



LENDING PERFORMANCE OF CANARA BANKS IN DINDIGUL DISTRICT

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ABSTRACT

Lending is one of the two principal functions of commercial banks. It is not only because of their social service to cater to the credit needs of different sections of the community but also because lending is the most profitable activity, for the interest rates realized on business loans have always been well above those realized on investments. Having sterilized a portion of deposits in the cash reserve and highly liquid assets, which yield little or no earnings for the purpose of satisfying the liquidity requirements, a banker has to deploy the residual funds in profitable outlets so that the banker may be able to pay interest on deposits, salary to the staff, meet other establishment expenses, build up reserves and pay dividend to the shareholders. This is why bank loans account for a major portion of residual funds of a commercial bank. An examination of some of the important characteristics of bank loans would provide an insight into the lending activities of a Canara bank. In this paper an attempt is made to analyse the lending performance of Canara Banks in Dindigul district.

KEYWORDS : Lending, Agriculture sector, Allied sector, Other priority sector, Non-Farm sector

Introduction

The banking sector has passed through different phases in India. 1969 was the era of nationalisation when major banks of India were nationalised. In 1991 Indian economy became an open economy and Liberalisation, Privatisation and Globalisation (LPG) bring advancement and improved technological efficiency in the whole economy. LPG brings more competency and effectiveness in the Indian banking sector. Presently new and improved techniques are used and the same has entirely changed the functioning of Indian Banking Sector. Efficiency and profitability of the banking sector in India has assumed primal importance due to intense competition, greater customer demands and changing banking reforms. This study attempts to measure the relative performance of Canara bank in general and lending performance to small enterprises in particular.

Statement of the Problem

Lending is one of the two principal functions of commercial banks. It is not only because of their social service to cater to the credit needs of different sections of the community but also because lending is the most profitable activity, for the interest rates realized on business loans have always been well above those realized on investments. Having sterilized a portion of deposits in the cash reserve and highly liquid assets, which yield little or no earnings for the purpose of satisfying the liquidity requirements, a banker has to deploy the residual funds in profitable outlets so that the banker may be able to pay interest on deposits, salary to the staff, meet other establishment expenses, build up reserves and pay dividend to the shareholders. This is why bank loans account for a major portion of residual funds of a commercial bank. An examination of some of the important characteristics of bank loans would provide an insight into the lending activities of a Canara banks. In this paper an attempt is made to analyse the lending performance of Canara Banks in Dindigul district.

Objective of the Study

Following are the Objectives of the study

- To examine the sector wise lending performance of Canara Banks in Dindigul district
- To analyze the demand, 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.

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 2003-04 to 2012-13.

Statistical Tools

To analyse the data collected, the statistical tools namely trend co-efficient, compound annual growth rate and percentage analysis were used.

Loan Performance

Table 1 depicts the sector-wise loan sanctioned by Canara banks, average and stability of loans, computed values of trend and compound growth rate of loan in the district.

TABLE 1
SECTOR-WISE AMOUNT OF LOAN SANCTIONED BY CANARA BANK (Rs. in .000)

Year	Agriculture	Allied	NFS	OPS	Total
2003-04	64911	49406	355249	49463	519030
2004-05	70379	53602	389545	67638	581163
2005-06	91562	18025	484442	85899	679928
2006-07	133613	17476	534490	95135	780714
2007-08	165014	20561	645739	117731	949044
2008-09	207379	49925	784821	130412	1172538
2009-10	449240	45739	884022	154191	1533191
2010-11	567352	49205	1198252	164890	1979698
2011-12	687973	45670	1476124	232606	2442373
2012-13	857893	50999	1685452	285411	2879755
Total	3295316	400608	8438136	1383376	13517434
%age	24.38	2.96	62.42	10.23	100.00
Mean	329531.6	40060.8	843813.6	138337.6	1351743.4
SD	289198.07	14947.53	465237.5	74142.75	830691.83
CV	87.76	37.31	55.14	53.60	61.45
Sector	Trend Coefficient		R ²	Compound Growth Rate (%)	
	A	B			
Agriculture	6.351	-0.1824 (-0.524)	0.738	-2.684	
Allied	7.538	-0.0152(-0.825)	0.340	-2.449	
NFS	3.307	9.0431 (2.740)*	0.584	5.408	
OPS	3.518	4.0864(1.672)*	0.764	4.278	
Total	8.611	0.0697*(10.069)	0.861	8.518	

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

Figures in brackets represent t-values. * Significant at 5 per cent level

It is evident from the Table 1 that the annual credit plan for all sectors by the Canara Bank increased from Rs.5,19,030 lakhs in 2003-04 to Rs.28,79,755 lakhs in 2012-13. The share of non-farm (NFS) sector consistently increased from Rs.3,55,249 lakhs in 2003-04 to Rs.16,85,452 lakhs in 2012-13. The contribution towards other priority sector also increased from Rs.49,463 lakhs in 2003-04 to Rs.2,85,411 lakhs in 2012-13. The share of agriculture and allied sector showed a fluctuation trend from 2003-04 to 2012-13. Among the annual credit plan for all sectors by the Canara Banks, the non-farming sector tops the list with 62.42 per cent, followed by agriculture sector with 24.32 per cent, other priority sector with 10.23 per cent and allied sector least with 2.96 per cent.

It is found from the Table 1 that the loans sanctioned to non-farming sector were found higher, on an average, at Rs.8,43,813.6 lakhs compared to other sectors during the period under study. It was also found that there was less fluctuation in allied activity loans than other sector loans. The average amount of loan sanctioned worked out to Rs. 3,29,531.6 lakhs for agriculture sector, Rs.40,060.8 lakhs for allied sector loan, Rs.1,38,337.6 lakhs for other priority sector loans and Rs.13,51,743.4 lakhs for total during the 10 year period. The coefficient of variation of loan for agriculture sector, for allied sector, for non-farming sector and other priority sector was 87.76 per cent, 37.31 per cent, 55.14 per cent and 53.60 per cent respectively.

It is also seen from the Table 1 that the trend coefficients of only two sectors namely non-farming sector and other priority sector loan were found to be statistically significant at 5 per cent level and are positive. The higher growth rate was observed only in non-farming sector loan. The compound growth rates were -2.684 per cent, -2.449 per cent, 5.408 per cent and 4.278 per cent for agriculture sector, allied sector, non-farming sector and other priority sector respectively. R2 value shows that variations in time variable explain variations in dependent variable to the extent of 86 per cent.

Finance to Agriculture Sector

Table 2 depicts the details of demand, recovery and Overdue position of agriculture sector during the period of 2003-04 to 2012-13 in Dindigul district.

**TABLE 2
DEMAND, RECOVERY AND OVERDUE POSITION OF
LEAD BANK FINANCE TO AGRICULTURE SECTOR
(Rs. In '000)**

Year	Demand	Recovery	Overdue	Percentage of Recovery	Percentage of Overdue
2003-04	873109	534282	338827	61.19	38.81
2004-05	1407295	1004182	403114	71.36	28.64
2005-06	1150899	780554	370346	67.82	32.18
2006-07	1136097	771930	364168	67.95	32.05
2007-08	2016677	1752695	263982	86.91	13.09
2008-09	2355649	1996248	359401	84.74	15.26
2009-10	1432483	1231109	201374	85.94	14.06
2010-11	1507737	1275906	231832	84.62	15.38
2011-12	1622374	1300659	321716	80.17	19.83
2012-13	1692537	1383488	309050	81.74	18.26
Total	15194862	12031053	3163809	79.18	20.82
CAG	33.06	36.54	25.03		

Source: Canara Banks Office Records

It is found from table 2 that the loan demand increased from Rs.8,73,109 thousands in the year 2003-04 to Rs.14,07,295 thousands in the year 2011-12. In the next two years there was decline in loan amount demanded. The loan demand increased during 2007-08 and 2008-09. Thereafter there was less fluctuation in the amount of loan demanded. The same trend was seen in the amount of loan recovered. The percentage of loan recovery was high (86.91%) during 2007-08, followed by 2009-10, 2008-09 and 2010-11 by 85.94 per

cent, 84.74 per cent and 84.62 per cent respectively. It is also understood from the table that the percentage of overdue in the agriculture sector was high with 38.81 per cent in the year 2003-04 and showed a trend of percentage loan overdue on loan demanded between 13.09 per cent and 38.81 per cent. Percentage loan overdue was very less during 2007-08. It shows the recovery performance was very good during the period.

Finance to Non Farm Sector

The following Table 3 shows the demand, recovery and overdue position of the non-farming sector during the period of 2003-04 to 2012-13 in Dindigul district.

**TABLE 3
DEMAND, RECOVERY AND OVERDUE POSITION TO NON
FARM SECTOR (Rs. in '000)**

Year	Demand	Recovery	Overdue	Percentage of Recovery	Percentage of Overdue
2003-04	1236612	794683	441929	64.26	35.74
2004-05	1729717	958474	771243	55.41	44.59
2005-06	1445563	942173	503390	65.18	34.82
2006-07	1227447	821109	406337	66.90	33.10
2007-08	1378225	922953	455272	66.97	33.03
2008-09	1106565	790495	316070	71.44	28.56
2009-10	1321414	989356	332058	74.87	25.13
2010-11	1474262	1137735	336527	77.17	22.83
2011-12	1581831	1185388	396443	74.94	25.06
2012-13	1666877	1347640	319237	80.85	19.15
Total	14168512	9890007	4278506	69.80	30.20
CAG	27.62	28.68	25.49		

Source: Canara Banks Office Records

It is found from the Table 3 that the loan demand increased from Rs.12,36,612 thousands in the year 2003-04 to Rs.17,29,717 thousands in the year 2004-05. In the next two years there was decline in the loan amount demanded. The loan demand increased year by year expected during 2008-09. The same trend was seen in the amount of loan recovered. The percentage of loan recovery was high (80.85%) during 2012-13, followed by 2010-11 (77.17%). During 2004-05 the recovery performance was poor in this sector. It is also understood from the table that the percentage of overdue was high with 44.59 per cent in the year 2004-05 and showed a trend of percentage loan overdue on loan demanded between 19.15 per cent and 44.59 per cent. Percentage loan overdue was very less during 2012-13 and 2010-11. It shows the good recovery performance during the period.

Finance to Other Priority Sector

The following Table 4 shows the demand, recovery and overdue position of the Other Priority Sector during the period of 2003-04 to 2012-13 in Dindigul district.

**TABLE 4
DEMAND, RECOVERY AND OVERDUE POSITION TO OTHER
PRIORITY SECTOR (Rs. in '000)**

Year	Demand	Recovery	Overdue	Percentage of Recovery	Percentage of Overdue
2003-04	819905	707063	112841	86.24	13.76
2004-05	468202	378779	89423	80.90	19.10
2005-06	1369788	1230373	139415	89.82	10.18
2006-07	1467573	1277571	190001	87.05	12.95
2007-08	1696764	1353027	343737	79.74	20.26
2008-09	643281	507251	136030	78.85	21.15
2009-10	660957	525054	135903	79.44	20.56
2010-11	719044	597049	121994	83.03	16.97
2011-12	798425	672709	125716	84.25	15.75
2012-13	881483	699209	182274	79.32	20.68
Total	9525421	7948085	1577336	83.44	16.56
CAG	27.79	27.37	30.18		

Source: Canara Banks Office Records

It is found from the Table 4 that the loan demand decreased from Rs. 819905 thousands in the year 2003-04 to Rs.468202 thousands in the year 2004-05. In the next three years it increased upto Rs.1696764. Thereafter there was a fluctuation in loan amount demanded. The same trend was seen in the amount of loan recovered. The percentage loan recovery was high (84.25%) during 2011-12, followed by 2010-11 (83.03%). During 2004-05 the recovery performance was poor in this sector. It is also understood from the table that the percentage of overdue was high with 21.15 per cent in the year 2008-09, and showed a trend of percentage loan overdue on loan demanded between 10.18 per cent and 21.15 per cent. Percentage loan overdue was very less during 2005-06 and 2006-07. It shows the good recovery performance in this sector loans during the period.

Suggestions

Rapid growth is necessary for substantial poverty reduction, but for this growth to be sustainable, but for this growth to be sustainable in the long run, it should be broad-based across sectors.

Since majority of the population depending on agriculture sector for their livelihood, thrust should be given to agriculture sector.

Within the increasing competition, introduction of new products and stringent regulatory environment, the role of banks needs to change from mere lenders to partners in business.

A section of bank staff should be given special training on handling small entrepreneur's portfolio. This would help the bank give special attention to all sectors according to their needs. A specially trained staff could sense the constraints involved in lending to all sectors and enrich their services.

Conclusion

Even in the context of hectic competition in the banking arena, Canara banks continue to be the preferred source of finance for vital sectors in Dindigul district. When suitable measures are taken to address the woes of all sectors, it will fetch the prosperity in Dindigul district. If the roadblocks in highways of bank finance to vital sectors are removed, small entrepreneurs will have smooth ride in otherwise bumpy highways.

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