PERFORMANCE OF CANARA BANK TOWARDS FINANCING TO SMALL ENTERPRISES

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━━━━━━━━━━━━━━ **ABSTRACT** ━━━━━━━━━━━━━━

Finance is said to be one of the crucial inputs to the growth of small enterprises besides various other inputs like training, capacity building, motivation, education and other support services. Though banks observe meticulously the principles of safety, liquidity and profitability on lending loan to any borrower, the default rate in the matter of financing small enterprises is reported to be on a higher scale by many research studies. Canara bank is the lead bank of Dindigul district in Tamil Nadu. It provides loans and advances to all vital sectors in the district in order to achieve higher economic growth in all those sectors. The present study intends to assess the performance of the Canara bank in providing the loans and advances to important sectors and suggest suitable measures to improve the lending performance of the Canara bank in Dindigul district.

KEYWORDS: Small Enterprises, Loan demand, Loan recovery, Loan overdue, Correlation analysis

INTRODUCTION

Finance is said to be one of the crucial inputs to the growth of small enterprises besides various other inputs like training, capacity building, motivation, education and other support services. Though banks observe meticulously the principles of safety, liquidity and profitability on lending loan to any borrower, the default rate in the matter of financing small enterprises is reported to be on a higher scale by many research studies. Canara bank is the lead bank of Dindigul district in Tamil Nadu. It provides loans and advances to all vital sectors in the district in order to achieve higher economic growth in all those sectors. The present study intends to assess the performance of the Canara bank in providing the loans and advances to important sectors and suggest suitable measures to improve the lending performance of the Canara bank in Dindigul district.

OBJECTIVE OF THE STUDY

The following are the objectives of this paper.

1) To analyse the lending performance of Canara Banks in Dindigul district
2) To compare the lending with recovery and overdue of Canara Banks in Dindigul district.

METHODOLOGY OF THE STUDY

Methodology describes the research route to be followed, the instruments to be used, universe and sample of the study for the data to be collected, the tools of analysis used and pattern of deducing conclusion.

SAMPLE OF THE STUDY

This paper is an attempt to study the lending performance of the Canara banks in Dindigul district, which is the lead bank for Dindigul district.. These banks were purposely selected for the study, keeping in view of its role and involvement in shaping the economic condition of many entrepreneurs.

Source of Data:-

The present study is mainly based on secondary sources drawn from office records of the Canara Banks in Dindigul district, RBI bulletin and other web sites, papers, books and journals relating to banking sector. Data were collected for period of six years from 2007-08 to 2012-13. For analysis of the data, various ratios relating to solvency, liquidity and profitability has been used to arrive at conclusion in a scientific way

Statistical Tools:-

The present study used the statistical tools of mean, standard deviation, coefficient of variation, compound annual growth rate and correlation analysis for the purpose of analysis the collected data.

Period of the study:-

The survey was conducted from March to April 2014.

Performance of Lending To Small Enterprises:-

Canara bank's statistics relate quite close to RBI's expectation and the all India achievement thus highlights its financial achievement. Lack of proper education and knowledge regarding financial system are badly influencing the meeting of financial target by lead banks. Lead bank plays a vital role in small enterprises development by financing. It is, therefore, important to analyse the performance of lead bank in Dindigul district with respect to small enterprises lending and its various components. An attempt has been made to present here the performance of lead bank. Table 1 and the following diagram highlight the loan planned and achieved towards small enterprises.

Table 1 Performance of Lead Bank towards Lending To Small Enterprises

(Rs. in '000)

Year	Plan	Achieved	Achievement
2003-04	253478	275399	108.65
2004-05	294273	327651	111.34
2005-06	276411	301017	108.90
2006-07	274118	295996	107.98
2007-08	203455	214565	105.46
2008-09	285648	292121	102.27
2009-10	178843	163677	91.52
2010-11	170584	188433	110.46
2011-12	245682	261491	106.43
2012-13	235978	251196	106.45

Source: Lead Bank Report, Annual Credit Plan,

The total credit planed by the lead bank to small enterprises went up from Rs. 2,53,478 thousand in 2003-04 to Rs.2,35,978 thousand in 2012-13. As a result, planned advances to small enterprises show fluctuating trend. Banks were also worried at the poor and unsatisfactory recovery performance of the small enterprises. So an attempt was made to study the percentage of achievement from 2003-04 to 2012-13. The percentage of achievements viz., 108.65 per cent, 111.34 per cent, 108.90 percent, 107.98 percent, 105.46 percent, 102.27 percent, 91.52 percent, 110.46 percent, 106.43 percent and 106.45 percent. In all the years in the study period the achievement percentage was more than 100 per cent.

Figure 1 Performance of Lead Bank towards Lending to Small Enterprises
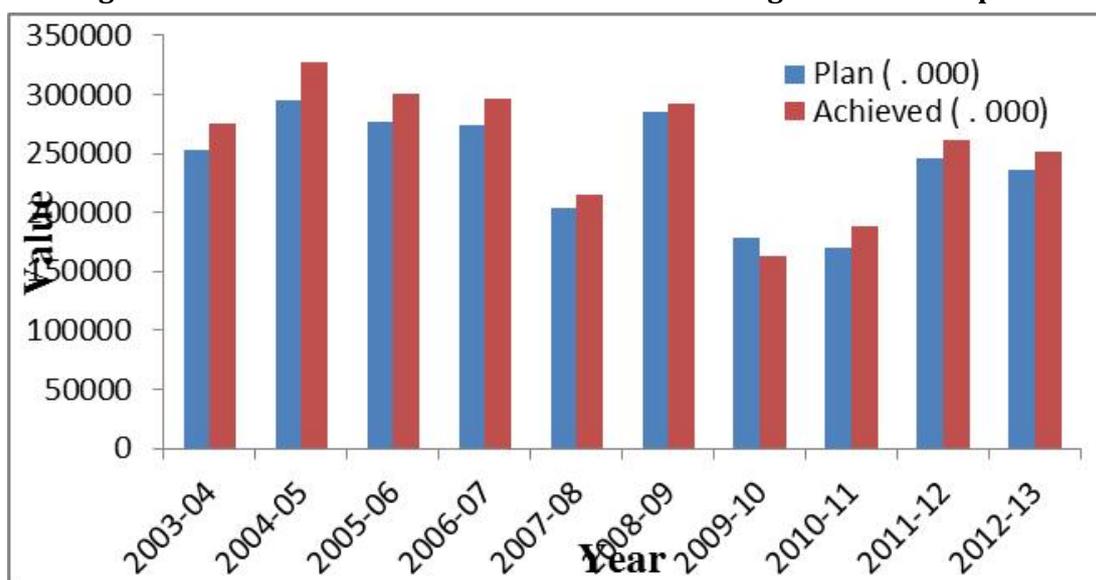
POSITION OF DEMAND, RECOVERY AND OVERDUE OF SMALL ENTERPRISES LOAN

The following Table 2 shows the position of demand, recovery and overdue of small enterprises loan during the period of 2003-04 to 2012-13 by lead bank in Dindigul district.

Table 2 Position of Demand, Recovery and Overdue of Small Enterprises Loan

(Rs. in '000)

Year	Demand	Recovery	Overdue	Percentage of Recovery	Percentage of Overdue
2003-04	203473	155090	48383	76.22	23.78
2004-05	267307	186370	80937	69.72	30.28
2005-06	233024	168033	64991	72.11	27.89
2006-07	209157	167315	41842	79.99	20.01
2007-08	190398	142082	48316	74.62	25.38
2008-09	220318	188050	32268	85.35	14.65
2009-10	140588	70153	70435	49.90	50.10
2010-11	170533	92789	77744	54.41	45.59
2011-12	219013	104029	114984	47.50	52.50
2012-13	225069	145350	79719	64.58	35.42
Total	2078880	1419261	659619	68.27	31.73
Mean	207888	141926	65962	67.44	32.56
SD	34940.56	40298.74	24298.81	12.99	12.99
CV	16.81	28.39	36.84	19.25	39.88
CGR	-1.86	-5.86	5.61	-4.08	7.61

Source: Lead Bank Report, Annual Credit Plan, 2003-04 to 2012-13

The Table 2 shows the loan demand, recovery and overdue performances of the lead bank during the period from 2003-04 to 2012-13. The loan demand shows a fluctuating trend for period to period. Recovery amount for the period shows a fluctuation trend. As indicated in the table, the recovery rate also shows fluctuating trendover the ten years period. Out of ten years six years loan recovery was more than general average of 67.44 per cent. This implies that the recovery performance of the bank in its small enterprises loan shows a gradual decline during the study period. Overdue amount for the period shows a fluctuation trend. The percentage of overdue on demand of loan was very less during years 2008-09 and 2006-07. It shows that recovery performance is good during theseyears. This implies that the recovery performance of lead bank towards the small enterprises loan is satisfactory. According to CGR loan demanded and loan recovery declined by -1.86 and -5.86 percent respectively over the ten years study period. But loan overdue alone increased by 5.61 per cent over the ten years under the reviews.

CORRELATION ANALYSIS

An attempt has been made to analyse the relationship between loans issued and the recovery of loans by the lead bank to small enterprises and to ascertain whether there was any increase in recovery of loans due to increase in issue of loans to the beneficiaries, and also to ascertain whether there was any increase in overdue of loans due to increase in issue of loans. Table 3 indicates the relationship between loans issued and loans recovered and overdue of loans due to increase in issue of loans.

Table 3 Correlation between Demand of Loan and Recovery of Loan and Also Between Demand of Loan and Overdue of Loan

(Rs. in '000)

Year	Loan Demand	Loan Recovery	Loan Overdues
2003-04	203473	155090	48383
2004-05	267307	186370	80937
2005-06	233024	168033	64991
2006-07	209157	167315	41842
2007-08	190398	142082	48316
2008-09	220318	188050	32268
2009-10	140588	70153	70435
2010-11	170533	92789	77744
2011-12	219013	104029	114984
2012-13	225069	145350	79719
Total	2078880	1419261	659619
Correlation (r) between demand of loan and recovery of loan			0.927
Correlation (r) between demand of loan and overdue of loan			-0.852

Source: Lead Bank Report, Annual Credit Plan, 2003-04 to 2012-13

The co-efficient of correlation between loans demanded and recovery of loans worked out to 0.927. It is clear that there is a perfect positive correlation between loans demand and recovery. It means that an increase in demand of loans has led to more recovery from the loan beneficiaries. Hence, it is seen that the performance of the bank in recovery of loans was satisfactory. The co-efficient of correlation between loans demanding and over dues worked out to be -0.852. It shows that there is a highly negative correlation between loans demanding and overdue. It is clear that an increase in loans demanding leads to decrease in overdue of loans. Hence, it is suggested that the bank should take appropriate measures to increase the loans demanding in order to reduce the over dues.

LOAN SANCTIONED TO DIFFERENT TYPES OF SMALL ENTERPRISES BY LEAD BANK

The Table 4 shows the loan sanctioned to different types of small enterprises by lead bank during the period of 2003-04 to 2012-13 by lead bank in Dindigul district.

Table 4 Loan Sanctioned to Different Types of Small Enterprises by Lead Bank (Rs. 1000)

Years	Hotels and Food Products	Dairy and Goat Farming	Vegetables and Fish Products	Lather and Rubber Products	Medical and Fancy Products	Electrical and Electronics	Wood Products	Textiles and Garments	Gold and Roald gold Jewelries	Automobiles	Educational and other Services	General and Departmental Store	Others	Total
2003-04	35693	10741	11897	46845	53785	64126	11016	18507	2809	5783	8744	3801	1652	275399
2004-05	42464	12778	14154	55733	63990	76293	13106	22018	3342	6881	10404	4522	1966	327651
2005-06	39011	11740	13004	51203	58789	70091	12041	20228	3071	6321	9558	4154	1806	301017
2006-07	38361	11544	12787	50349	57808	68922	11840	19891	3019	6216	9398	4085	1776	295996
2007-08	27806	8368	9269	36498	41905	49961	8583	14419	2189	4506	6813	2961	1287	214565
2008-09	37857	11393	12620	49690	57051	68020	11685	19631	2980	6135	9275	4031	1753	292121
2009-10	21212	6384	7071	27842	31966	38112	6547	10999	1669	3437	5197	2259	982	163677
2010-11	24421	7349	8140	32053	36801	43876	7537	12663	1922	3957	5983	2600	1131	188433
2011-12	33889	10198	11296	44480	51069	60888	10460	17572	2667	5491	8303	3609	1569	261491
2012-13	32556	9797	10852	42728	49058	58994	10048	16880	2562	5275	7976	3467	1507	251196
Total	333270	100292	111090	437421	502222	598779	102863	172808	26230	54002	81651	35489	15429	2571546
%age	12.96	3.90	4.32	17.01	19.53	23.28	4.00	6.72	1.02	2.10	3.18	1.38	0.60	100.00
Rank	4	8	6	3	2	1	7	5	12	10	9	11	13	

Source: Lead Bank Report, Annual Credit Plan, 2003-4 to 2012-13

Among the small enterprises' loan, amount of loan sanctioned to electrical and electronics business is highest and second highest is medical and fancy products, thirdly leather and rubber products, fourth one is hotels and food products and fifth one is textiles and garments. According to the amount of loan, the following types of enterprises have least importance to the lead bank namely Gold and Roald gold jewelries and general and departmental store. It can be argued that the growth of advances to small enterprises in percentage has gone over the growth of total bank credit to segments although the growth rate remained lower throughout the period.

LOAN OVERDUE IN DIFFERENT TYPES OF SMALL ENTERPRISES

Timely recovery of loans not only keeps the business running but also benefits the borrowers by reducing the load of debt and making them eligible for getting loans in future. If the outstanding loan increases, it becomes overdues. The high amount of overdues causes sluggish business which is harmful to both borrowers and the bankers. Table 5 reveals the overdue of loans of small enterprises by lead bank in Dindigul district during the period of 2003-04 to 2012-13.

Table 5 Loan Overdue in Different Types of Small Enterprises (Rs. 000)

Years	Hotels and Food Products	Dairy and Goat Farming	Vegetables and Fish Products	Lather and Rubber Products	Medical and Fancy Products	Electrical and Electronics	Wood Products	Textiles and Garments	Gold and Roald gold Jewelries	Automobiles	Educational and other Services	General and Departmental Store	Others	Total
2003-04	5748	2980	1916	8849	7707	10551	2642	2710	1423	1113	1439	821	484	48383
2004-05	9615	4986	3205	14803	12893	17650	4419	4534	2380	1862	2405	1376	809	80937
2005-06	7721	4003	2574	11887	10353	14172	3549	3638	1911	1495	1933	1105	650	64991
2006-07	4971	2577	1657	7653	6665	9124	2285	2343	1230	964	1244	711	418	41842
2007-08	5740	2976	1913	8837	7697	10536	2638	2706	1420	1112	1437	821	483	48316
2008-09	3833	1988	1278	5902	5140	7036	1762	1807	949	742	960	548	323	32268
2009-10	8368	4339	2789	12883	11220	15359	3846	3944	2071	1621	2094	1197	704	70435
2010-11	9236	4789	3079	14219	12385	16953	4245	4354	2286	1788	2312	1321	777	77744
2011-12	13660	7083	4553	21031	18317	25074	6278	6439	3381	2645	3419	1954	1150	114984
2012-13	9471	4911	3157	14581	12699	17384	4353	4464	2344	1834	2371	1353	797	79719
Total	78363	40632	26121	120645	105076	143839	36017	36939	19395	15176	19614	11207	6595	659619
%age	11.88	6.16	3.96	18.29	15.93	21.81	5.46	5.60	2.94	2.30	2.97	1.70	1.00	100.00
Rank	4	5	8	2	3	1	7	6	10	11	9	12	13	

Source: Lead Bank Report, Annual Credit Plan, 2003-04 to 2012-13

It is evident from the Table 5 that the outstanding lead bank credit of small enterprises was in fluctuating trend in all types of enterprises during the study period. According to the amount outstanding on loan sanctioned, the highest percentage was found in electrical and electronics related enterprises and least parentage was general and departmental stores and others. Outstanding percentage was highest in leather and rubber products, medical and fancy products, hotels and food products, dairy and goat farming. There is a sudden jump of bank credit outstanding deployed to all types of enterprises during 2011-12.

SUGGESTIONS

1. Majority of small entrepreneurs still practice personal banking despite the advent of alternate channels. Hence, Canara bank has to educate the small entrepreneurs about the advantages of using internet banking, mobile banking, ATM service and so on.

2. Canara bank has to update its website disseminating information on credit programmes targeting small entrepreneurs and small scale borrowers.

3. There should be a system or practice to motivate the prompt borrowers by giving concession in lending rates for their subsequent loan request.

4. Canara bank should closely monitor the dynamics in borrower accounts under Enterpreneurial Development Scheme and accordingly respond to situation.

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