

Andhra Pradesh State Finance Corporation (APSFC): A Turnaround Story

Nandita Sethi*

“If Energy becomes Synergy, Intrapreneurship becomes Entrepreneurship, Initiative becomes Innovation and Insight becomes Foresight, I am sure, the Corporation will set higher targets, move faster, become stronger and smarter in the future.”

M Gopalakrishna

Introduction

In 2001, Sri. M.Gopal Krishna, IAS (Retd), founder-Managing Director of Godavari Fertilizers, former Special Chief Secretary, Government of Andhra Pradesh (AP) and former Chairman of Rural Electrification Corporation and Scope, received a call from a senior officer in Small Industries Development Bank of India (SIDBI) seeking his consent to nominate him as a non-executive Chairman of AP State Finance Corporation (APSFC). Wanting to keep the official protocol he asked the officer whether the State Government was consulted in the matter. The officer at SIDBI said he would consult the State Government after taking his consent to take charge if nominated. Some enquires about the details of APSFC revealed to him that the organization was in doldrums and slated for closure. While he was still pondering over the tough task ahead the Chief Minister (CM) of AP sent for him and asked him what his plan of action would be to turnaround the Corporation. He told him that at least 2 years and an assurance of support from Government would be required to put the Corporation back on the right track. The CM said that he expected him as a senior officer with industrial and public sector experience to bring about the turnaround more expeditiously. Sri. M. Gopal Krishna consented to take up the assignment and the challenge and took charge as Chairman on 5th February 2002¹.

* Nandita Sethi, Senior Faculty, Institute of Public Enterprise, Hyderabad,

Email: nanditasethi@ipeindia.org

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He soon realized that the organization was a professional outfit that had already been toned up to a large extent by the then MD, Dr J C Mohanty. His task would mainly be one of morale building and motivation to tune the organization to the priorities, current realities and customer relationships. The corporation, which was slated for closure by the government, had a loan portfolio of Rs 1,100 crore and had incurred a loss of Rs 13.13 crore in 2001-02. A quick SWOT study and Gap Analysis revealed that it was possible to improve both the bottom line and the top line with the co-operation of the employees and the constitution of a professional Board. The Board was reconstituted and it began to lay down in right earnest, the priorities and tenets of good governance. Capital adequacy was poor and had to be improved, but government was not willing to bite the bullet and infuse the requisite capital as they had decided for its sale or closure. There was only one line of credit from SIDBI. New credit channels would have to be opened. Deposit mobilization was at low key. There was however scope for additional deposit collection. The interest burden on high cost SLR Bonds was crippling the organization. The cost of funds was high. Interest spreads were very low. Customer relations required both toning and tuning. Increase in sanctions and disbursements and better realizations could alone keep a check on Non Performing Assets (NPAs). Increasing collections and reducing NPAs was important. The One Time Settlement scheme had to be vigorously canvassed. In short, the Corporation had to gear itself in double quick time.

In 2002-03 the APSFC made a turnaround and posted a net profit of Rs 2.36 crore after a lapse of 9 years².

Background

With the dawn of independence, India set before itself the objective of fostering entrepreneurship and creation of employment through the promotion and development of large and small-scale industries. The Industrial Finance Corporation of India (IFCI) was set up

¹APSFC Golden Jubilee Year 2005-06 Souvenir, "Some Reflections on APSFC", by M. Gopalakrishna.

² www.apsfc.com – Golden Jubilee year (2005-06)

in 1948 to provide financial assistance to large industry. The State Financial Corporations Act, 1951 paved the way for establishment of State Financial Corporations (SFCs) to support SMEs in the respective states. Andhra Pradesh (AP) State was formed on 1st November 1956. The AP Legislative Assembly and the AP High Court were also constituted. On the same day, the APSFC came into existence under the provisions of the State Financial Corporations Act, 1951 with the amalgamation of the erstwhile Andhra State Financial Corporation and Hyderabad State Financial Corporation with the mandate to promote and develop small and medium industries in AP. The corporation has since then launched many entrepreneur-friendly schemes to provide term loans, working capital term loans, special and seed capital assistance to suit the needs of various categories of entrepreneurs. The Corporation has completed five and half decades of dedicated service in industrial financing of tiny, small and medium scale sector units and contributed to the balanced regional development of the state. Traditionally, the corporation's main role was to lend money for establishing a unit or a factory. Now it is supporting the working capital requirements too, of the small-scale sector.

APSFC started with an authorized Capital of Rs 4.00 crores and a paid-up equity capital of Rs.1.50 crores in 1956 on the day of the merger. The present position - capital structure and ownership pattern, loans sanctioned, disbursed, and recovered, people employed etc, are shown in Exhibit 01. The feature of the shares of the APSFC is that there are guaranteed by the State Government under Section 6 of the Act for the repayment of principal and payment of annual dividend at such minimum rate as the State Government may fix with the approval of the Central Government³.

The Corporation with its Head office at Hyderabad in 1956 had only one Branch at Vijayawada. During 1972-73, the Corporation opened two branches at Visakhapatnam and Tirupathi. In 1975-76, the Corporation opened 6 one man Offices in 6 districts. It now has a network of 25 Branches covering all the 23 districts of AP and one extra Branch each in Rangareddy and Medak Districts. The presence of the branch office in each district has been found to be very useful especially by tiny, small-scale and medium entrepreneurs, as branch

³ *APSFC Annual Reports*

managers are empowered to sanction and disburse term loans to a certain limit. The Corporation introduced computerization in 1980-81 and all the branches are computerized and connected. A customized software seamlessly provides good service and has reduced lead times.

APSFC generally gives term loan assistance up to Rs. 8 crores for sole proprietary and partnership firms and upto Rs. 20 crores to limited companies and co-operative societies (as on 31st March 2012). APSFC currently operates several innovative schemes to cater to various industrial and market segments. It has special schemes for Women Entrepreneurs and Self Help Groups under the DW CRA programme, for export-oriented units and for first generation entrepreneurs. The Corporation has given priority to the sectors of the state economy, which have good growth prospects; competitive advantage and can create employment and beneficial multiplier effect. In 1979-80, the Corporation became the lead State Financial Corporation in the country with the highest sanctions, disbursements and recoveries. By its 50th year (2006) APSFC had successfully promoted small and medium industries and enabled over Rs 12,500 crore of capital investments in the State through more than 85,000 industrial units. Among the distinguished clients of APSFC are Dr Reddy's Laboratories and Satyam Computers who have emerged as global players. Currently, APSFC has a market share of around 50 per cent in terms of lending despite the heavy competition from commercial banks and non-banking financial institutions. The Corporation was a continuously profit making public sector organization for 37 years from 1956-57 to 1992-93. The profit of Rs. 4.32 lakhs in the maiden year 1956-57 went up to Rs. 102.24 lakhs in 1976-77 and Rs. 546.90 lakhs by the end of 1985-86. Some of the Landmark and Milestone achievements of APSFC are listed in the Appendix - Exhibits 1 and 2

The Crisis

The Indian economy has witnessed significant transformation after institution of economic and financial sector reforms in the early 1990s, which triggered the interest rate de-regulation and removal of entry barriers and increased the competition significantly among the financial institutions. Banks have made rapid inroads into the term lending activity, which was earlier considered as the forte and core function of the financial institutions.

Efficiency and profitability have, as a result, become critical objectives of banks and financial institutions. The most affected lot among all the financial institutions were the State Level financial institutions and APSFC was no exception. In the wake of economic reforms, provisioning norms were introduced effective from 1993-94. The Corporation was required to provide Rs.105.22 crores towards provisioning as on 31.03.1994, i.e., a huge provision for non-performing assets in the books of account, and APSFC, which had a consistent record of earning net profits since inception till 1992-93, suffered losses from FY 1993-94 onwards till 2001-02. APSFC slipped into the red, though it did continue to earn operating profits. It had a loan portfolio of Rs 1,100 crore and had incurred a loss of Rs 13.13 crore in 2001-02. It took time for the Corporation to recover from the setback as the State Government in the meantime had stopped equity support amidst the talk of privatization and closure of public sector enterprises. There was only one line of credit from SIDBI. The big challenge therefore was to have a high capital adequacy ratio, low non-performing assets (NPAs) and new channels of credit.

The Turnaround Strategy

In a privatized environment survival was tough, and it was realized that APSFC needed to transform into a performing organization and the only way to compete for the future was to achieve quick results; provide value to the customers and stakeholders; deliver services on time; and create trust in the market.

A Plan of Action was drawn up for a turnaround. With the amendments of SFCs Act in 2000, a new board with professionals was constituted with the support of the Government during the 57th Board Meeting (held on 30-10-2000). Under the stewardship of the new chairman Sri. M. Gopalakrishna, who was known for implementation of turnaround strategy management for the revival of public sector undertakings, a revised strategy comprising good governance policies and best practices, was put into effect for restructuring the APSFC. The Board of APSFC was again reconstituted in February 2003 when non-executive independent professional directors, who have special knowledge of Banking and Industrial Development, were inducted. The Board ensured that canons of good corporate governance like trust, truth, transparency and accountability were followed while taking decisions so as

to inspire confidence in the stakeholders, customers, creditors and regulatory authorities. It laid down the policies, directed and guided the Corporation in strategic decision making besides overseeing the adherence to the regulatory and legal requirements in accordance with the SFCs Act. The scope for political interference was also minimized. It also introduced several voluntary good practices and the citizen's charter aimed at enhancing the brand value and image of the Corporation.

Re-capitalization, restructuring and process re-engineering, and renewal of the organizational ethos were an essential and continuous exercise for a turnaround. APSFC had to create a new image of the Corporation and build trust with the customers. A high capital adequacy ratio and low non-performing assets (NPAs) were required to first bring the organization back to profits. Then it had to diversify into other related areas to increase earnings. It had to provide all facilities under one roof and make the Corporation a "One Stop Shop". Employee productivity had to be increased. A bigger market-share had to be achieved in the term finance market. Strong positioning was required in the growing sectors of industry and economy. Indeed a long list of things had to be done.

APSFC went about setting its goals, which centered round the following:

(i) Financial restructuring and re-engineering. It had to secure more equally improved capital adequacy, source low cost funds and improve the interest spread and reduce the non-performing assets,

(ii) Operational Efficiency. Increase employee productivity, extend networking, enhance customer satisfaction and provide a range of services to its customers making the Corporation a "One Stop Shop".

(I) Financial Restructuring:

Capital adequacy:

To start off, the internal financial structure needed overhauling. Following the G.P. Gupta Committee recommendation on SFCs it had been made clear that there is a need for some

organizational support to push through their progress. One of the suggestions was with regard to one time restructure package through the infusion of about Rs 3,600 crore for all the 18 SFCs in the country. This was to be supported with 50 per cent from the Union Government and the RBI, 25 per cent from the State Government and 25 per cent from IDBI/SIDBI. However, it had been made clear that the NPAs would have to be slashed. The committee had identified APSFC as having the potential to scale up with an estimated recapitalisation amount of Rs 190 crore in three years. This had to be taken up after achieving certain clear milestones. The corporation had entrusted a study to consultants A.F. Ferguson & Co for administrative restructuring.

A thorough debate took place with regard to infusing of capital as recommended by Gupta Committee to improve financial health of the Corporation. It was however felt, that this was a time taking process and the corporation cannot afford to lose time directing its energies pursuing this aspect. The management of the financial corporation simultaneously worked out on the level of operations that can turn around the organization and the internal efficiencies. A decision was taken by the management to achieve sanction and disbursement levels of Rs.400 and Rs.300 crores respectively for 3 to 4 consecutive years, while increasing recoveries substantially every year. A number of measures were taken up to improve the operational efficiency (discussed under Operational Efficiency).

The Government of AP, which had stopped funding the APSFC, again started infusing equity every year from 2003-04. It agreed to infuse Rs 6 crore into the existing Rs 87 crore equity of APSFC during that fiscal year and to stand guarantee for all the loans of the corporation. It started with a modest 2.00 crores during the year 2003-04 and Rs. 2.50 crores during the year 2004-05. IDBI's loan of Rs 13 crore would also be converted into the equity of the corporation. However, it had been made clear that the NPAs would have to be slashed. The Government of AP also declared the APSFC as an eligible institution for accepting fixed deposit scheme from government departments.

Source low cost funds and increasing the interest spread:

The Corporation, in concurrence with AP Government, had entered into a tripartite memorandum of understanding (MoU) with the Small Industries Development Bank of India (SIDBI) in November 2003. It was among the first list of State Finance Corporations to sign tripartite MoU with SIDBI and avail interest relief package. Under the MoU, SIDBI had reduced the lending rates on the refinance loans borrowed by APSFC by 2 per cent and also restructured the corporation loans up to 10 years. This helped it to reduce borrowing cost, improve capital efficiency and overall profitability. The corporation's cost of funds now decreased to 10.5 per cent from 12-13 per cent earlier. Accordingly, the average interest charged by the corporation had also declined to just over 11 per cent from 14 per cent. It also pre-redeemed high cost SLR Bonds aggregating Rs. 269 crore during 2002-03 to 2005-06 and saved substantial interest cost.

APSFC was selected among the commercial banks and SFCs for operating the Rs 10,000-crore Small and Medium Enterprises Fund. The strategy was to derisk the operations by identifying the high growth areas and diversify portfolios. Studying the market and identifying the areas that have potential the corporation had decided to focus on financing industries pertaining to drugs and pharmaceuticals, agro processing, exports, tourism, infrastructure, hospitals, construction and biotechnology. About 300 industrial units financed by APSFC have gone out of its fold as they have developed into major industries. APSFC crossed its targets in all three areas of Sanctions, Disbursement and Recovery in 2001-02 and by 2003-04 it had attained a lead position among all SFCs in the country by sanctioning loans worth Rs 431 crore, disbursing Rs 283 crore and recovering dues to the tune of Rs 451 crore. (see Exhibit 02). The non-performing assets also had been brought down from the 65 per cent in 1999-2000 to 22 percent in 2004-05 with total quantum standing at Rs. 280 crores. The Corporation had also embarked upon an ambitious mission of reducing its non-performing assets (NPAs) to below 10 per cent by the end of fiscal 2006-07 from the existing 22 per cent (Rs 294 crore). It was now starting to diversify into other areas like insurance.

In March 2004, it was notified by the Government of AP that APSFC was an eligible institution to accept fixed deposits of the Government/Government Agencies /Public Sector

undertaking. Earlier the Government had notified some of the nationalised and scheduled banks as eligible institutions to accept deposits from Government departments. This was expected to help the APSFC to finance a larger number of industrial units in the State and thereby increase employment generation also.

Reduce Non-performing Assets:

The top management of the corporation also impressed upon the staff that it was a myth to focus on recovery only for turning around, simultaneous building up of standard portfolio is also equally important to combat NPA menace and enhance financial viability of the corporation.

The corporation endeavored to achieve a turnaround and earn a net profit through a breakthrough strategy of building up a qualitative loan portfolio with proper risk management, by setting the nonperforming loan accounts in the time bound programme and opening up new lines of activity and other income. It had spread its risk by having a varied portfolio to cushion against downturn in any specific segment. The projects being financed were subjected to detailed scrutiny with increased focus on risk assessment.

All the new loans were adequately secured by properly valued saleable immovable properties commensurate with the associated risk. A large percentage of new sanctions were availed by clients recognized as good or senior entrepreneurs with proven repayment track record. Effective monitoring and constant persuasion carefully negotiated one-time settlements as per approved guidelines and timely sale of the assets of the seized units and field level supervision contributed to the increase in standard and substandard assets and the reduction of doubtful and loss category assets. The corporation realigned its priorities, evolved new policies and strategies and showed its inherent resilience in the difficult times and started earning net profits from financial year 2002-03 after making required provision for NPAs. The profit earning record (see Table-4) has been continuing since then with significant growth rates year after year.

On recovery front, it was felt that unlocking wealth in doubtful and loss category assets is the key to improve the revenue and thereby the bottom-line of the Corporation. "We have also launched a one-time settlement (OTS) scheme to close accounts listed as non-

performing assets (NPA)," said Shri Gopalakrishna. Though the Corporation can exercise punitive measures under SFC Act and APRR Act, the Management decided that the better way would be to encourage the entrepreneurs who suffered genuinely by giving them a "One time settlements" so that the process of recovery from the above areas would be very smooth. Therefore, an OTS policy was devised with various permutations and combinations keeping in view the different situations. The rules were formulated in a transparent manner so that both the customers and employees are very clear about the modality leaving no scope for ambiguity. To bring a thrust for closure of these accounts, OTS campaigns were organized at various places and spot decisions were taken on settlement of these issues after taking concurrence from the Board. In order to strengthen the monitoring system, area wise recovery registers were introduced with specific emphasis on monitoring the steps being taken of the loss category assets.

Alternate sources of income:

In a bid to improve its other income streams for higher business volumes and profitability, APSFC decided on a strategy of better deployment of its human capital. It secured the Corporate Agency from IRDA to market the insurance products of IFFCO Tokio General Insurance Company Ltd (ITGI) and LIC of India. It entered into an alliance with ITGI on 10th May 2005 to become its licensed corporate agent for selling non-life insurance products. The MoU provides a blue print for the common efforts of the two organizations to provide high quality insurance services to the small and medium enterprises (SME) in the State. The APSFC Chairman said if all their borrowers obtain insurance cover from them, then the Corporation could record a premium income in the range of Rs 3 crore per year, although all the borrowers were not bound to take the insurance cover only from the lender. APSFC also secured Agency from Stock-holding Corporation to sell Government of India Relief Bonds. The Corporation also got empanelled by the Asset Reconstruction Company of India Limited (ARCIL) as a Portfolio Resolution Agency, to offer a range of services to ARCIL from taking over the possession of its stressed assets to their final sale.

In order to ensure integrated and speedy flow of credit to industrial customers, bigger industrial concerns, and provide easy facility of working capital to all the existing industrialists and new entrepreneurs in the state, APSFC took initiative for collaborating

with giant Commercial Banks in joint financing/co-financing the projects in SME, and infrastructure development sectors. It signed MoUs with Andhra Bank and State Bank of Hyderabad in December 2005, with Bank of India in January 2006 and with Canara Bank in November 2006. These alliances being forged by the corporation with commercial banks ensured an integrated package of financial requirements of industrial concerns such as term loans and working capital, both fund-based and non-fund-based limits, under the one-stop shop concept. The industrial customers had the benefit of joint appraisal for both term loan and working capital finance under a single window concept, ensuring timely, speedy, flexible and adequate flow of credit. It also enabled both organizations to share risk and target larger projects.

(II) The Operational Efficiency

1. Human Factor:

While it was realized that re-capitalization, restructuring and process re-engineering and renewal of the organizational ethos was an essential and continuous exercise for a turnaround, the hidden strength of the APSFC was its qualified manpower and their professionalism. It was understood that the support and cooperation of each and every employee was required for the turnaround.

Leaner and focused organization:

The first step was to take the people into confidence and apprise them of the fundamentals of the Corporation and make them aware of the bad health of the organization. This helped in making them understand their responsibilities. Every employee was asked to focus on certain areas and made part in-charge of the turnaround. This resulted in working out a business plan for the five-year period 2000-01 to 2004-05. The corporate plan was available to all employees. The Corporation then attuned itself to the 2K mode and made a 'de novo' attempt to effectively turn around the Corporation with a series of well-coordinated steps with sharp focus, teamwork, networking and better customer relationships. The organization was made lean with the VRS scheme and the staff strength dropped from 730 to 523. In fact under the VRS umbrella incompetence was weeded out and employee productivity increased. The Corporation had employees with great professional background

coupled with their knowledge of industries and entrepreneurs and their determined efforts towards a turnaround (see Appendix Exhibit-3). They only needed to practice better customer relationship, induce more motivation and secure clarity about the goal, role and route to achieve the revised objectives. Every employee was taken into confidence through several one on one meetings and their morale boosted. Senior retired people of APSFC were also called in to share their experiences and vision. All this developed a feeling of ownership among the employees

Training and Team building:

The team building efforts of the Corporation were strong. The management sets out quantified targets for its team, and everyone knew what was expected of them. They were clearly told that growth is a clearly defined process, which comes with achieving set objectives. This showed up in the way the amount of sanctions and disbursements had registered a good growth (Exhibit 02). Teams were clearly aware that no financial business is complete without recovery of the money that has been lent out. The efforts paid off when several teams of the corporation went after every rupee that was due to the corporation and therefore it could substantially improve income. Every member of the team was trained to handle multiple tasks as a part of the job portfolio. With encouragement and empowerment, its staff began to shoulder more responsibilities. The result followed soon after that with more productivity recorded and appreciable growth, reflecting the enhanced confidence among its employees.

In order to trigger healthy competition among the branches, awards were introduced for the branches and employees for best performance and this helped in improving the overall performance of the organization. The performance indicators were fixed keeping in such a way that the employees work objectives aligned with the objectives of the Corporation. Training was another area, which was earlier perceived as a “cost” rather than “investment”. The Management believed in the contrary. The top management was informed that employees were not sent for training in the preceding 10-years. The management introduced training to enhance productivity and efficiency of the employees. Executive development programmes for all the employees were arranged at RCEUS, Osmania University and around 300 employees were sent for upgrading the skills. The

APSFC also introduced an objective evaluation system to evaluate the performance of the employees on a continuous basis to improve productivity. Training was identified as one of the critical inputs for upgrading skills, and imbibing modern business practices

Customer relationship

The top management of the corporation impressed upon the staff that to build a standard portfolio it is important to combat NPA menace and enhance financial viability of the corporation, which required attaining a certain level of operational efficiency. To diversify portfolios and achieve business volumes, customer relationships had to improve. A cultural change had to be brought about in the way business was being conducted. To bring about customer friendliness, the corporation started going to the doorstep of the customers instead of the customers coming to them. Customer relationship management became an important aspect of the turnaround. The customer interactions became more frequent and the Corporation started following the private sector mantra of "Customer is the King." To establish a cordial relationship with the customers and reinforce the fact that "we mean business", a decision was made to remove the concept of visiting hours and became more accessible to the customers from day one. The Top Level Management made it clear that any customers can meet officials within 5-10 minutes of his arrival in corporation office if top management was not busy in a meeting. Their problems were taken up and analyzed very quickly on a one to one basis by the Top Management, which tried to provide genuine solutions. By this they were able to develop the confidence that in APSFC the customers could feel at home and get their work done. It had become an unsaid rule at APSFC that it should "not merely lend, but comprehend and tend"

APSFC developed its own breed of 'Intrapreneurship' to innovate and to experiment. Encouraging entrepreneurship was its genetic disposition. Perceiving opportunities and helping entrepreneurs to seize them was second nature. Playing the role of a coach, mentor and catalyst with consummate ease and grace, it guided many first generation entrepreneurs to achieve success in their first forays. To maintain long-term customer relationships, it categorized its customers as 'Good', 'Senior Successful' and 'Super Entrepreneurs' based on their track record and offered special concessions. As a result of its

thoughtful and customer-oriented schemes, APSFC started becoming a truly investor-friendly financier.

Gaps in knowledge, talent, strategy, performance, credibility and leadership had to be filled. Very soon, training activities were intensified. Several Executive Development programmes were conducted. In order to improve the volumes of business, the corporation has been conducting the 1-Day Entrepreneurs Awareness Seminar (**IDEAS**) in all-important towns in the state to mobilize and advise entrepreneurs on the prospects for industry in different districts and in rural areas since 1998. *IDEAS* now took a new turn. Instead of customers coming to the Corporation, the Corporation went to the customers. It brought certain improvements in the method and introduced "Spot Sanctions" wherever possible, besides making it a point to take suggestions from the customers to re-orient the policies and procedures of the Corporation.

Apart from the above, it was also felt that there is a need to get customer's feed back directly to improve the efficiency and therefore a questionnaire was devised and sent to the customers with a pre-paid postage to find out whether the corporation's efforts resulted in substantial improvement in customer satisfaction. The whole strategy was built on customer-centric growth and employee-centric change. APSFC issued a **Citizen's Charter** prescribing time limits for clearance of applications and for redressal of grievances anticipating the needs of our clients. The feedback culminated in simplification of sanction, disbursement and legal procedures. The *IDEAS* programme is now being emulated by other SFCs and Banks. This pioneering role continues in all its activities and has resulted in focused customer orientation. APSFC had an uncanny knack of picking up and honouring entrepreneurs with promise by giving **Parishramika Vijetha** Awards. Its 'forte' has been the development of entrepreneurship in AP, which has now become the prime mover of economic growth and definer of a golden future.

Improvement in sales procedure:

It was observed that huge expenditure was being incurred to advertise the unit again and again. After thorough discussions involving its Standing Counsel, the management could find

a way out by keeping the validity of advertisement up to 90 days. This resulted in getting better offers and reduction in advertisement costs.

Leadership styles:

The Corporation was able to galvanise and harmonise the dynamic leadership of the Managing Directors with the enthusiastic and dedicated efforts of the employees to bring about a remarkable turn-around. "We have learnt the secret. We must do our homework, put in hard work, smart work, teamwork and above all, network." (Shri N. Gopalkrishna)

Dr J C Mohanty, IAS, Managing Director (MD)(Feb. 1999 to Dec. 2002) prepared the turn-around plan and drove the Corporation to reduce NPAs and increase sanctions. He received the "Manager of the Year Award" from Hyderabad Management Association. Sri Ratan P. Watal, IAS, MD (Dec. 2002-Mar. 2005) worked assiduously to sign an MoU with SIDBI and Government of AP in November, 2003 which secured interest concessions and resource support. Sri Ajeya Kallam, IAS, MD (in April 2005) took up the challenge of recapitalization, restructuring and business process re-engineering with focus on increasing productivity and profitability, competence building and customer relationship management to become competitive through service with a smile. Thereafter Sri A. Giridhar, IAS, MD and Sri Vikas Raj, IAS, MD under the Chairmanship of Sri J. Rambabu have taken the organization to greater heights. Thus it was the dynamic leadership of Chairman and MDs who with their enthusiasm and the dedicated efforts of the employees, could synergize their existing resources and create new ones to bring about a remarkable turnaround.

2. Technology Factor**Commitment to Quality Standards:**

The Corporation is the first State Level Public Enterprise (SLPE) that recognized the Quality Management System (QMS) as the key factor for sustenance and growth in the competitive market scenario in the term lending business. Realizing this vital aspect, the Government of AP had taken a policy decision in 1999, and the corporation has decided to go for the ISO certification to face the competition effectively and to strive for business development. Due to the systematic approach of the Management and dedicated efforts of the Officers, the

Corporation secured in March 2001, the ISO 9002: 1994 Certificate for the entire activities of the Corporation being performed through all its offices situated in the state.

This helped in internalizing systems and bringing about uniformity across all layers and upgradation of the activities of the corporation. The certificate was thereafter upgraded to 9001-2000 within one year. This step made the systems to work effectively as all the critical parameters were documented, measured and monitored to bring improvements in the business process from time to time. Consequent to the implementation of the QMS in the corporation, a customer feedback was taken and some clearly identified gains to the corporation vis-à-vis to the customer emerged.

The lead time to accord sanctions for Head Office proposals was reduced from an average of 60 days to only 37 days and for Branch sanctions from 39 days to only 15 days. Similarly, the legal formalities for disbursement of loans to the customers were now completed within one week from an earlier three weeks time. Handling of customer enquiries became faster compared to the previous times and most inquiries were handled within two days and the customer was informed accordingly. Responsibilities and authorities at various levels had been clearly defined without any room for ambiguity. The validity and relevance of the External Documents was reviewed and made available to all to concede for implementation. Decisions of the contract review were informed to the customers promptly and records of contract reviews at various stages were made available. The lists of sub-contractors was now maintained meticulously and the purchase process was made very objective with the quality of the purchased products and services being thoroughly verified before acceptance, as records were available. Vendor Evaluation of suppliers and service providers was being done as per the defined parameters resulting in purchase orders being placed only with the standard and reputed suppliers. There had been an overall improvement in documentation and in its uniformity and maintenance. APSFC had thus become the standard-bearer and path-setter for promotion of the Quality movement among small and medium industries in AP. It also provided interest concession for ISO certified clients.

Online Operations

The Corporation introduced computerization in 1980-81 and the initiative has paid good returns. Today, all the Branches are computerized and connected through dedicated 64 Kpbs lines. A customized software seamlessly provides good service and has reduced lead times. Computerization of the business processes at that time actually gave them a cutting edge. Therefore, the management initiated action for online computerization of the Branches and development of comprehensive software integrating all functions of the Corporation from receipt of application till the closure of loan account. APSFC believes that creation of knowledge must lead to its fast dissemination and more importantly, its faster application. All its records and accounts are computerized leading to faster sanctions, disbursements and recoveries. A massive programme of training had made all the staff not only computer literate but computer savvy. APSFC gladly shared its experience and encouraged sister SFCs in the matter of standardization of systems, methods and good practices. It provided a special computer package for financial services and accounting to the Afro-Asian Games held in Hyderabad in 2003, which was widely appreciated as an example of professionalism and corporate social responsibility.

3. Administrative Restructuring

Another important step the management thought was restructuring the Organization to reduce the overall administrative and personnel expenses. It was observed by the management that the Zonal Offices, which were working at different places, were not effective and were not able to give any value addition to the branches working under their control operating from those places. Therefore a study to restructure the organization was instituted. Taking into account the recommendations of the study and also after discussing with the senior management and also the direction from the Board, the management decided to close the Zonal Offices. Operational Zones were created at Head Office by reorganizing the Zones based on the business potential. This not only resulted in elimination of unnecessary administrative cost but also reduction in lead-time. It was also felt that the number of employees was relatively very high vis-a-vis the business that is being transacted by the Corporation. Therefore a VRS was introduced for less productive employees and the staff strength reduced. The more conspicuous is the reduction of sub-staff, which accounts

for 50 percent. As a result, the corporation saved an amount of Rs.17 crores in personnel and administrative expenses and productivity had increased significantly. There was also a reduction in the establishment cost to interest income by 5 per cent.

4. Project evaluation

The projects now being financed are subjected to detailed scrutiny with increased focus on risk assessment. All the new loans are adequately secured by properly valued saleable immovable properties commensurate with the associated risk. A large percentage of new sanctions is availed by clients recognized as good or senior entrepreneurs with proven repayment track record. Effective monitoring and constant persuasion, carefully negotiated one-time settlements as per approved guidelines and timely sale of the assets of the seized units, and field level supervision contributed to the increase in standard and substandard assets and the reduction of doubtful and loss category assets. Because of the APSFC persisting with its efforts to seek good quality assets and lend to entrepreneurs with viable business proposals a strong signal has been sent out that the corporation will not let its assets get downgraded. Seen positively, entrepreneurs have also welcomed the approach.

Results:

The results after the business and operational re-engineering were evident.

i) Reduction in cost of borrowings and better management of funds: APSFC, with better financial management, has redeemed a sum of Rs.53.77 crores of high cost borrowings out of internal generations in the last 4 years and brought down the cost of funds from around 12.63% to 10.73%. The benefit of reduced interest rates was also passed on to the entrepreneurs.

ii) Improved Asset Quality - NPAs contained: All the above steps have contributed to an increase in standard assets of 167% from Rs.256 crores in 1995-1996 to Rs.686 crores in 2002-2003. With constant monitoring and through better management, APSFC brought down the gross NPAs from 62% in 1995-1996 to 38% in 2002-2003. The net NPAs were brought down from 55% to 27% in the same period.

iii) Reduction in processing time: The introduction of QMS resulted in remarkable reduction of average processing time from 32 to 25 days for larger volume loans, while the process

time was reduced by 50% from 9 days and 4 days to 5 days and 2 days for the loans sanctioned to the Zonal level and Branch level cases respectively.

iv) Increased employee productivity: In spite of 23% decrease in employee strength, employee productivity has improved in all operational spheres. Further, the per-employee profit has turned positive during the year 2002-2003 for the first time after introduction of prudential norms.

v) Increased customer satisfaction: The reduced transaction time and costs resulted in reduced cost of loans to the entrepreneurs. These measures have resulted in attracting many new businesses and also winning some of its erstwhile customers from commercial banks. The introduction of QMS led to 92% of the customers expressing satisfaction about the professional approach of the corporation in 2002-03, and 96% of the customers expressed satisfaction that the dealing atmosphere was pleasant and helpful.

The strategy of the corporation to maintain and improve asset quality enabled it to write off non-performing assets (NPAs) to the tune of Rs 4.43 crore in 2001-02. Reduction in NPAs had also contributed to the increase in net profit of APSFC. In 2000-01, the operating profit per employee rose from Rs 68,000 to Rs 1.13 lakh while the net profit per employee increased from 43,000 to Rs 1.89 lakh. There was also a reduction in the establishment cost to interest income by 5 per cent.

The AP State Financial Corporation had climbed back to the top spot among similar corporations in India during the financial year 2001-02, after a gap of nearly a dozen years. Its top performance was in all the three key operational areas of sanctions, disbursements and recoveries. While its sanctions surpassed Rs 400 crore, disbursements and recoveries reached a new high of Rs 309 crore and Rs 340 crore, respectively, for 2001-02 (see Exhibit 03 and Exhibit 04). For the first time in 2002-03 the Corporation showed net profits of Rs 2.36 crores (see Figure 4 in Exhibit 04) after 1993-94

The corporation had been able to reduce its non-performing assets to 41 per cent by 2002-03, or an estimated value of Rs 400 crore. Similarly, its outstanding dues were also around Rs 1,000 crores. As already shown in Table-1 during 2003-04 the corporation again had

surpassed the targets set in its business plan with regard to sanctions, disbursements and recovery. The non-performing assets also had been brought down from the 65 per cent in 1999-2000 to 22 percent in 2004-05 with an ambitious mission of reducing it further to below 10 per cent by the end of fiscal 2006-07. Having recorded a remarkable turnaround in 2002-03 and having started earning net profits since, APSFC had now set for itself stretch targets on the eve of Golden Jubilee Celebrations in 2006. APSFC was also selected among the commercial banks and SFCs for operating the Rs 10,000-crore Small and Medium Enterprises Fund.

The Journey so far

Having straddled two centuries, APSFC learned to survive in post liberalization era with enormous competition in the financial sector. It geared itself to meet the needs, expectations, aspirations and global ambitions of its entrepreneurs and to keep pace with and be ahead of the Industrial Investment Promotion Policy (2005-2010) of the State Government. Despite the improvement in performance during 2002-03 to 2004-05, stiff competition, high borrowing cost, accumulated losses, negative capital adequacy and high NPAs still remained as formidable challenges to the Corporation. Another area of concern was that the existing long-term borrowings stood at Rs. 964.52 crore as against the performing L&A of Rs.727.31 crores as on 31.03.2005. Efforts were on to build up the standard asset portfolio at least equivalent to the borrowings level so that the debt could be comfortably serviced through generation of funds from performing assets.

To improve the fundamentals and serve the cause of the SME sector more effectively, the Corporation had prepared a strategic plan for the next five years with the following objectives: 1.To improve its asset base to atleast Rs.1500 crores; 2. To wipe out the entire accumulated losses; 3. To create a minimum equity base of over Rs. 200 crores; 4. To achieve capital adequacy over 10%; 5. To bring down NPAs to a single digit level. The whole exercise was founded on the State Government's support by way of equity contribution and the Corporation's dedicated efforts to bring a radical improvement in its performance. The State Government had already agreed to give a one-time equity contribution of Rs. 50 crore to the Corporation in lieu of interest subsidy. As part of the tripartite MoU signed by the

State Government, it has also agreed to give need-based equity to the Corporation during the restructuring period.

The strategic plan had been prepared on the premise that the Corporation builds fresh loan portfolio of Rs. 400 crores during 2005-06, which was expected to grow at a compounded average rate of 7.5%. To make a beginning in this direction, the Corporation had declared 2005-06 as a 'No NPA Year', which would mean that there shall not be any down-gradation from the existing standard assets and the new portfolio created during the current year shall remain standard throughout the tenure of the loan. APSFC had been taking all precautions to ensure that the stated objective is met while according new sanctions. The Corporation also explored the possibilities to offer more number of products and be able to better serve the needs of its clientele by emerging as a one-stop shop. In 2006-07, it completed its fifty years journey, a journey of phenomenal growth, commenced from a humble beginning of Rs. 91.15 lakh of sanctions, Rs.33.02 lakh of disbursements and Rs. 4.22 lakh of recovery in the year 1956-57 to Rs. 6803.52 crore of cumulative sanctions, Rs.4673.28 crore of cumulative disbursements and Rs. 5448.01 crore of cumulative recoveries as at the end of the financial year and with a highly scaled up branch network subserving the regional balance.

Over the years, the Corporation has transformed its business strategy by initiating several restructuring measures on the organizational, operational, managerial, human resource and financial fronts, which helped the Corporation to complete the turnaround process. During the turnaround period, the Corporation has improved business substantially, identified emerging sectors, fixed exposure limits to each type of industry and individuals/groups, introduced several customer friendly and innovative schemes of assistance, improved appraisal standards, implemented risk rating models, improved collections from non-performing assets and settled several impaired assets by way of one time settlement and sale. The Capital support from the Government of Andhra Pradesh, financial resources extended by SIDBI and targeted achievements of the Corporation enabled it to improve its performance during the MoU period of five years. During 2009-10, the Corporation entered a fresh tripartite MoU valid for a further period of 5 years, which will help the Corporation

to improve its performance further in the years to come. In 2011, the Corporation, with its brilliant performance in all key result areas of sanctions, disbursements and recoveries, retained its Number One position among all SFCs in the country for the 10th consecutive year. The steps taken by the Corporation have yielded positive results as can be seen in Exhibit 05 and Exhibit 06.

The Road Ahead

APSFC is eyeing the coveted status of 'State-sponsored Universal Bank'. The Corporation will focus on enhancing the business substantially and thereby improve the profitability in the coming years. In this direction the Corporation has set a business strategy, to identify niche areas of business, enhance client base with accretion of new customers by encouraging entrepreneurship, reach the existing customers through business development campaigns, etc. The Corporation will put efforts to further improve the operational and financial parameters, reduce NPAs to around 2%, retain its bench mark status of No. 1 position among all the SFCs in the Country, a position the Corporation is enjoying for the last 10 successive years and aim for a significant place in MSME lending in the State of Andhra Pradesh.

APSFC, as a conscious corporate citizen, is aware of its social responsibility and is working to make AP vision-2020 (a plan document of Government of AP) a reality. The corporation will continue to play a pivotal role in the modernization and revitalization of Small and Medium scale industries which support the 8 identified growth engines for achieving the objectives of vision-2020. APSFC has an even greater role to play with AP now being in the forefront of the IT revolution and also poised for a manufacturing and retail boom. The Corporation is well geared to enhance its business and has set for itself ambitious targets in the key result areas and also identified certain growth areas keeping in view the priorities laid down in the new industrial policy 2010-2015 announced by the Government of Andhra Pradesh. With the equity contribution from the Government of AP, financial assistance from SIDBI and policy support from Government of India, and having become a durable and resilient organization with a strong corporate culture, work ethic and value system, it is confident

that it can reach the winning post. So it is rightly said about APSFC ***“APSFC does not just lend, it cares and tends”***.

Case Review Questions

1. What were the general and specific factors that lead to the crises in APSFC in 1993-94?
2. Explain different aspects of the turnaround strategy covering financial, human, marketing and technological that were followed to handle the crises?
3. Could a different strategy have brought the turnaround earlier? Explain the strategy in detail?
4. Of all the measures taken to handle the crises, which do you think was the most critical and why?
5. If you were the present MD of APSFC, what steps would you take preemptively so as to not fall in a similar crisis again?

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Exhibit 01

Profile of APSFC

	As on 30/3/11
1. Share Capital (Rs crores)	
Authorized Capital (Rs Cr)	500 *
Issued, Subscribed & Paid up Capital (Rs Cr)	206
2. Share holding Pattern (in %)	
State Govt. %	68.40%
IDBI %	31.31%
LIC and individual shareholders %	0.29%
3. Loan Assistance Limit (Rs Crores)	
Sole proprietary and partnership firms (Rs cr)	8
Companies and co-operative societies (Rs cr)	20
4. Amount Sanctioned, Disbursed, Recovered (Rs cr)	
Amount Sanctioned (upto 31/3/11)	11,134
Amount Disbursed (upto 31/3/11)	7,634
Amount Recovered (upto 31/3/11)	8,382
5. Employment Generation (direct & indirect in lakhs)	11
6. No. of Units that received loans (Nos.)	92,689
7. No. of Branches (Nos.)	25
8. No. of Staff (excluding sub-staff) (Nos.)	438

* The authorized capital can be increased to Rs.1,000 crores by the State Government subject to the recommendations of the SIDBI.

Source: APSFC Annual Report 2010-11

Exhibit 02

Select performance indicators - Target and achieved

Indicator	QYE 30.06.2001			2001-2002			2003-04		
	Target	Achievement	% achieved	Target	Achievement	% achieved	Target	Achievement	% achieved
Sanction	50	43.62	87.25%	400	412	103%	419	431	102.86
Disbursement	50	40.50	81.00%	299	309	103%	275	283	102.9
Recovery	30	35.63	118.78%	335	340	101.5%	430	451	104.88

Source: QYE 2001 & 2001-02 from A P State Financial Corporation,
www.domain-b.com, 2003-04 is constructed from the figures given in
www.apsfc.com

Exhibit 03

Key Result Areas – Operational Highlights (Rs. in Crores)

Years	Sanctions	Disbursements	Recoveries
1993 - 1994	91	82	192
1994 - 1995	139	88	197
1995 - 1996	187	117	176
1996 - 1997	164	112	189
1997 - 1998	214	132	202
1998 - 1999	282	162	221
1999 - 2000	380	261	238
2000 - 2001	395	283	295
2001- 2002	412	308	338
2002 - 2003	420	301	408
2003 - 2004	431	283	451

Source: A P State Financial Corporation, www.domain-b.com

Exhibit 04

Figure-1: Sanctions (Rs crores)

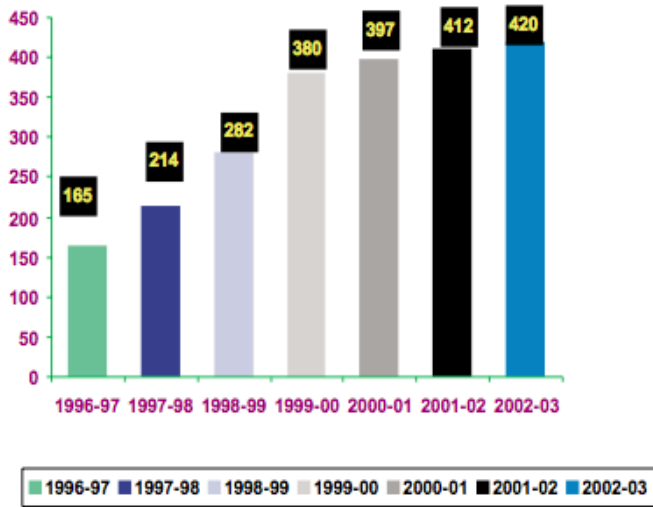


Figure-2: Disbursements (Rs crores)

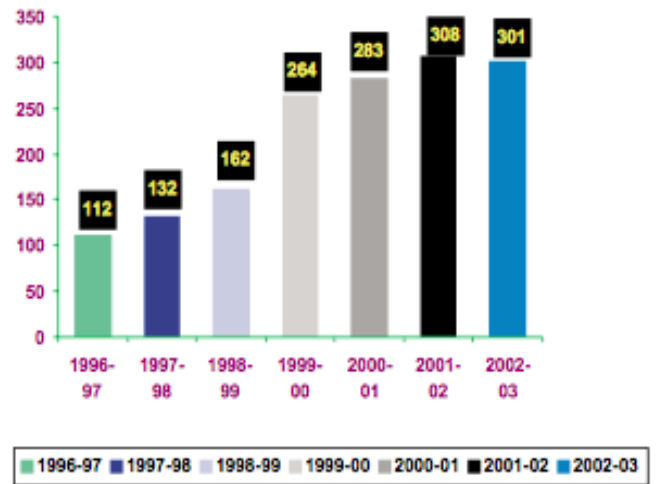


Figure -3: Recoveries (Rs crores)

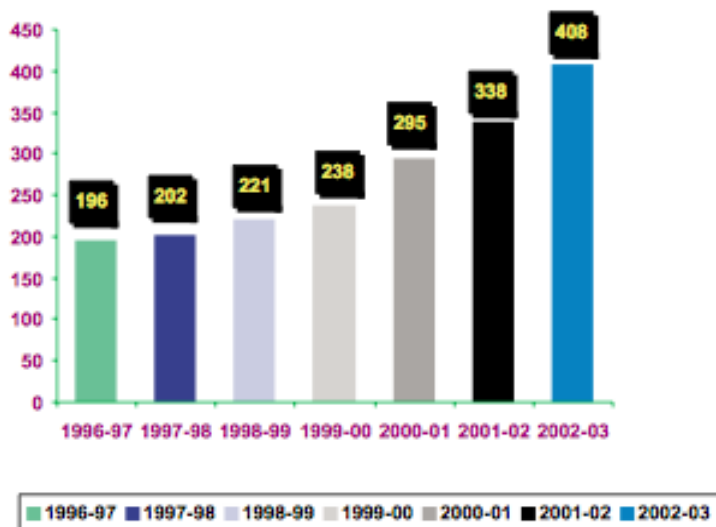


Figure - 4: Net Profit / Loss (Rs crores)

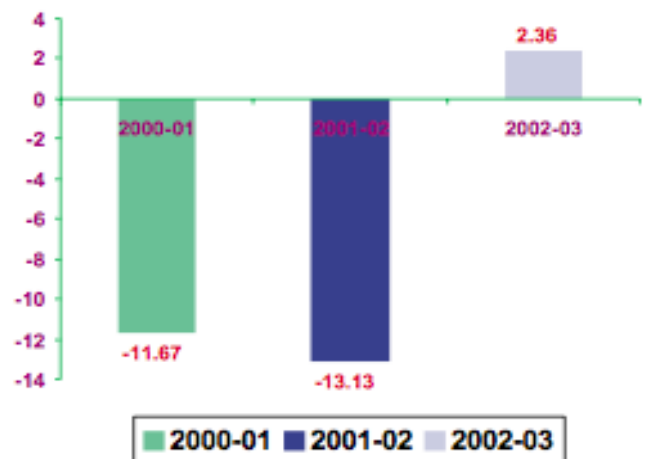


Exhibit 05

Financial Parameters

(Rs in Crores; Figures in brackets are growth rates in %)

Financial Parameters	as on 31.03.20 06	as on 31.03.20 07	as on 31.03.20 08	as on 31.03.20 09	as on 31.03.20 10	as on 31.03.20 11	as on 31.03.2012
Net Worth (Rs crores)	45.26	73.63 (63)	266.05 (261.33)	266.59 (0.2)	332.19 (24.61)	377.16 (13.54)	409.0 (8.48)
Total Assets* (Rs crores)	1143.54	1265.45 (11)	1840.18 (45.42)	2034.70 (10.57)	2368.23 (16.4)	2560.66 (8.12)	2926.55 (14.29)
Gross NPAs (Rs crores)	-	-	89.86	112.86 (25.6)	116.25 (3)	92.57 (-20.36)	131.54 (42.1)
Net NPAs (%)	16.14	8.39	4.28	5.99	5.53	2.87	3.11
Capital Adequacy Ratio (%)	4.28	6.10	16.05	13.94	15.09	16.24	15.63
Financial Parameters	05-06	06-07	07-08	08-09	09-10	10-11	11-12
Operating Profit / loss (Rs cr)	80.41	92.64 (15.21)	15.00 (-83.8)	44.58 (197)	99.65 (123)	100.28 (0.63)	112.12 (11.81)
Net Profit / loss (Rs.cr)	24.58	27.21 (10)	89.51 (229)	42.85 (-52.13)	67.68 (57.95)	67.33 (-0.52)	68.33 (1.46)
Loans sanctioned (Rs cr)	585.97	704.75 (20)	1006.66 (42.84)	885.67 (-12)	1052.38 (18.82)	1386.38 (32)	1368.82 (-1.27)
Loans disbursed (Rs cr)	421.72	523.14 (24)	662.7 (23.68)	685.7 (3.47)	707.99 (3.25)	904.35 (28)	936.89 (3.56)
Loan Recoveries (Rs cr)	482.14	515.95 (5)	621.94 (20.54)	658.08 (5.81)	785.12 (19.30.)	902.38 (14.94.)	966.47 (7.10)

Source: Annual Reports of APSFC

* from Balance sheet under Total Property and Assets

Exhibit 06

Performance Indicators

(Rs. in Lakhs)

Performance Indicator	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Per employee operating profit	1.51	1.59	2.98	8.35	19.28	20.14	24.06
Per employee net profit	4.74	5.29	17.76	8.02	13.09	13.52	14.66
Per employee sanctions	112.90	137.16	200.53	165.86	203.56	278.39	293.74
Return on average assets (%)	2.28	2.24	5.80	2.27	3.17	2.84	2.60

Source: Annual Reports of APSFC

Exhibit 07

LANDMARK ACHIEVEMENTS IN 5 DECADES (1956-06)**BUSINESS GROWTH:**

- Cumulative sanctions crossed the Rs.1000 crore mark in 1988-89; Rs.2000 crore in 1993-94; Rs.3,000 crore in 1998-99; Rs.4,000 crore in 2001-02 and Rs.5,000 crore in 2003-04.
- Cumulative Sanctions crossed the Rs. 5,500 crore mark in 2004-05 with the number of assisted units exceeding 85,000.
- Cumulative recoveries crossed Rs.1000 crore mark in 1994-95; Rs.2000 crore in 1998-99; Rs.3000 crore in 2001-2002; Rs.4000 crore in 2004-2005;
- Reached door-steps of customers through business development campaigns
- Entered into strategic alliance with SIDBI for consortium lending.

SOCIO-ECONOMIC CONTRIBUTION:

- Contributed to the balanced regional development and development of backward regions. Of the total assistance, a lion's share of 50% has gone to the backward areas.
- Assisted in capital formation of over Rs. 12,000 crores in Andhra Pradesh
- Generated employment for 8.50 lakh persons in the State.
- Nurtured entrepreneurship

LEAD POSITION:

- Secured No.1 position for the first time among all SFCs in the country in 1979-80 and retained it for the second year in 1980-81.
- Regained the 'Numero Uno' position in FY 2001-02 after 20 years and retained the position for the fourth consecutive year (2002 to 2004-2005).
- First SFC to get ISO 9001-2000 certification for implementation of ISO standards in the Corporation including all branch offices.
- Classified by SIDBI as Category I Corporation to avail full limits of refinance from them.

FINANCIAL CREDIBILITY:

- Has an unblemished repayment track record of 49 years with all its creditors.
- Among the first list of State Finance Corporations to sign tripartite MoU with SIDBI and avail interest relief package.
- Government of Andhra Pradesh again began infusing equity every year from 2003-04
- Notified by the Government of Andhra Pradesh as Eligible Institution to accept fixed deposits of the Government/ Government Agencies /Public Sector undertaking.
- Eligible Institution to draw funds from the SME Fund of SIDBI.

OPERATIONAL EFFICIENCY:

- Brought down the net NPAs during 1999-2000 to 22% as on 31.3.2005 from 35%
- Pre-redeemed high cost SLR Bonds aggregating Rs.269 crore in 2002-03-2005-06 and saved substantial interest cost.
- Reduced the average borrowing cost from 12.23% in 1999-2000 to 10.17% by the end of 2004-05.
- Per employee sanctions increased from Rs.51 lakh in 1999-2000 to Rs.89 lakh in 2004-05.

- Per employee profit increased from (-) Rs.0.63 lakh in 1999-2000 to Rs.2.51 lakh in 2004-05.
- Conducted Executive Development programmes.
- Professionalisation of the Board.
- Risk Management mechanisms introduced in project appraisals.

NON-FUND BASED ACTIVITIES:

- Secured Corporate Agency from IRDA to market the insurance products of ITGI.
- Secured Agency from Stock-holding Corporation to sell GoI Relief Bonds.
- Empanelled as a Portfolio Resolution Agent by ARCIL

SOURCE: www.apsfc.com

Exhibit 08

Milestone achievements of APSFC :

- So far sanctioned 11,134 crores for 92,689 units in Andhra Pradesh as on 31/03/2011
- Disbursed 7,634 crores to 72,297 units - 70% to Tiny/SSI sector as on 31/03/2011
- Recovered Rs 8,382 crores including interest since inception till 31/03/2011
- Established unblemished repayment track record since inception
- Has consistent record of earning operating profit throughout its history
- Created total Investment of around 23,656 crores
- Generated direct and indirect employment to about 11 lakh persons
- Channelled a significant share of assistance of around 70% to tiny and small scale industries
- Industrialised backward areas by extending 50% of its assistance to industries coming up in notified backward areas.
- Enjoying 60% of the market share in term lending in promoting First Generation Entrepreneurs in Andhra Pradesh

Source: www.apsfc.com

Exhibit 09

As on 31st March 2005, the corporation has the following professionals:

CA/ICWA/ACA/MBA	: 35
M.Tech/B.Tech/AMIE	: 50
LLM/LLB	: 37
Postgraduates	: 86
Others	: 315
Total	: 523

Source: www.ou-mba.ac.in