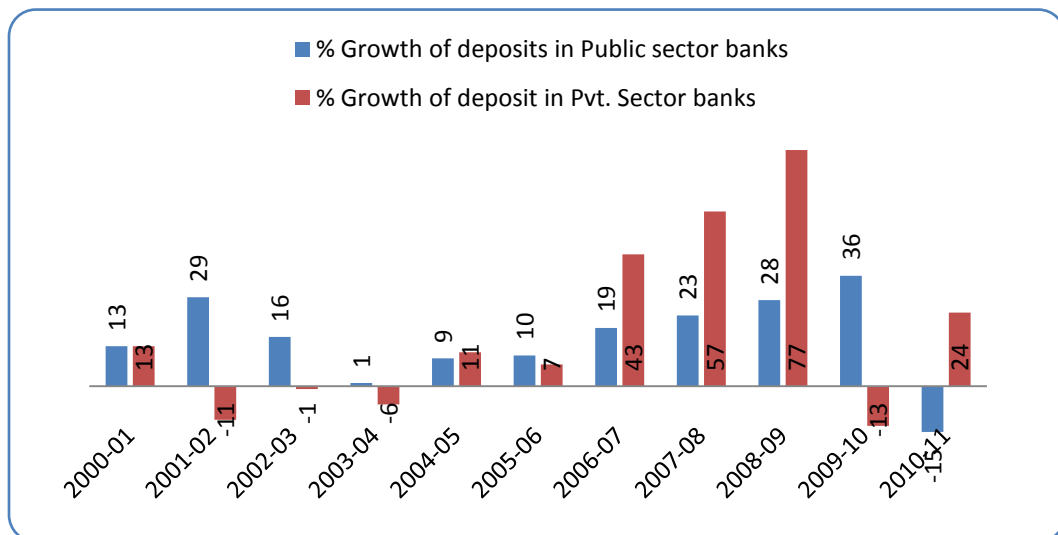


Figure: 6.1

Fig.6.1 also shows the deposits of private sector banks grew at a higher rate than public sector banks in five years of the study period despite of their little presence in the district particularly in 2008-2009. Compound growth rate of deposits of private sector banks was 15.58 per cent. It is observed that the compound growth rate of deposits was more for private sector banks compared to public sector banks.

Deposits of total commercial banks had increased from Rs.60997.68 lakhs in 2000-01 to Rs.239081 lakhs by March end 2011. Growth rate of deposits varied between -13 per cent and 32 per cent during the above period. Growth rate was doubled (increased from 13 per cent to 26 per cent) by March end 2002, as the deposits rose to Rs.77036 lakhs from Rs. 60997.68 lakhs. Nevertheless, growth rate in deposits had declined to 15 per cent though deposits increased from Rs.77035 lakhs to Rs. 88717.27 lakhs in 2003. A slight increase has been observed by March end 2004 due to slight increase in deposits i.e. from Rs.88717.27 lakhs to Rs.89065 lakhs. Yet, the percentage increase was quite insignificant. Both public sector and private sector banks have faced a steep decline in their deposits during the same period and the same has reflected in the total deposits of commercial banks. However, in the subsequent years, there was an upsurge in deposit collection due to increase in number of branches. Deposits also have gone up to Rs. 274068 lakhs by March 2010 and registered a growth rate of 32 per cent. However, they have declined by March end 2011. Cumulative growth rate of deposits of total commercial banks was 14.64 per cent.

6.1.2. Advances - Srikakulam District

Advances of Public Sector and Private Sector Banks in Srikakulam District (Rupees in Lakhs)

Year end March	Pub. Sector Banks	% Growth	Private Sector Banks	% Growth	Total	% Growth
2001	23431.49	-11	3125.59	581	26557.1	-1
2002	37156	59	2393	-23	39549	49
2003	44752.13	20	3676	54	48428.1	22
2004	43753	-2	1048	-71	44801	-8
2005	58528	34	1148	10	59676	33
2006	76621	31	1689	47	78310	31
2007	91855	20	1928	14	93783	20
2008	112435	22	12569	552	125004	33
2009	135843	21	13215	5	149058	19
2010	184876	36	12399	-6	197275	32
2011	216855	17	15207	23	232062	18
CGR%	24.92		17.14		24.21	

(Source: Annual Credit Plans of Srikakulam District of various years)

Table: 6.2

Table No. 6.2 exhibits the advances disbursed by public and private sector banks in Srikakulam district from 2001 to 2011.

Advances made by public sector banks during the above period had increased from Rs. 23431.49 lakhs to Rs. 216855 lakhs. Growth rate shows fluctuations during the study period. Percentage of growth varied between -11 per cent and 59 per cent. Highest growth rate (59%) has been observed in 2001-02 (advances increased from 23431.49 lakhs to 37156 lakhs) and negative growth has been registered in two years due to deceleration in advances over the previous years. Compound Growth rate of advances of public sector banks stood at 24.92 per cent.

Growth% of Advances of Public and Private Sector Banks in Srikakulam District

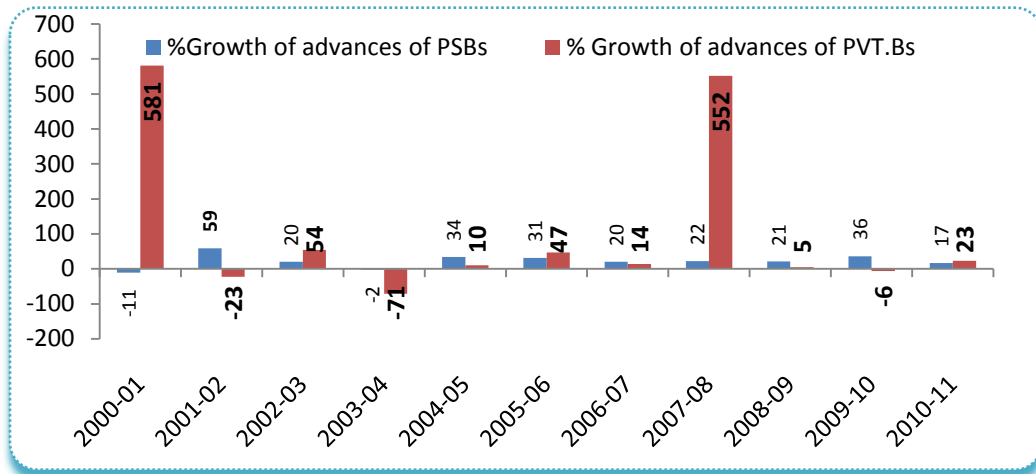


Figure: 6.2

Fig 6.2 highlights the aggressive role played by Private Sector Banks in advancing loans in the district for a period of two years. Deployment of credit by Private sector banks had increased from Rs. 3125.59 lakhs to Rs.15207 lakhs during period under reference. These banks had also shown the same trend as public sector banks. Growth rate was hit by severe fluctuations throughout the period. Three digit growth rate has been recorded in two years (Only one Private sector bank could achieve 581 per cent in 2000-01 and 552 per cent in 2007-08 by three private sector banks) due to aggressive

deployment of credit by these banks. Negative growth has also been observed in three years owing to low disbursements over the previous years (fig 6.2). Growth rate varied between -77 per cent and 581 per cent during the study period. Compound growth rate of advances made by private sector banks was 17.14 per cent.

It is observed that the performance of public sector and private sector banks is similar in advancing loans except in two annual credit plans. Advances made by total commercial banks have increased from Rs. 26557.08 lakhs in 2001 to Rs.232062 lakhs by March end 2011. Highest growth of 49 per cent has been recorded by March end 2002, as the advances have gone up from Rs.26557.08 lakhs to Rs.39549 lakhs. In the subsequent year, the growth rate has declined to 22 per cent though the advances increased to Rs.48428.13 lakhs. A negative growth rate (-8%) has been registered in 2004 as the advances have come down from Rs.48428.13 lakhs to Rs.44801 lakhs. In the subsequent years, it has varied between 18 per cent and 33 per cent. Growth rate was sluggish in advancing loans and it varied between -7 per cent and 49 per cent during the study period. The cumulative growth rate was recorded at 24.21 per cent.

Compound Growth Rates of Deposits and Advances of Public sector and Private Sector Banks in Srikakulam District

	CGR % of Deposits	CGR % of Advances
Public Sector Banks	14.56	24.92
Private Sector Banks	15.58	17.14
Total Commercial banks in the district	14.64	24.21

(Source: Table 6.1 and 6.2)

Table: 6.3

Table 6.3 shows the compound growth rates of deposits of Public sector banks and Private Sector Banks in Srikakulam District. The compound growth rate of deposits of private sector banks grew at a higher rate than that of public sector banks, while it is vice versa in advances. (The CGR% of advances of public sector banks (24.92%) was more than that of private sector banks (17.14%). The difference in CGR% of deposits of both these banks was 1.02%, while the same was 7.78 per cent in the CGR% of advances. This signifies a wide a gap between the credit deployments by both these groups. This also signifies that private sector banks had actively mobilized the deposits rather than deploying funds compared to public sector banks. However, public sector banks had played an active role in deploying funds for developing the district.

Observation: Private sector banks performance in terms of deposits was better than Public sector banks, while public sector banks exhibited a better performance in advancing loans. It is also observed that the growth rates of advances of both the bank groups are higher than the growth rates of deposits.

6.1.3. Credit-Deposit Ratio - Srikakulam District

Credit-deposit ratio(CDR) being an important parameter to observe the efficiency of banking system, table No. 6.4 highlights the contribution of commercial banks for development of the district from 2001 to 2011.

C-D ratio of Public and Private Sector Banks in Srikakulam District

Year end March	C-D Ratio of Public Sector Banks	C-D Ratio of Private Sector Banks	C-D Ratio of Total Commercial Banks
2001	41.52	68.53	43.54
2002	50.93	58.65	51.34
2003	52.86	90.77	54.39
2004	51.33	27.43	50.3
2005	63.24	27.01	61.65
2006	75.31	37.22	73.68
2007	76.02	29.74	73.66
2008	75.58	123.64	78.65
2009	71.6	73.3	71.75
2010	71.53	79.4	71.98
2011	98.71	78.38	97.06

(Source: Compiled from annual credit plans of Srikakulam District)

Table 6.4

Comparative table showing achievement of 60% C-D ratio by different bank groups

Year end March	Public Sector Banks	Private Sector Banks	Total Commercial Banks
2001	--	✓	--
2002	--	--	--
2003	--	✓	--
2004	--	--	--
2005	✓	--	✓
2006	✓	--	✓
2007	✓	--	✓
2008	✓	✓	✓
2009	✓	✓	✓
2010	✓	✓	✓
2011	✓	✓	✓

Table: 6.5

C-D ratio of Public Sector Banks varied between 41.52 in 2001 to 52.86 in 2003. Again, it has declined steeply to 51.33 in the subsequent year. A shift has been observed in 2005 by improving the CDR from 51.33 per cent to 63.24 per cent. It has varied between 63.24 per cent and 98.71 per cent from 2005 to 2011. From 2005 onwards, it was above 60 per cent continuously for a period of seven years. Public sector banks have deployed highest percentage of their funds i.e. 98.71 per cent as credit in the district (table 6.4).

C-D Ratio of Public and Private Sector Banks in Srikakulam District

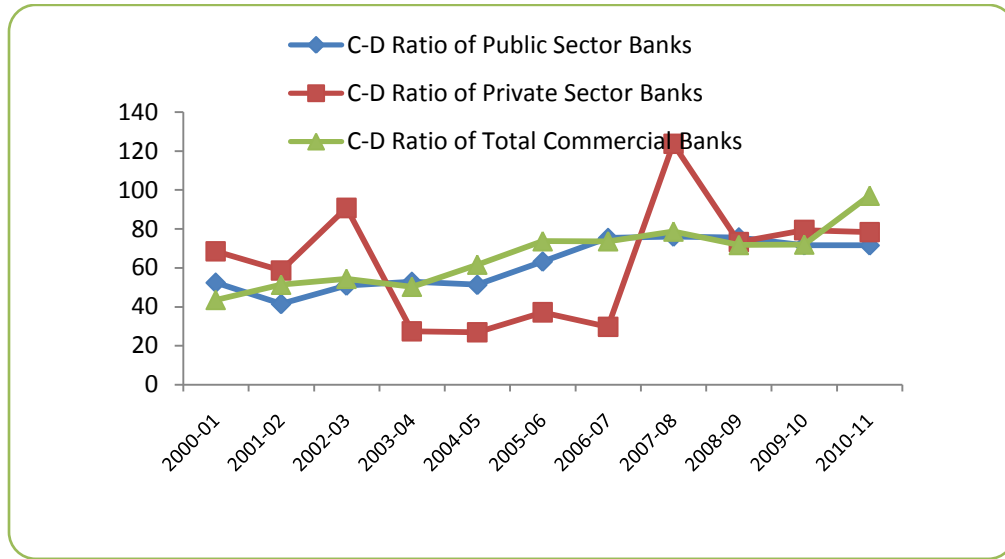


Figure: 6.3

CD ratio of private sector banks varied between 27.01 per cent and 123.64 per cent during the period under reference (Fig.6.3). Incremental CD ratio has been observed in 2007-08 with 123.64 per cent. Private sector banks could not achieve the 60 % target for a period of 5 years and their credit deposit ratio was above 60 per cent in only six years (Fig.6.3). Unusual fluctuations have been observed during the study period. However, due to entry of more private banks after 2006-07, their C-D ratio has improved significantly.

The CDR of all commercial banks (both Public and Private sector banks) ranges from 43.54 per cent to 97.06 per cent during the period of 11 years (fig.6.3). The credit disbursement to non-priority and priority sectors was below 60 per cent from 2001 to 2004 as the CDR varied between 43.54 and 50.3 per cent. However, there has been a remarkable progress in the CDR during subsequent years. By March end 2005, commercial banks have exceeded the target of 60%. Banks as a whole have achieved

more than 60 per cent of CDR continuously for a period of seven years during the reference period. The highest CDR of 97.06 per cent has recorded in 2011 despite of deceleration in deposits during this year over the preceding year. Fig 6.3 highlights the CD ratio of total commercial banks in the district. The lines showing CDR of Public sector banks and total commercial banks are going along the same line, while the CDR of Private sector banks differ to some extent. This implies that public sector banks enjoy lion's share in the district and hence the same has been reflected in the total business of all commercial banks.

6.1.4. Priority Sector Advances - Srikakulam District

Priority sector advances constitute advances to agriculture, small scale industries, small road and water transporters, education loans, housing loans, differential rate of interest (DRI) advances, micro credit etc. Srikakulam district is one of the backward districts of the state and migration is high due to lack of employment. Hence, the district authorities are taking steps to leave no stone unturned to prevent migration and to provide employment to the rural people. Government is arranging Youth development programmes by taking the help of social organizations like Andhra Bank Institute of Rural Development etc. Advances to priority sector are a key for economic development of the district. Hence, progress of priority sector advances is shown in the following table during the last decade.

6.1.4(i). Growth of Priority Sector Advances

**Growth of Priority Sector Advances of Public Sector and Private Sector Banks
in Srikakulam District**
(Rupees in Lakhs)

Year end March	Public Sector Banks	% Growth	Private Sector Banks	% Growth	Total	% Growth
2001	12494.27	-5	2454.28	182	14948.55	6
2002	15781	26	1706	-30	17487	17
2003	26829.59	70	2756	62	29585.59	69
2004	30386	13	633	-77	31019	5
2005	38491	27	646	2	39137	26
2006	60158	56	1077	67	61235	56
2007	66210	10	1317	22	67527	10
2008	79758	20	2222	69	81980	21
2009	127075	59	4566	105	142414	74
2010	151632.8	10	5022	10	156654.8	10
2011	60235	-60	4502	-10	64737	-59
CGR%	17.03		6.25		15.78	

(Source: Annual Credit Plans of Srikakulam District)

Table: 6.6

Percentage Growth of Priority Sector Advances of Public Sector and Private Sector Banks in Srikakulam District

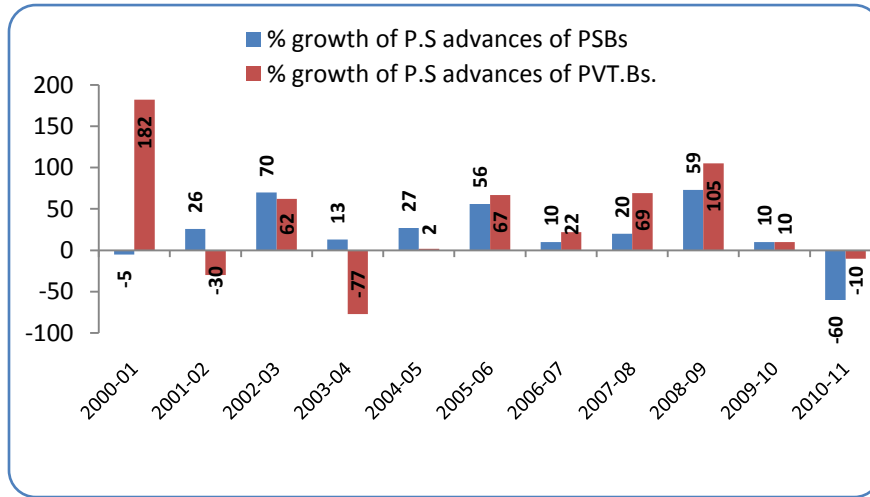


Figure: 6.4

Priority sector advances of public and private sector banks in the district are shown in table No. 6.6 from 2001 to 2011.

The priority sector advances of public sector banks had increased from Rs.12494.27 lakhs to Rs.151632.8 lakhs showing a growth rate of -60 per cent to 70 per cent. Negative growth rate has been observed in 2001 and 2011 due to decline in priority sector advances during these years over the preceding years. Highest growth of 70 per cent has been observed in 2002-03 (advances increased from Rs.15781 lakhs to Rs. 26829.59 lakhs). Fig.6.4 shows the priority sector advances of public sector banks had increased throughout the study period except in two years. Yet, the growth rate was quite volatile. Compound growth rate of these advances by public sector banks stood at 17.03 per cent.

Private Sector banks' advances to priority sector had increased from Rs. 2454.28 in 2000-01 to Rs. 5022 lakhs in 2009-10. However, they have declined to Rs. 4502 lakhs in 2011 and registered negative growth rate of 10 per cent. Growth rate varied between -77 per cent and 182 per cent during the study period (Fig.6.4). Highest growth rate of 182 per cent has been recorded in 2001 and least growth of 2 per cent has been registered in 2004-05. Compound growth rate of these advances was 6.25 per cent.

Total advances to priority sector by all commercial banks (both Public and Private sector) had increased from Rs.14948.55 lakhs in 2001 to Rs.156654.8 lakhs in 2010 followed by a decline to Rs.64737 lakhs and registered a negative growth rate of -59 per cent. Growth rate of priority sector advances during the reference period varied between -59 per cent and 74 per cent. Despite of increase in advances year on year, oscillations observed in their growth rate throughout the study period. Compound growth rate of these advances was 15.78 per cent.

6.1.4(ii). Share of Priority Sector Advances to Total Deposits

Table 6.7 shows the share of priority sector advances to total deposits of Public and Private Sector Banks.

As can be seen in the table, the share of priority sector advances to total deposits of Public sector banks varied between 22 per cent and 67 per cent. In the initial years, the share was only 22 per cent and it has gradually increased to 67 per cent by March ending 2009. Yet, it has drastically declined to 27 per cent by March 2011. This implies that these banks had deployed 20-70 per cent of their deposits (locally resources mobilized) for promoting various developmental activities in the district.

Share of Priority Sector Advances to total deposits of Public and Private Sector Banks in Srikakulam District

(In percentage)

Year end March	Share of Priority Sector Advances to total deposits of Public and Private Sector Banks	
	Public Sector Banks	Private Sector Banks
2001	22	54
2002	22	42
2003	32	68
2004	36	17
2005	42	15
2006	59	24
2007	55	20
2008	54	22
2009	67	25
2010	59	32
2011	27	23

(Source: Table 6.1 and 6.6)

Table 6.7

Private sector banks' share varied between 15 per cent and 68 per cent during the reference period. It is evident from the data that these banks had deployed 40 to 70 per cent of their deposits as advances from March end 2001 to March end 2003. From 2003 onwards, this share varied between 15 to 32 per cent. This share has gradually decelerated year after year with fluctuations.

From the above data, it is inferred that public sector banks had deployed 20-70 of their deposits during the study period and a gradual increase was found in the share. However, private sector banks share has gradually decreased over the years except for the first three years. (Only one private sector bank had deployed 40-70% of its deposits, whereas six private sector banks could pump only 20-30% of their deposits.). Public sector banks are investing at least 50 per cent of the locally mobilized deposits for local development, whereas private sector banks are investing the funds elsewhere.

6.1.4(iii). Share of Priority Sector Advances to Total Advances

Table No.6.8 exhibits the share of priority sector advances to total advances of public and private sector banks in Srikakulam district from 2001 to 2011.

Share of Priority Sector Advances to total advances of Public and Private Sector Banks in Srikakulam District

(Rupees in Lakhs)

Year end March	Public Sector Banks	Share of P.S. Advances of PSBs	Private Sector Banks	Share of P.S. Advances Pvt.Bs	Total Advances	Share of P.S. Advances Total CBs
2001	12494.27	53	2454.3	79	14948.55	56
2002	15781	42	1706	71	17487	44
2003	26829.59	60	2756	75	29585.59	61
2004	30386	69	633	60	31019	69
2005	38491	66	646	56	39137	66
2006	60158	79	1077	64	61235	78
2007	66210	72	1317	68	67527	72
2008	79758	71	2222	18	81980	66
2009	127075	94	4566	35	131641	88
2010	151632.8	82	5022	41	156654.8	79
2011	60235	28	4502	30	64737	28

(Source: Annual Credit plans of Srikakulam District)

Table: 6.8

**Comparative table showing achievement of 40% targets of Priority Sector Advances
by different bank groups in the district**

Year end March	Public Sector Banks	Private Sector Banks	Total Commercial banks
2001	✓	✓	✓
2002	✓	✓	✓
2003	✓	✓	✓
2004	✓	✓	✓
2005	✓	✓	✓
2006	✓	✓	✓
2007	✓	✓	✓
2008	✓	--	✓
2009	✓	--	✓
2010	✓	✓	✓
2011	--	--	--

(Source: Table 6.8)

Table 6.9

Public Sector Banks' advances to priority sector had exceeded the target of 40 per cent in all the years except in 2011. The share ranges between 28 per cent and 94 per cent from 2001 to 2011. However, it is below the target level in 2011. The highest percentage (94 per cent) of total advances was disbursed as priority sector advances in 2009. Their performance was significant during the entire study period as their lending was well above the targets.

Share of Priority Sector Advances of Commercial Banks in Srikakulam District

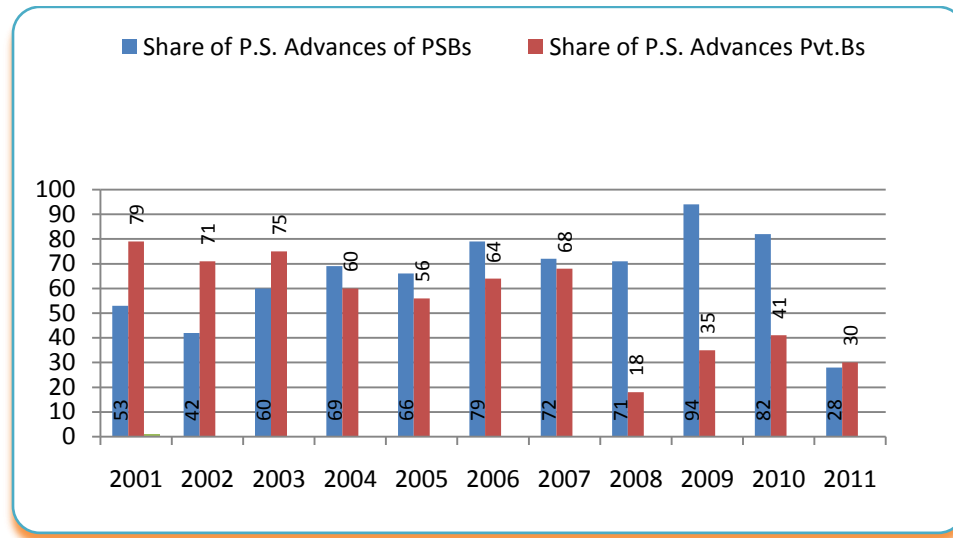


Figure: 6.5

Fig. 6.5 highlights the private sector banks' share of advances to priority sector has exceeded the 40 per cent in eight years. The share of these advances was 79 per cent in 2001 and a gradual reduction took place till 2005 (Advances declined from 79 per cent to 56 per cent). However, they were increased to 64 per cent by March end 2006 and 68 per cent by March end 2007. They could not achieve the bench mark level of 40 in three annual plans. Particularly this was low after 2007, despite of increase in number of private banks in the district. Only 18 per cent of total advances disbursed in 2007-08 towards this sector despite of presence of five private sector banks in the district. However, in the subsequent years, there was a considerable progress in their lending. Their share has increased from 18 per cent to 41 percent by March end 2010. Nevertheless, it has declined steeply to 30 per cent in 2011.

All commercial banks (both public and private sector) in the district have played a crucial role in meeting the needs of the district by giving priority sector advances

together, above the target level during the entire period of study. This shows the interest of the banks in the development of the district. Advances to this sector have grown continuously over the years, but the growth rate shows fluctuations. 88 per cent of the total advances were deployed in 2009. Share of priority sector advances by all the commercial banks stood far above the bench mark level in all the years except in 2011. Hence, it is inferred that commercial banks have achieved the targets of priority sector lending in the district.

Observations:

Public sector banks had achieved the targets continuously for a period of ten years whereas private sector banks could achieve these only in eight years. Public sector banks have deployed 94% of the total credit in 2009 which was appreciable. Both the bank groups as a whole exceeded their targets in all the years except in 2011. A comparison of compound growth rate of both the bank groups suggests that public sector banks have exhibited a fair performance than private sector banks in advancing loans to priority sector lending.

In order to analyze the performance of Public sector and Private sector banks in terms of growth rates of deposits, advances and priority sector advances, the following hypotheses are framed.

H₄. There is no significant difference in growth rates of deposits between public sector banks and private sector banks in Srikakulam District.

H₅. There is no significant difference in growth rates of advances between public sector banks and private sector banks in Srikakulam District.

H₆. There is no significant difference in growth rates of priority sector advances between Public Sector banks and Private Sector banks.

To test the hypotheses, Mann-Whitney test is used. Growth rates of deposits, advances and priority sector advances of public sector banks and private sector banks are compared between the period 2000-01 and 2010-11. To test the hypotheses, T values were calculated for growth rates of deposits, advances and priority sector advances and are shown in table 6.10

Growth rate of Deposits, Advances and Priority Sector Advances of Public Sector Banks and Private Sector Banks in Srikakulam District: Mann-Whitney U Test

(Level of significance 0.05)

Growth rate	Calculated Value	Table Value	Result
1. Deposits	55.5	<30 or >91	Accept H ₄
2. Advances	56	<30 or >91	Accept H ₅
3. Priority Sector Advances	65	<30 or >91	AcceptH ₆

Table: 6.10

The results of Mann-Whitney test prove that there is no significant difference between the growth rates of deposits, advances and priority sector advances of Public Sector Banks and Private Sector Banks in Srikakulam District. Hence, the hypotheses H₄, H₅ and H₆ are accepted. It is concluded that the Public Sector Banks and Private

Sector Banks are mobilizing deposits, advancing loans and advancing to priority sectors alike in the district.

In order to analyze whether there is any significant difference in the growth rates of deposits, advances and priority sector advances of banks in Andhra Pradesh and Srikakulam district, the following hypotheses are formed:

H₇. There is no significant difference in growth rates of deposits of commercial banks in Andhra Pradesh and Srikakulam District

H₈. There is no significant difference in growth rates of advances of commercial banks in Andhra Pradesh and Srikakulam District

H₉. There is no significant difference in growth rates of priority sector advances of commercial banks in Andhra Pradesh and Srikakulam District

To test the hypotheses, Mann-Whitney test is used. Growth rates of deposits, advances and priority sector advances of banks in Andhra Pradesh and Srikakulam District are compared between the period 2000-01 and 2010-11. To test the hypotheses, T values were calculated for growth rates of deposits, advances and priority sector advances.

Growth rate of Deposits, Advances and Priority Sector Advances of Banks in Andhra Pradesh and Srikakulam District: Mann-Whitney U Test

(Level of significance 0.05)

Growth rate	Calculated Value	Table Value	Result
Deposits	48.5	<23 or >77	Accept H ₇
Advances	56	<23 or >77	Accept H ₈
Priority Sector Advances	60.5	<23 or >77	Accept H ₉

Table: 6.11

Table 6.11 highlights the T values for growth rates of deposits, advances and priority sector advances of commercial banks in Andhra Pradesh state and Srikakulam district.

The results of Mann-Whitney test prove that no significant difference has been demonstrated between the growth rates of deposits, advances and priority sector advances of Banks in Andhra Pradesh State and Srikakulam District. Hence, the hypotheses H₇, H₈ and H₉ are accepted. It is concluded that the performance of Banks in Andhra Pradesh State and Srikakulam District is similar in mobilizing deposits, advancing loans and advancing to priority sectors.

6.1.5. Differential Interest Rate Scheme (DIR):

DIR scheme was instituted in 1972 to help the weaker sections. The Ministry of Finance and the Government of India instructed all the Commercial Banks under public sector to implement the Differential Rate of Interest scheme (DIR) in 1972 basing on the recommendations of the Committee under the chairmanship of Dr.B.K.Hazare¹³⁴. Private Banks also participated in this scheme from 1977 onwards. This scheme was originally implemented at selected bank branches in 265 districts of the country and later on, it was extended to cover all parts of the country. These advances should constitute one per cent of their aggregate advances as at the end of the previous year. Further, it is stipulated that two-thirds of the credit advanced under the DRI scheme should be deployed in rural areas and that 40 per cent of the credit should be directed towards scheduled castes/tribes.¹³⁵

¹³⁴Vimala.P, A study on Priority Sector Lending in Kerala, MGU, Kerala, 2002.

¹³⁵ www.nabard.org/pdf/craficard/Chapter_04.pdf

Under this scheme, loans are being extended to the weaker sections of the society, who do not possess tangible assets to put as security, at a concessional rate of 4 percent per annum. Marginal farmers, agricultural labourers, scheduled castes and schedules tribes engaged in agriculture, people having rural industries and cottage industries, hoteliers, rickshaw pullers, cobblers, basket makers, carpenters, physically challenged persons, orphans and students having higher education etc. will get finance under this scheme.

The size of the borrower's holding should not exceed 1.0 acre of wet land and 2.5 acres of dry land. Family income of the borrower should not exceed Rs.24000 per annum in urban and semi urban areas and Rs.18000 in rural areas as per the revised norms in 2008-09.¹³⁶ These restrictions are relaxed in case of SC/STs. As per the guidelines of the Government of India, if a person is assisted under IRDP or Self Employment Programme for the Urban Poor (SEPUP), he will not be eligible for the benefit under DIR scheme.

Commercial Banks' Advances under Differential Rate of Interest Scheme
(Rupees in Lakhs)

Year	Commercial Banks' advances under DIR scheme
2001-02	30
2002-03	39
2003-04	295
2004-05	295
2007-08	157
2008-09	127
2010-11	170

(Source: Annual credit plans of various years)

Table: 6.12

¹³⁶ RBI circular No.RPCD.SP.BC.No.55/09.07.01/2007-08 dated 10.04.2008, www.rbi.org.in

Table 6.12 shows the commercial banks advances under DIR scheme. Disbursements increased from Rs. 30 lakhs in 2001-02 and Rs.39 lakh in 2002-03. They had increased to Rs.295 lakhs in 2003-04 and remained the same in 2004-05 also. However, these advances have declined to Rs.157 lakhs in 2007-08 and further reduced to Rs. 127 lakhs in 2008-09. Yet, Banks have improved their lending in 2010-11 as the credit increased to Rs.170 lakhs during this year. Public Sector banks' active participation towards these loans is highly significant during the study period.

6.1.6 Advances to Weaker Sections

Commercial Banks Advances to Weaker Sections in Srikakulam District (Rupees in lakhs)

Year	Commercial banks advances to weaker sections
2000-01	4332.12
2001-02	3796
2002-03	5235.09
2003-04	10065
2004-05	10065
2006-07	12035
2007-08	34886
2008-09	38607
2010-11	8709

(Source: Annual credit plans of various years)

Table: 6. 13

Commercial Banks' advances to weaker sections in Srikakulam District

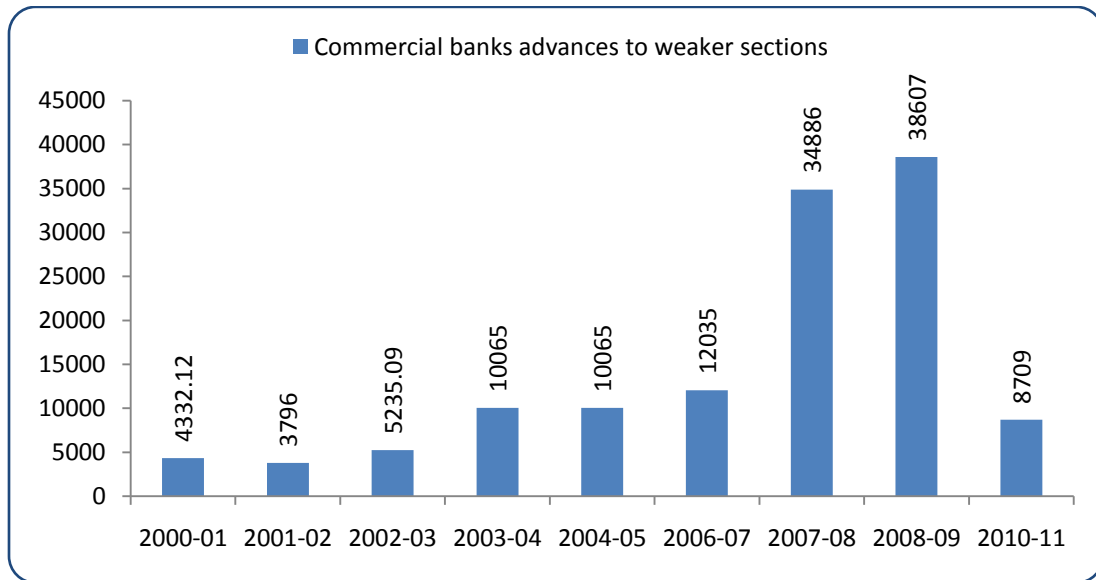


Figure 6.6

Table No.6.13 shows the weaker section advances made by commercial banks from 2000-01 to 2010-11. Their disbursements had increased from Rs. 3796 lakhs to Rs.38607 lakhs during the reference period. These loans had increased over the period and figure 6.6 highlights that there was a steep increase from Rs.12035 lakhs in 2006-07 to Rs.34886 lakhs in 2007-08 and further increased to Rs. 38607 lakhs by 2008-09. However, a sudden fall has been observed in 2010-11 due to decline in advances to Rs.8709 lakhs. However, commercial banks had exhibited a fair performance in weaker sections' advances.

6.1.7. Recovery Performance of commercial banks

The magnitude of recovery amount overdue is one of the most important indicators of financial health of any financial institution. The term 'recovery' of dues relates to repayments of loans and interest thereon in time. The term "overdues" is used

to convey the meaning that instalments of loans and interest thereon are not paid on due date. Therefore, overdues exist if recovery of loans is not in time.¹³⁷

Loans outstanding per account and outstanding loans per branch in Srikakulam District

Year	No. of Loan accounts	% growth	No. of loan accounts per branch	% growth	Loans outstanding per account (Rupees in lakhs)	% growth	Loans outstanding per branch (Rupees in lakhs)	% growth
2002-03	60232	--	762	--	0.79	--	602	--
2003-04	94633	57	1183	55	0.47	-40	560	
2004-05	113735	20	1422	20	0.52	11	746	33
2005-06	143491	26	1816	28	0.55	4	991	33
2006-07	196982	37	2432	34	0.50	-8	1226	24
2007-08	212676	8	2337	-4	0.60	20	1412	15
2008-09	257860	21	2579	10	0.57	-5	1476	5
2010-11	341179	32	2729	6	0.85	48	2315	57

(Key Economic indicators of Srikakulam District of various years)

Table: 6.14

¹³⁷ Sharma K.C. et.al. Rural Management in Rural Credit, Occasional paper-21, NABARD 2001

Table No.6.14 highlights the number of loan accounts and outstanding per branch from 2002-03 to 2010-11. Number of loan accounts in the district had increased from 60232 to 341179 during the reference period. A substantial increase has been observed during the above period. Growth rate varied between 8 per cent and 57 per cent. Percentage growth of Loan accounts was the highest in 2003-04 i.e. 57 per cent.

Outstanding loan per account varied between 0.47 lakhs and 0.85 lakhs during the reference period. In 2002-03, outstanding loan per account was 0.79 lakhs and it has steeply declined to 0.47 lakhs in the subsequent year recording a negative growth rate of 40 per cent. However, it has further increased to 0.60 by the end of March 2008. Yet, it has come down to 0.57 lakhs by March 2009 and growth rate was negative during this year also. Further, it has risen to 0.85 per cent in 2010-11.

Number of loan accounts per branch increased from 762 in 2002-03 to 2432 in 2006-07. During 2007-08, loans accounts per branch had reduced to 2337. However, they increased to 2729 by March end 2011. Growth rate of loan accounts varied between -4 and 55 per cent. Highest per cent i.e., 55 per cent of loan account per branch has been observed in 2003-04.

Amount outstanding per branch has increased year to year during the entire reference period. They have increased from Rs.602 lakhs to Rs. 2315 lakhs and their growth rate varied between -7 per cent and 57 per cent.

Observations:

Number of loan accounts, loan accounts per branch and loan amounts outstanding was increased over the period.

Recovery Performance of Commercial Banks in Srikakulam District

Year	Recovery Percentage (as on 30 th June)
2000-01	57
2001-02	58
2002-03	61
2003-04	65
2004-05	75
2005-06	71
2006-07	70
2007-08	79
2008-09	80
2009-10	80
2010-11	80

(Source: Key Banking indicators of Srikakulam District,
Annual Credit Plans of various years)

Table: 6.15

Recovery Performance of Commercial Banks in Srikakulam District

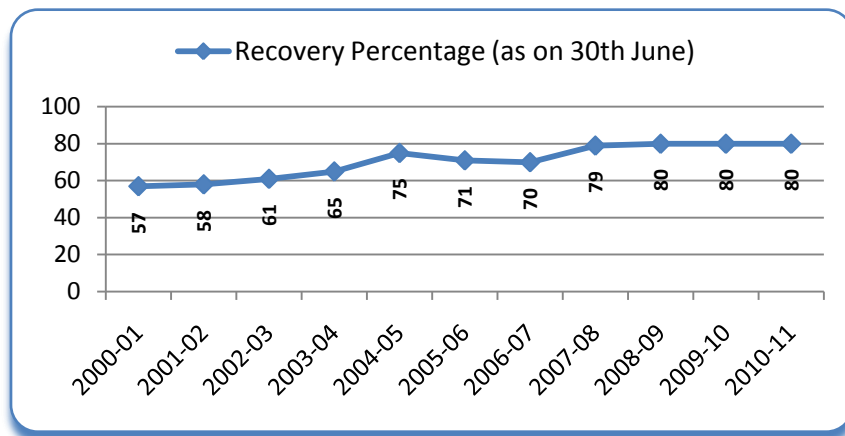


Figure: 6.7

Table No. 6.15 highlights the recovery performance of commercial banks during the period from 2000-01 to 2010-11. Recovery performance is key indicator of health of any bank. Much of the profitability depends on recovery of loans. Figure 6.7 shows that recovery has improved significantly over the period. Initially, banks could recover only about half of the loan amount. However, the position has improved slowly. By June end 2005, they were able to recover three-fourths (75%) of the loan amount.

It is observed that by June end 2007, the percentage of recovery has drastically declined to 70 per cent. Yet, banks have improved their recovery performance to 79 per cent by June end 2008 which is a significant development. In the later years, their position has improved and the recovery percentage stagnated at 80 per cent for three consecutive years. It implies that there has been considerable progress in recovery position. However, banks have to make every effort to recover 100 per cent of their loans in order to strengthen their base and to reduce NPAs.

6.1.8. Non-Performing Assets (NPAs)

A healthy financial system can help in achieving efficient allocation of resources across time and space by reducing inefficiencies arising out of market frictions and other socio-economic factors.

As discussed by Meenakshi Rajeev and H P Mahesh, Banks raise resources not just on fresh deposits, but also by recycling the funds received from the borrowers. Thus, when a loan becomes non-performing, it affects recycling of credit and credit creation. In addition, they affect profitability, as higher provisioning is required against bad loans.¹³⁸

¹³⁸ Meenakshi Rajeev and H P Mahesh, Banking Sector Reforms and NPA: A study of Indian Commercial Banks, Working Paper 252, 2010, The Institute for Social and Economic Change, Bangalore.

Non-Performing Asset is an advance for which interest or repayment of principal or both remain outstanding for a period of more than two quarters. However, it has been decided to follow international standards and the norm has been changed with effect from 31st March 2004.

Accordingly, a non-performing asset¹³⁹ (NPA) shall be a loan or an advance where:

1. Interest and /or instalment of principal remain overdue for a period of more than 90 days in respect of a Term Loan.
2. The account remains 'out of order' for a period of more than 90 days, in respect of an overdraft/cash credit (OD/CC).
3. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
4. Interest and/or instalment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purpose, and
5. Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

In view of the importance of NPAs as indicators of financial health of banking system, an attempt has been made to know the level of NPAs of commercial banks in district.

The following table indicates the percentage of NPAs of commercial banks from 2002 to 2011.

¹³⁹ Senthamil Raja.A and Jackline.S, Recent Trends in the NPA of Scheduled Commercial Banks, The IASMS Journal of Business Spectrum, Vol.III, No.2 July 2010, pp16-35

Non-Performing Assets of Commercial Banks in Srikakulam District

Year	NPA (%)
2001-02	15
2002-03	14
2003-04	14
2004-05	NA
2005-06	5
2006-07	5
2007-08	NA
2008-09	5.65
2010-11	4

(Source: Key economic indicators of banking system,
Annual Reports of Lead Bank, Srikakulam District)

Table: 6.16

Non-Performing Assets of Commercial Banks in Srikakulam District

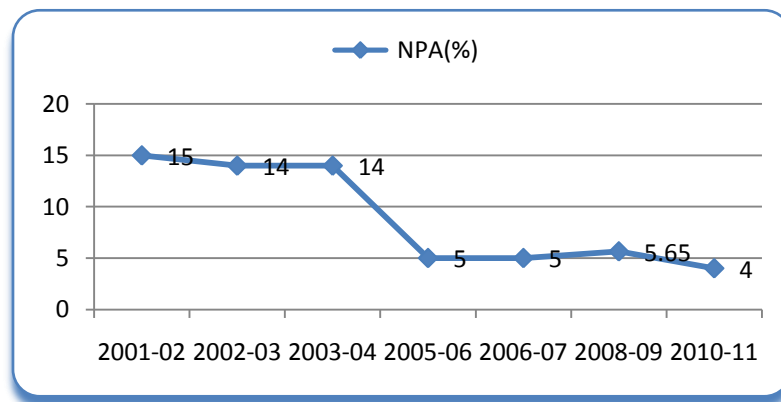


Figure: 6.8

Table No.6.16 and Figure 6.8 highlights the percentage of non-performing assets of Commercial Banks from 2001-02 to 2010-11. During the initial years of study, the NPAs percentage was high as it reflects the recovery performance of the banks. As the recovery performance was dull during the period from 2001-02 to 2003-04, the NPAs were also high in the district. The bankers along with the district officials are creating awareness among the public on timely repayment of loans. NPAs were 15 per cent in 2001-02 which denotes poor recovery performance. The same has reduced to 14 per cent in 2002-03 due to slight improvement in recovery of loans and has remained the same in 2003-04 also.

As can be seen in the figure 6.8, a steep decline has been found in the percentage of NPAs in 2005-06 and the same trend has continued till 2006-07 (percentage of NPAs declined to 5 per cent by March end 2006). Hence, there was a remarkable progress in curtailing the NPAs by Commercial banks.

However, a slight increase in the percentage of NPAs has been observed in 2008-09 as they have gone up to 5.65 per cent. By 2010-11, NPAs were minimized to 4 per cent. The overall trend shows that NPAs have diminished over the period of 10 years.

The above analysis reveals that the recovery performance of the banks had improved over the period. The non-performing assets of the banks had reduced from 15 per cent to 4 per cent during the study period. The reduction of NPAs in the district may be attributed to better recovery mechanism adopted by banks in the district. In an oral interview, the Lead Bank Manager explained that recovery camps will be conducted by the banks along with Lead Bank Manager at regular intervals. In addition to this, various measures have been taken to reduce NPAs include restructuring and rescheduling of debts etc.