A STUDY ON PERFORMANCE OF LOANS AND ADVANCES IN KSFE LTD.

by

TESMI DAVIS

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Kerala Agricultural University

COLLEGE OF CO-OPERATION, BANKING AND MANAGEMENT

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KERALA, INDIA

2018

DECLARATION

DECLARATION

I hereby declare that this project report entitled Inventory **A STUDY ON PERFORMANCE OF LOANS AND ADVANCES IN KERALA STATE FINANCIAL ENTERPRISE (KSFE) LTD.** is a bonafide record of work done by me during the course of project work and that it has not previously formed the basis for the award to me for any degree/diploma, associateship, fellowship or other similar title of any other University or Society.

Place: Vellanikara

Date: 4-12-2018

TESMI DAVIS

(2016-31-023)

CERTIFICATE

CERTIFICATE

Certified that this project report entitled **"A STUDY ON PERFORMANCE OF LOANS AND ADVANCES OF KERALA STATE FINANCIAL ENTERPRISE (KSFE)"**is a record of project work done independently by Mrs. Tesmi Davis under my guidance and supervision and that it has not previously formed the basis for the award of any degree, fellowship or associateship or other similar title to him.

Prof. M. MOHANAN (Retd.)
(Supervising guide)
College of Co-operation Banking and Management
Kerala Agricultural University
Vellanikkara, Thrissur.

Vellanikara

Date: 15-12-2018

College of Co-operation Banking and Management
Vellanikkara
KAU P.O.
Thrissur - 680 656
Date..........
Kerala Agricultural University

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For any errors or inadequacies that may remain in this work, of course the responsibility is entirely my own.

TESMI DAVIS

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Chapter 1
DESIGN OF THE STUDY

Chapter 1

Design of study

1.1 INTRODUCTION

Loans and advances play a major role in the Indian Financial System, as it is the prime source of income. These are necessary for day-to-day operations of financial institutions. Advances means the money provided by the financial institutions to entities for fulfilling their short-term requirements. Loans is a kind of debt while advances are credit facility granted to customers. The analysis of loans and advances is necessary for a financial institution to take the decision for how the available resources have utilized in the year of operation, percentage of profit they have received and there is any short fall in the performance. If the efficient utilization of the fund get more results and what are the different modes of diversification of fund mobilization used can be determined. Therefore, careful monitoring, controlling and management of financial enterprises is required. The success and failure of business more over depends upon its financial strength.

Kerala State Financial Enterprises Ltd popularly known as KSFE. The Government of Kerala created this company on 6 November 1969. Kerala State Financial Enterprise Ltd is biggest miscellaneous non-banking financial company in Kerala. It is one of the largest profit making public sector. KSFE has the uniqueness of being the only public sector undertaking in India, which runs chits and one of the few profit-making companies owned by the Government of Kerala. The strategic business unit of KSFE are chitty, gold loan, vehicle loan, chitty loan, hire purchase, trade loan, housing finance scheme and deposits. KSFE is facing a tough competition in these units particularly from private players in the similar fields and from banking sector. KSFE pays to the Government of Kerala crores of rupees every year by way of – Guarantee commission, service charges, and dividend. Financial and service wise, KSFE contributes immensely towards the Kerala economy.

Lending of money to traders, business, industrialists and other needy people constitute one of the main functions of financial enterprises. Major portions of the resources of modern financial enterprises employed for granting loans and advances. Like every other business activity, financial enterprises are also working to earn profit and the bulk of their income derived from the interest of loans and advances. When financial enterprises grant loans and advances, they are facing the risk of repayment. Therefore, the financial enterprises should be very cautions while developing the policy regarding loans and advances. The loans and advances are special category of accounts receivables and requires records and procedures similar to those used for the normal accounts receivables of a department.

Now days every financial enterprises should try to increase the level of growth of advances and loans. In addition, ensure that these granted properly after the fulfillment of every formality. The financial enterprises also ensure that granted on the adequate security only, so the financial enterprises can ensure the guarantee if the borrower marks the default. After the careful evaluation about the capacity of the borrower incredibility, fidelity, security etc. In this competitive scenario every financial enterprises is trying to absorb every new customer by offering attractive services.

1.2 STATEMENT OF THE PROBLEM

The study on performance of loans and advances in KSFE Ltd was conducted to know whether the loans and advances are effectively performing. Loans and advances is one of the influencing factor while determine the financial performance. In a financial institution, there will be various kinds of loans and advances. Identifying various kinds of loans and advances helps to know which type of loans and advances is more profitable. This study covers the performance of loan and advances in the growth of the financial enterprises. Major portion of the income derived from loans and advances. Therefore, care full handling is required otherwise; it will affect its stability. The impact and overdue of the loans and advances need to be studied.

1.3 OBJECTIVES

1. Examine various types of loans and advances provided by KSFE Ltd.

2. To study the impact of NPA of loans and advances.

1.4 METHODOLOGY

1.4.1 Study Area

Kerala State Financial Enterprise Ltd, chembukavu, Thrissur selected as organization for study.

1.4.2 Period of study

The study was conducted using secondary data from 2002 - 17

1.4.3 Method of data collection

☐Primary Data

☐ Secondary Data

Primary Data

Through discussions and interview with Senior Officials/Managers.

Secondary Data

Secondary data was collected through annual reports published by KSFE for the last 15 years.

1.4.4 Sampling unit:

Kerala State Financial enterprise Ltd, Thrissur

1.4.5 Tools used:

☐ Trend analysis: Total loans and advances disbursed, total loans outstanding, total amount disbursed for each loans and advances, Total amount outstanding for each loans and advances, Total amount of NPA.

☐ Percentage analysis: Structure of loans and advances disbursed, Structure of loans and advances outstanding, Comparison of total NPA with total outstanding loans and advances, Impact of NPA on working capital

☐ Ratio analysis: Current ratio, Debt ratio, Debt Equity Ratio

☐ Tables

1.4.7 Variables:

Types of loans and advances, Trends of loans and advances, loans and advances disbursed, loans and advances outstanding, structure of loans and advances disbursed, structure of loans and advances outstanding these have been studied as part of first objective. Trend of NPA, impact of NPA on working capital, current ratio, debt ratio, debt equity ratio these studied s part of second objective.

1.4.8 SCOPE OF THE STUDY

The purpose of studying this topic is to focus on the lending function of KSFE. This study covered different types of loans and advances financed by the KSFE and their classification into fund and non-fund based advances. It also helps us to study the risk involved in sanctioning of advances and loans to a borrower. This makes us to analyze the credit worthiness of the prospective borrower and estimate the net worth of the assets owned by him, which assists the KSFE to ascertain the amount that sanctioned to the borrower. This study helps to identify the securities that used against lending and the calculation of equated monthly installments.

1.4.9 LIMITATION

In KSFE, there are almost fourteen loans and advances from that only four important loans and advances has taken for this study. The reason is that other loans and advances are not active now. Therefore, the study cannot generalized. And many changes happening in the financial data cannot be explained it also a limitation.

Chapter 2

REVIEW OF LITERATURE

CHAPTER-2

REVIEW OF LITERATURE

2. Introduction

A literature review is an evaluative report of information found in literature related to the subject area of study. It gives a theoretical base for the research and helps you to determine the nature of the research. The objective of reviewing research work is to know the research gaps and to have a clear-cut idea about the methodologies used in the previous work. This chapter is divided into three:1) Role and importance of Non-Banking financial institutions 2) Role and importance of loans and advances and 3) Global scenario

2.1 Role and Importance of Non-Banking Financial Institutions (NBFCs)

Alvin Prakash (1984) in his work "Private Financing Firms in Kerala- A Study" showed that since the beginning of the 1980's there was phenomenal growth in private financing institutions in Kerala. This study based on a survey of these firms in Trichur town revealed that they have emerged as powerful parallel banking system in the town posing a threat to the normal banking system. The study concluded that there is need to regulate the activities of such firms through appropriate regulatory measures. It also showed that before imposing any regulatory measures, steps should be taken to remove the existing credit restrictions and to expand credit facilities for business purpose.

Jafor Ali Akhan (2010) writes on “Non-Banking Financial Companies (NBFCs) in India”. The book discussed the financial system in India. It covers the financial intermediaries including commercial banks, regional rural banks, cooperative banks and Non-Banking Financial Companies in India. The book is good source in getting information on businesses, classification, management of assets, risk coverage, etc of the NBFCs in India.

Shailendra Bhushan Sharma and Lokesh Goel (2012) write on “functioning and reforming in Non-Banking companies in India”. Non-Banking financial companies do offer all sorts to banking services, such as loans and credit facilities planning, money markets, underwriting and merger activities. These companies play an important role in providing credit to the un-organize sector and to the small borrowers at the local level. Hire purchase is by far the largest activity of NBFCs in India.

Subina Syal and Menka Goswami (2012) writes on "Financial Evaluation of Non-Banking Financial Institutions: An Insight" in 'Indian Journal of Applied Research'. The Indian financial system consists of the various financial institutions, financial instruments and the financial markets that facilitate and ensure effective channelization of payment and credit of funds from the potential investors of the economy. Non-banking financial institutions in India are one of the major stakeholders of financial system and cater to the diversified needs by providing specialized financial services like investment advisory, leasing, asset management, etc. Non-banking financial sector in India has been a considerable growth in the recent years. The aim of the present study is to analyze the financial performance and growth of non-banking financial institutions in India in the last 5 years. The study is helpful for the potential investors to get the knowledge about the financial performance of the non-banking financial institutions and be helpful in taking effective long-term investment decisions.

Sornaganesh and Maria Navis Soris (2013) B "A Fundamental Analysis of NBFCs in India" in 'Outreach'. The study was made to analyze the performance of five NBFCs in India. The annual reports of these companies are evaluated to ascertain investments, loans disbursed, growth, return, risk, etc. To sum up, the study is concluded that the NBFCs are earning good margins on all the loans and their financial efficiency is good.

Taxmann's (2013) published "Statutory Guide for Non-Banking Financial Companies" is published by Taxmann's Publications, New Delhi. The book listed the laws relating to Non-Banking Financial Companies. The rules and laws governing the kinds of businesses undertaken by different types of NBFCs are also discussed.

Amit Kumar and Anshika Agarwal (2014) published a paper entitled "Latest Trends in Non-banking Financial Institutions" in 'Academicia: An International Multidisciplinary Research Journal'. In Indian Economy, there are two major Financial Institutions, one is banking and other is Non-Banking. The Non-Banking Financial Institutions plays an important role in our economy as they provide financial services on wide range, they also work to offer enhanced equity and risk-based products, along with this, they also provide short to long term finance to different sectors of the economy, and many other functions. This paper examines the latest trends in Non Banking Financial Institutions. This paper analyzes the growth and enhanced prosperity of financial institutions in India.

Naresh Makhijani (2014) writes on "Non-Banking Finance Companies: Time to Introspect" in 'Analytique'. Over the last few years the Non-Banking Finance Companies (NBFC) sector has gained significant advantages over the banking system in supplying credit under-served and unbanked areas given their reach and niche business model. However, off late the Reserve Bank of India has introduced and suggested various changes in the existing regulatory norms governing NBFCs with a view to bring NBFCs regulations at par with the banks. The ongoing and proposed regulatory changes for the NBFCs in terms of increased capital adequacy, tougher provision norms, removal from priority sector status and changes in securitization guidelines could bring down the profitability and growth of the NBFC sector. NBFCs will need to introspect and rethink their business models as they will now not only have to combat stringent regulatory norms but also have to face the challenge of rising cost of funds, scare capital and direct competition from banks.

2.2 Role and Importance of Loans and advances

Reddy (1985), in his study titled, "Overdues Appraisal and Management in Banking" analyzed the relationship between the lending and recovery of an apex bank. His findings suggested that the lending and recovery of the apex bank had not been proportionate, i.e., either the apex bank could not meet the entire credit needs of the primary banks or the latter could not borrow the funds from the apex bank. People not for co-operative services but for their stakes constituted the primary banks. With the help of Coefficient of Variation technique, he proved that there was a wide dispersion in lending followed by recovery. He finally concluded with the help of t-test that the association between lending and recovery was not satisfactory.

Joseph (1992), in his study "Chit Schemes: Relevance and Scope as Savings/Investment Alternatives" evaluated various savings/investment schemes available in comparison to the Chit schemes. It showed that Chit schemes can be treated as the best investment alternative available. The rate of return on Chit was calculated by dividing the annual dividend by the annual net subscription. The study showed that the rate of return calculated for a Chit was much more than the rate of return applicable to the various investment alternatives. It also presented the various characteristics of Chit schemes and concluded that authorized Chit business was in the ruins due to the hard and stringent provisions of the enactments and KSFE was far away from the reach of the common people.

Baby (1993), in her study "Savings/Investment and Capital Formation in a Rural Setting: A study of Udayamperur" found out that the most accepted form of saving for the respondent households was Chitties (28.2%). Deposits with the Banks formed 18.64 per cent of the savings, Provident Fund and LIC accounted for 7.76 per cent and 6.64 per cent respectively. The study also showed that of the types of Chits, monthly Chits seemed to be more popular.

Balister et al. (1994) conducted a study of overdues of loans in agriculture to examine the repayment performance of defaulters in three blocks of Agra district in Uttar Pradesh. They found that well-to-do agriculture families accounted for a large share of overdues. They accounted 37 per cent of total defaulters and 57 per cent of total overdues. Total amount of overdues and its relative share also increased during the period of study. Lack of proper supervision over end use of loan was identified a major reason for mis-utilisation of credit which leads to increase in overdues.

Radhakrishnan (1995), in his paper "Chit Fund: A Poor Man's Credit Institution" argued that Chit Funds and Nidhis have not received the attention they deserved in the scheme of reforms. The paper included certain measures of reforms to enable Chit Funds to grow on sound and healthy lines, including the introduction of credit rating for all incorporated Chit Fund Companies.

Murthi and Saraswati (1996), in their paper titled, "Reducing Overdues in Credit Co-operatives: Some Alternatives" undertook a study to evaluate the Quantitative Progress made in respect of supply of Institutional Credit. Using the secondary data made available by RBI in Statistical Statements relating to Co-operative Movement in India for a period of 6 years from 1978 to 1983 and assessing the Loaning Policies of Girijan Co-operative Corporation, Visakhapatnam. The study concluded that the progress in respect of supply of credit was phenomenal over the period of study but this progress pales into significance, if the magnitude of overdues was considered. It pointed out that the most unnerving aspect of institutional credit was the alarmingly high percentage of overdues, i.e., about 43% of loan recoverable in the second half of the 80s in the case of co-operatives. The study was conducted to find out whether it was possible to reduce overdues by (1) making co-operatives the exclusive institutions of economically weaker sections-BY RESTRUCTURING THEM; and (2) by effective changes in the Loaning Policies-BY REVAMPING THEM. The study suggested that making co-operatives as exclusive institutions of weaker sections, i.e., Loaning Policies, the results were quite impressive as it resulted in significant Improvement in the Recovery Performance. It was finally concluded that the change of Loaning Policies like Induction of Liaison Workers, efforts of Elders Committee, Motivated Management would not have helped recovery of loans in the absence of homogeneity.

Reddy and Reddy (1996), in their study titled, "Nature and Dimensions of Willful and Non-Willful Default and Impact of Co-operative Credit Policy with reference to Nellore District of Andhra Pradesh" used multi-stage sampling technique and various statistical tools to examine the reasons for overdues. They concluded that landholding, cropping pattern, income from agriculture, number of dependent family members and political interference had direct influence on recovery position of co-operative banks. They suggested that management of these banks should adopt a co-operative friendly approach instead of market approach 'as self-help is the foundation stone of cooperative philosophy and peoples' participation at all levels of management will improve working culture of the co-operatives.

Srinivas and Higuchi (1996) in their work "A Continuum of Informality of Credit: What Can Informal Lenders Teach Us?" observed that Chit Funds, credit societies and people's organizations, have been grouped under the category 'Mutual Credit Suppliers' because the demand and supply of credit is mutual - that there is a give and take process involved. Participants typically support each other for credit needs in mutuality. The money supplied or saved by some participants is lent and borrowed by some other participants. Thus, the benefits of the operation are mutual to all participants and equally distributed. The central idea of mutual credit suppliers is that they encourage savings from the participants.

Rajendran (1997), in his work "Rural Credit Management" attempted to provide a brief resume of the evolution of credit in Kerala, the different practices and the institutions concerned, since the beginning of the 19th century. The role of Chitties, operation of Chit Funds and the magnitude of the Chitties in terms of their number, extent and volume of operation up to 1936 have been included in the study. The study pointed out that the vital links between the pre-institutional and Chit Funds, which gradually emerged into banking institutions, provided the institutional phases.

Deolalkar (1998), in his study titled, "The Indian Banking Sector on Road to Progress" observed that NPAs in Public Sector Banks were recorded at about `457 billion in 1998. About 70% of gross NPAs were locked up in "Hard Core" doubtful and loss assets, accumulated over

years, pending either in courts or with Board for Industrial and Financial Reconstruction (BIFR). He further added that the main cause of NPAs in the banking sector was the DIRECTED LOANS SYSTEM, under which the commercial banks were required to supply a prescribed percentage of their credit (40%) to the Priority Sector. Such loans supplied to the micro sector were problematic of recoveries, especially when some of the units become sick or weak. These loans had led the borrowers to expect that like a non-refundable state subsidy, bank loans need not be repaid.

Baburaj (1999) "A Study on the Working, Achievements and Prospects of Kerala State Financial Enterprises Ltd." assessed the progress in the working of KSFE Ltd. and examined how far the company has succeeded in mobilizing the savings and efficiently utilizing it. The study found out the performance of the company in terms of volume of business achieved appeared good and the economic and social impact of various schemes of the company have been positive and significant. The study also presented some suggestions for the better performance of the company like appropriate training Programme to the employees, better accounting system, autonomy in decision-making and operational flexibility.

Satyasai and Badatya (2000) conducted a study regarding restructuring Rural Credit Co-operative Institutions. They analyzed performance of rural co-operative credit institutions based on borrowings and lending operations, cost structure, financial viability, etc. and found that co-operative system, in general, had failed to perform its functions properly. They advised the co-operative banks to diversify their business and to overcome internal (rising transaction cost, declining business level, mismanagement of overdues) and external (excessive bureaucratization, Politicization) weaknesses.

Verma and Reddy (2000), conducted a study analyzing the causes Overdues in Cooperatives under SWOOD, to assess recovery and NPAs position in these banks. Policy distortions in liberalized economy and inefficient management were identified as main reasons for poor recovery. Misutilisation of credit, political interference at every level, successive crop failures, non-remunerative prices of agriculture produce, inadequate income and natural calamities, were some other factors, which affect the working culture of co-operative banks considerably. To improve the working of these banks, the study suggested that available credit size should be need based and production-oriented. Effective supervision of loans to minimize misutilisation and close social relations with loanee members were two other suggestions to improve the profitability and productivity of these banks.

Das (2001) in his study titled, "A Study On The Repayment Behaviour Of Sample Borrowers Of Arunachal Pradesh State Co-Operative Apex Bank Limited", examined the repayment behaviour of loanees, covering a period of 1994-95 to 1998-99. Based on primary data collected, researchers concluded that incidence of default was highest among borrowers for agriculture allied activities loans. Agriculture loanees, horticulture loanees, small business loanees and services sector loanees were ranked 2nd, 3rd, 4th and 5th in a descending order based on percentage defaulters. Study further revealed that the number of defaulter loanees was highest in government-sponsored schemes.

Suresh (2001) has studied about the declining importance of investment credit in Kerala economy after analyzing the problems of long-term credit. He found that state's economy showed a shift in favour of commercial/plantation crops since the eighties. The analysis of the existing loan composition showed that the share of production credit was increasing over the years while long-term credit granted was declining.

Campbell (2007) focused on the relationship between nonperforming loans (NPLs) and bank failure and argued for an effective bank insolvency law for the prevention and control of NPLs for developing and transitional economies as these have been suffering severe problems due to NPLs.

Dutta and Basak (2008) suggested that Co-operative banks should improve their recovery performance, adopt new system of computerized monitoring of loans, implement proper prudential norms and organize regular workshops to sustain in the competitive banking environment.

Chander and Chandel (2010) analyzed the financial efficiency and viability of HARCO Bank and found poor performance of the bank on capital adequacy, liquidity, earning quality and the management efficiency parameters.

2.3 Global Scenario

Bouman (1977), not only does the credit rotate, but the saving position rotates too and hence the term, Rotating Savings and Credit Associations (ROSCAs). A member saves until he receives the fund, after which he starts to repay the loan in instalments. The fund received by members at intermediate points in the life of the cycle includes a portion equal to the sum of their past contributions, their contributions to the fund on their turn to take the fund and a final portion, which is a loan to be repaid out of their future contributions. The Rotating Savings and Credit Association (ROSCA) are formed from a core of participants who agree to regularly pay a certain amount of money to a fund. Which in turn is distributed entirely or partially to each participant (Ardener, 1964).

World Development Report (1989) has presented Rotating Savings and Credit Association (ROSCA) as a popular form of informal finance in a number of countries. Which intermediate in the most basic way. The money collected (the fund) is given in rotation to each member of the group. The popularity of ROSCAs among low and middle-income groups show that people like to save even under trying circumstances.

Rajaraman (1995), in her article "The Role of ROSCAs" has tried to explain Rotating Savings and Credit Associations and their similarities with Chit Funds in India. The Article showed that these associations are functional in various parts of the world including highly developed countries. Random ROSCAs are similar to Prize Chits in India. While bidding ROSCAs are similar to our Auction Chits.

Leonard(1999), in his study "The Evolution of an Informal Financial Institution: The Rotating Savings and Credit Associations in Cameroon" showed that the "Rotating Savings and Credit Association" (ROSCAs) mobilise resources. Which would have been hoarded otherwise. The study revealed that ROSCAs accelerated the speed of circulation of money. The study also showed that the proliferation of these ROSCAs could explained by their easy adaptation to the economic and social transformation of each epoch and by the inability of the formal financial system to integrate the local realities in its relationship with its customers.

Stuart (2000), states that the lack of access to reliable savings accounts appears common to the poor everywhere. The poor use many strategies to deal with this problem. They form savings clubs where each person makes sure that the others save. Self-Help Groups (SHGs), popular in India and Indonesia are saving clubs which also make loans to their members out of the accumulated savings. Rotating Savings and Credit Associations (ROSCAs) allow people to lend their savings to each other on a rotating basis.

Mahmoud and Peter (2002), Showed that for the Egyptian villages surveyed, the informal financial sector is more active than the formal sector, although the loans obtained are generally smaller. And it is also found that the most common form of informal finance is occasional lending through participation in ROSCAs.

Olubiyo and Hill vehemently (2002), stated that a large proportion of economic activities in many developing economies are not serviced by credit from formal institutional credit markets. The operations of such markets are selective in their choice of enterprise to finance and in most cases the peasants, small scale and micro enterprises are not usually favoured. Hence, a large number of active entrepreneurs must use the informal credit market to finance their business activities. However, the extent to which the informal credit market can effectively meet demand is limited. This paper examined the operation of one of the predominant types of organized informal credit providers in Nigeria, namely cooperative savings and credit associations.

Stefan (2003), that in India ROSCAs emerged mostly in the southern parts of the country and are known throughout the country as 'chit funds' or chits. ROSCAs can offer insurance for homogenous, risk averse individuals who have stochastic, privately observed incomes and no access to credit. Bidding ROSCA enables participants to obtain funds when they observe a particularly profitable investment project. Homogeneous individuals prefer a bidding ROSCA because it can allocate funds to the participant with most urgent current need, and facilitates risk sharing among risk adverse individuals.

Gingrich (2005), explained that Savings and Credit Cooperatives provide a variety of microfinance services to households in three of Nepal's distinct regions-the Hills, Terai, and Kathmandu valley. Nearly all Nepali savings and credit cooperatives are self-funded using member savings and equity. Most Nepali savings and credit cooperatives are also profitable, including those located in poor, remote areas of the hills region. Key reasons for the savings and credit cooperatives strong financial performance include reliance on member savings and control of administration costs.

The RBI reports (2008), in Trend and Progress of Banking in India107 indicates that even after the four decades of banks' nationalization, country's 41 per cent adult population remained outside the banking system but are surmised to be covered by the NBFCs wise Chit Funds'.

Usha (2010) states that non-banking entities can be either non-banking non financial entities or non-banking financial entities. In case of non-banking financial entities, there are deposit taking and non-deposit taking financial companies is there. Considering the difficulties in ensuring the effective supervision of large number of small deposit-taking entities, fresh approvals to NBFCs for accepting deposits are not considered.

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Chapter 3

INDUSTRY PROFILE

COMPANY PROFILE

Chapter 3

Industry Profile

Non-Banking Financial Institutions A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 of India, engaged in the business of loans and advances, acquisition of shares, stock, bonds, hire-purchase insurance business or chit-fund business but does not include any institution whose principal business includes agriculture, industrial activity or the sale, purchase or construction of immovable property. The working and operations of NBFCs are regulated by the Reserve Bank of India (RBI) within the framework of the [[Reserve Bank of India Act, 1934]] (Chapter III-B) and the directions issued by it. On November 9, 2017, Reserve Bank of India (RBI) issued a notification outlining norms for outsourcing of functions/services by Non-Bank Financial Institution (NBFCs) as per the new norms, NBFCs cannot outsource core management functions like internal audit, and management of investment portfolio, strategic and compliance functions for know your customer (KYC) norms and sanction of loans. Staff of service providers should have access to customer information only up to an extent, which is required to perform the outsourced function. Boards of NBFCs should approve a code of conduct for direct sales and recovery agents. For debt collection, NBFCs and their outsourced agents should not resort to intimidation or harassment of any kind.

All NBFCs' have been directed to set up a grievance redressal machinery, which will also deal with the issues relating to services provided by the outsourced agency. All NBFCs are either deposit taking or Non-deposit taking. If they are non-deposit taking, ND is suffixed to their name (NBFC-ND). The NBFCs, which have asset size of Rs.100 Crore or more, are known as Systematically Important NBFC. They have been classified so because they can have bearing on financial stability of the country. The Non-deposit taking NBFCs are denoted as NBFC-NDSI. Under these two broad categories, the different NBFCs are as follows: Asset Finance Company (AFC) An AFC is a company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/economic, such as automobiles, tractors, lathe machines, cranes, generator sets, earth moving and material handling equipment's, moving on own power and general purpose industrial machines. Principal business for this purpose is defined as aggregate of financing real/physical assets supporting economic activity and income arising therefrom is not less than 60% of its total assets and total income respectively. Investment Company (IC) IC means any company, which is a financial institution carrying on as its principal business, the acquisition of securities Loan Company (LC) LC means any company which is a financial institution carrying on as its principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company.

Infrastructure Finance Company (IFC) Infrastructure finance companies deploys a minimum of three-fourths of their total assets in infrastructure loans. The net owned funds are more than 300 crores and a minimum crediting rating of 'A' and the Capital to Risk-Weighted Assets Ratio is 15%. Infrastructure Debt Fund: Non- Banking Financial Company (IDF-NBFC) IDF-NBFC is a company registered as NBFC to facilitate the flow of long-term debt into infrastructure projects. IDF-NBFC raise resources through Multiple-Currency bonds of minimum 5-year maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs. NBFC-Factors NBFC Factors has principle business of factoring. Factoring is a financial transaction and a type of debtor finance Gold Loan NBFCs in India Over the years, gold loan NBFCs witnessed an upsurge in Indian financial market, owing mainly to the recent period of appreciation in gold price and consequent increase in the demand for gold loan by all sections of society, especially the poor and middle class to make ends meet. Though there are many NBFCs offering gold loans in India, about 95 per cent of the gold loan business is handled by three Kerala based companies, viz., Muthoot Finance, Manapuram Finance and Muthoot Fincorp. Growth of gold loan NBFCs eventuating from various factors including Asset under Management (AUM), number of branches, and the number of customers etc.

Growth of gold loan NBFCs occurred both in terms of the size of their balance sheet and their physical presence that compelled to increase their dependence on public funds including bank finance and non-convertible debentures. Aggressive structuring of gold loans resulting from the uncomplicated, undemanding and fast process of documentation along with the higher Loan to Value (LTV) ratio include some of the major factors that augment the growth of Gold loan NBFCs.[7] Residuary Non-Banking Companies (RNBCs) Residuary Non-Banking Company is a class of NBFC, which is a company and has as its principal business the receiving of deposits, under any scheme or arrangement or in any other manner and not being Investment, Asset Financing, Loan Company. These companies are required to maintain investments as per directions of RBI, in addition to liquid assets. Difference between NBFC and Banks Provides Banking services to People without holding a Bank license, An NBFC cannot accept Demand Deposits, An NBFC is not a part of the payment and settlement system and as such, An NBFC cannot issue Cheques drawn on itself, and Deposit insurance facility of the Deposit Insurance and Credit Guarantee Corporation is not available for NBFC depositors, unlike banks, An NBFC is not required to maintain Reserve Ratios (CRR, SLR etc.) An NBFC cannot indulge Primarily in Agricultural, Industrial Activity, Sale-Purchase, Construction of Immovable Property Foreign Investment allowed up to 100%.

THE ORIGIN OF CHIT

The word 'Chit', suggests the origin of Chit Funds. 'Chit' means a written note on a small piece of paper. In the Malayalam language, it is known as 'Kurr, which has been derived from 'Kurippu' (which means a piece of writing or script). The 'Chitty' or 'Kuri'l is a derivative, the root being the 'lot'. The foreman writes the name of each subscriber on a small piece of paper and folds it several times with the name inside for the purpose of deciding the prize-winner. He calls it the 'Kuri' or 'Chit' or 'Narukku' and in the transaction, one 'Narukku' also means one member. The folded or rolled Chits or Kuries are put in a vessel containing some rice. The rice and the Chits are mixed well and a person is called upon to pick one Chit from the vessel. The Chit is opened, the name read out and the member declared as prizewinner. At the next instalment, the prized Chit is removed from the vessel and the proceedings repeated. The Chit or Kuri thus plays crucial role in the allotment of the prize amounts. Hence, it is likely that the scheme itself came to be known after this important device.The literature relating to the historical references on Chits show that the Chitty business flourished in Travancore, Cochin and the Malabar areas of the erstwhile state of Kerala and in the southern parts of the then Madras Presidency. Gradually it spread to the other parts of India.

It seems to have developed in a peculiar way. An intelligent but needy man who has some social standing approaches a few of his friends to help him start a scheme for obtaining a certain measure of paddy or rice to meet some emergencies such as his father's 'Sraadha' (death ceremony) or daughter's marriage. He manages to get, say nine of his neighbours, who agree to contribute 'ldangazhis' (an old unit for measuring grain in Kerala) of rice per month for a period of ten months to him and get the total contributions back in a lump by rotation. The original beneficiary also joins the group with the same rate of Contribution (Nayar CPS 1973) four. In the first month, he collects 50 'Idangazhis' of rice from the 10 members including him and takes it for his purpose. In the second month, he collects the same quantity of rice and offers it to one of the remaining nine members.

Now, since every member equally deserves to receive the month's collection in advance, he decides to pick a lot to determine the prizewinner. He draws the lot and gives the entire quantity of rice to the winner. He repeats the process every month until all members get back their total contribution. He calls himself "Munnal' (Foreman), each of the members "Chittal' (Subscriber), the total contribution as 'Sala' (Capital) and the scheme itself 'Chitty' or 'Kuri', Evidently the scheme is a co-operative venture for getting credit through mutual help. Chit funds also played an important role in the financial development of people of South Indian state of Kerala, by providing easier access to credit. In Kerala, chitty (chit fund) is a common phenomenon practiced by all sections of the society. A company named Kerala State Financial Enterprise exists under the Kerala State Government, whose main business activity is the chitty. The concept of chit funds entered public consciousness in the 19th century when Raja Rama Varma, ruler of erstwhile Cochin State gave a loan to a Syrian Christian trader, by keeping a certain portion of it to himself for other expenses and later he drew that money for the principle of equity. According to All Kerala Kuri Foremen's Association, Kerala has around 5,000 chit companies, with Thrissur district accounting for the maximum of 3,000. These chit companies provide employment to about 35,000 persons directly and an equal number indirectly.

How it works

A chit fund comprises a group of members, called subscribers. An organizer, a company or a trusted relative or neighbor, brings the group together and administers the activities of the group. The organizer is compensated each month for their efforts. (The fee may be omitted in informal situations.) The fund starts at an announced date and continues for the number of months equal to the number of subscribers. Each month, the subscribers put in their monthly installments into the pot. Then, an open auction is conducted to determine the lowest sum a subscriber is willing to take that month. For example, if the monthly installment is $1000 and there are 50 members, the pot in the first month will contain $50,000. If the auction determines a winner who is willing to accept $45,000 for that month, the surplus $5,000 is distributed to the other 49 members, after subtracting fees paid to the organizer. The subscriber who won the auction was able to access $45,000 in the first month and the others benefited in their share of the $5,000 surplus. The process repeats, distributing the auction amount to one member each month. All of the other subscribers, including the ones who took their share in a previous month, continue paying the monthly installments. The system acts as a both a borrowing scheme, because subscribers are able to access large sums of money before they have paid the full amount. It also acts as a savings system, because each subscriber contributes every month and may retrieve a large sum in the future while receiving their share of the surpluses. Variations of the system omit the auction part, instead drawing a winner by picking a chit out of a box. (The term chit fund comes from such an arrangement.)

Risk

Both organizers and subscribers in chit funds are exposed to credit risk because subscribers might default on their periodic payments. One analysis of data from two chit fund companies found that 35% of subscribers have defaulted at least once in their tenure at one of the companies and 24% of them have defaulted after taking winning an auction for the pot. Chit fund companies can sue defaulters in court but the procedure is time-consuming and is unlikely to produce a timely settlement. It's up to the chit fund organizers to vet the credit-worthiness of subscribers. To reduce the risk of default, some organizers also require subscribers who win auctions to submit sureties for their future liabilities.Since chit fund payments aren't insured by the government, the system is a riskier method of saving than using a bank savings account.

Legal Framework

Organized chit fund schemes are required to register with the Registrar of Firms, Societies and Chits. A chit fund company is a company that manages, conducts, or supervises such a chit fund, as defined in Section of the Chit Funds Act, 1982. According to Section 2(b) of the Chit Funds Act, 1982: "Chit means a transaction whether called chit, chit fund, chitty, kuree or by any other name by or under which a person enters into an agreement with a specified number of persons that every one of them shall subscribe a certain sum of money (or a certain quantity of grain instead) by way of periodical installments over a definite period and that each such subscriber shall, in his turn, as determined by lot or by auction or by tender or in such other manner as may be specified in the chit agreement, be entitled to the prize amount".

The following laws govern chit funds:

☐ Union Government- Chit Fund Act, 1982 (except the State of Jammu and Kashmir)

☐ Kerala: Kerala Chit Fund Rules 2012 & Amendment 2016

☐ Tamil Nadu: Tamil Nadu Chit Funds Act, 1961

☐ Karnataka: The Chit Funds (Karnataka) Rules, 1983

☐ Andhra Pradesh: The Andhra Pradesh Chit Funds Act, 1971

☐ New Delhi: The Chit Funds Act,1982 andDelhi Chit Funds Rules, 2007

☐ Maharashtra: Maharashtra Chit Fund Act 1975

Company Profile

Kerala State Financial Enterprise

Kerala State Financial Enterprises Limited is a public sector non-banking financial company based in Thrissur city, Kerala, India. It started with a capital of Rs 2, 00,000, 45 employees and 10 branches. It has now 568 branches and eleven Regional Offices at Thiruvananthapuram, Kollam, Kottayam, Ernakulam, Thrissur, Kozhikode, Kannur, Attingal, Alappuzha, Kattappana and Malappuram. KSFE is a Miscellaneous Non-Banking Financial Company (MNBFC) and is fully owned by the Government of Kerala. KSFE is the only chitty Company owned by the Government in the whole of India. Headquarters: Thrissur city, Kerala, India Founder: Government of Kerala Founded: 1969 Owner: Government of Kerala Location: Kerala

4.1 Origin of Kerala State Financial Enterprise (KSFE)

In 1967, The Government of Kerala took a policy decision to the effect that Chitties should be conducted under state auspices as a means for the collection of small savings. The then Finance Minister, in his budget speech for the financial year 1967-68 made the following announcement on the floor of the Kerala Assembly. "I view this decision as a bold step forward along the path towards socialism, aimed at bringing banks and other financial institutions under social control".

As the follow-up, the Government of Kerala, appointed a Special Officer in the year 1967, to look into the feasibility and desirability of starting Chit Funds in the public sector and to prepare a comprehensive scheme for starting Chits under government control. One of the objectives of starting Chit Funds in the public sector was to control the mushroom growth of private Chit Funds and to restrain their growth by offering effective competition.

The Special Officer, who presented his Report on 7 October 1967, recommended strongly the entry of the Government into the field of Chits. Though the recommendation was for conducting Chit as an adjunct of the Registration Department, the Government took a different view and decided to bring within its purview and control, not only Chitties or Kuries, but also certain other financial transactions for which socialization was felt necessary. Accordingly, the Government decided to organize a public sector undertaking with the name "The Kerala State Financial Enterprises Ltd." (KSFE) for conducting Chits, hire purchase and insurance business under

Government control. This apart, the Government of Kerala had a progressive vision for generating non-revenue income through such public sector ventures. Thus, KSFE Ltd. was incorporated as a Government Company on 6 November 1969 with its Head Office at Trichur with the objective of serving as a discipline factor to private Chit Funds". The first Board of Directors was constituted as per G.O. (Rt.) 4876/69/Fin dated 26 November 1969.

KSFE comes under the group of Miscellaneous Non-Banking Financial Intermediaries. KSFE has the unique status of being the only public sector undertaking in India, which runs Chits and one of the few profit making companies owned by the Government of Kerala.

4.2 Management of the Company

The management of the Company has been vested in the Board of Directors constituted by the Governor from time to time. The number of Directors shall not be less than two and shall not be more than fifteen. The Governor may from time to time appoint two Directors, other than the

Managing Director as Chairman and Vice-Chairman of the Board and determine the period for which either of them will hold his respective office. The Board of Directors as on November 2002 includes the Chairman, Managing Director and three other Directors holding the office as Additional Secretary (Taxes), Joint Secretary (Finance) and Inspector General of Registration.

4.3 Organization

The Organizational set up is a three-tier system from it is very inception. With the Head Office as the top controlling and coordinating body, the Regions constituting the intermediary level, coordinating and controlling all the activities of the various branches under them and the branches at the base level as profit generating centers.

Figure 4.1 gives the Organizational structure of KSFE Ltd.

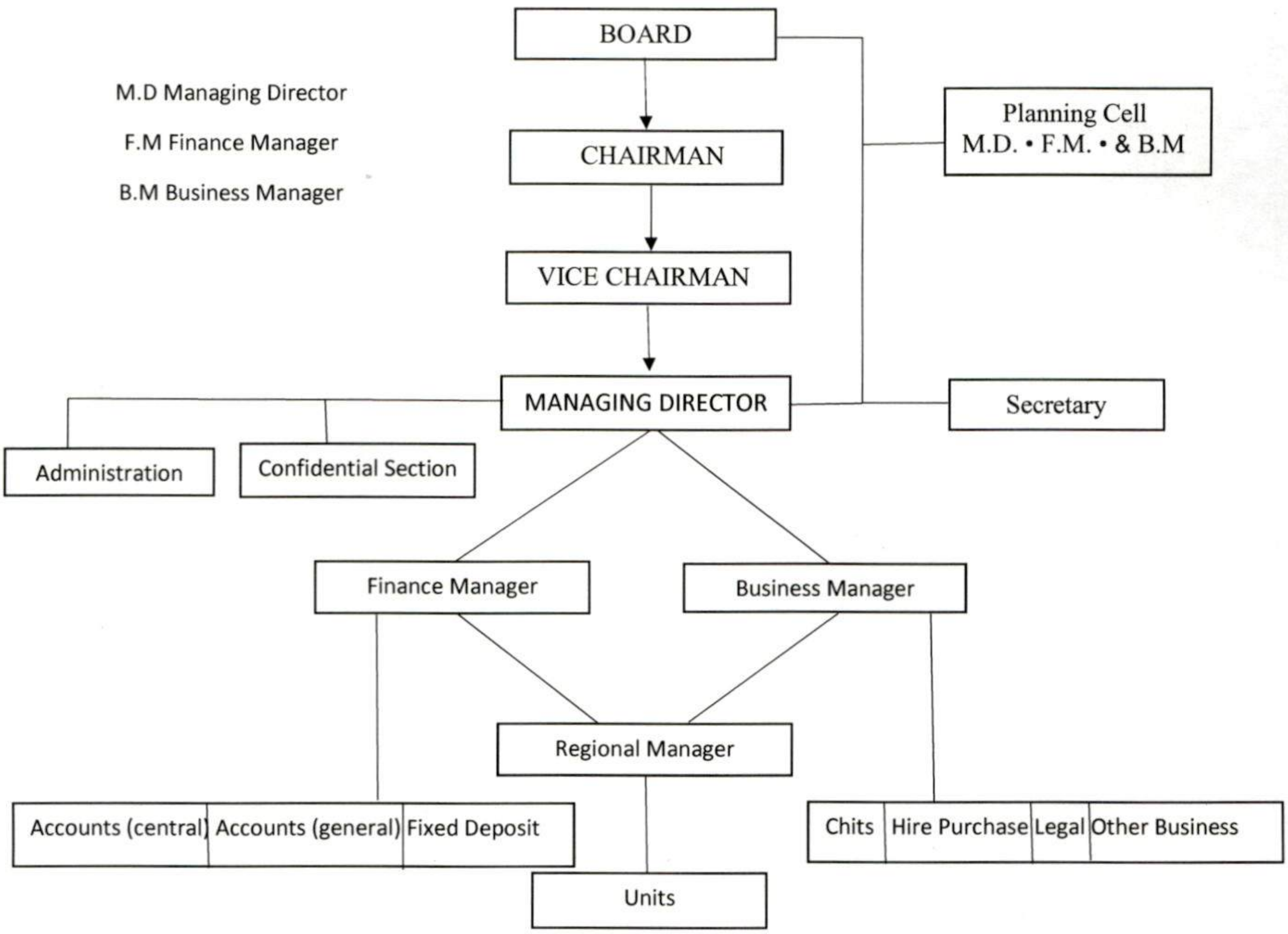
M.D Managing Director
F.M Finance Manager
B.M Business Manager
BOARD
CHAIRMAN
VICE CHAIRMAN
Planning Cell
M.D. • F.M. • & B.M
MANAGING DIRECTOR
Secretary
Administration
Confidential Section
Finance Manager
Business Manager
Regional Manager
Accounts (central)
Accounts (general)
Fixed Deposit
Units
Chits
Hire Purchase
Legal
Other Business

Fig 4.1

At the Head Office, the activities are grouped on functional as well as product basis under the control and supervision of the Managing Director.

The product departments are:

1. Chitty Department 2. Hire Purchase Department

The functional departments are:

• Accounts Department

• Administrative Department

• Secretarial Department

• Legal Department and

• Internal Audit Department

4.4 Objectives of KSFE Ltd.

The major objectives pursued by the Company on its incorporation are:

• To start, conduct, promote, operate, manage and carry on the business of Chitties in India and elsewhere.

• To promote, undertake, organize, conduct, manage and carry on the business of general and miscellaneous insurance of any kind in India or elsewhere.

• To start, promote, conduct, operate, carry on and manage the business. The dealers, agents and traders under the hire purchase system of articles, vehicles, machinery, materials, goods and tools of all capital goods and consumer goods and property of all nature and description, for personal, domestic, office, commercial, industrial and community use and consumption as a business of the Company or as agents of the government, state or central or anybody or organisation, there-under or of any other Company.

• To start, promote, conduct, operate and carry on the business for providing financial assistance for the construction of new buildings and for repairs, renewals, alterations, additions or modifications of existing buildings and for self-employment schemes.

• To provide financial assistance to the hirers or others for the purpose of running and maintaining articles, equipment and other items acquired under Hire Purchase system of the Company.

• To advance money on the security of gold or other valuable securities.

4.4.1 Ancillary Objectives

• To subscribe for, acquire, hold, sell and otherwise deal in shares, stocks, debentures or assets of any Company or society for securing the interests of this Company and to invest the funds in government bonds and securities.

• To enter into any partnership or arrangement for joint working in any trading, commercial or financial business, firm or persons carrying on or engaged in any manufacture or business within the objectives of the Company or similar thereto.

• To establish, maintain, or become a member of training institutions, financial and commercial associations and conferences, workshops and schemes to benefit the Company directly or indirectly.

4.4.2 Other Objectives

• To carry on any other business that is similar to the business of the Company or any business connected with or incidental or allied to the business of the Company.

• To carry on the business of dealers, importers and exporters of all merchantable goods and to carry on and execute all kinds of financial trading and other operations.

• To act as agent for the Government of Kerala or any other authorities and to transact and to undertake and transact, trust or agency business of every kind and of any description.

It is observed that some of the objectives of the Company like conducting Chits outside Kerala and promoting the business of general insurance of any kind in India or elsewhere not yet fulfilled.

4.5 Vision

To become a significant player in the financial services sector by

1. Providing a whole range of quality services and products.

2. Adopting technology and benchmark standards in customer service and performance.

3. Spreading our wings beyond the borders of Kerala, on a global level.

4. Retaining the pre-eminent role in Chitty business.

5. Continuing focus on extending resources to the Govt. of Kerala.

6. Sustaining commitment to the weaker sections of society, as the neighborhood institution.

4.6 Schemes of the Company

Beginning with Chits, the Company over the years has introduced several attractive schemes to cater to the needs of different classes of people. It mainly mobilizes savings by instruments like Chits and deposit schemes, channelizes them to acquire house and household durables, motor vehicles, equipment for self-employment, and provides finance for augmenting working capital needs of small traders.

The main schemes of the Company as of now are:

I. Chit scheme

2. Passbook loan

3. New Chitty loan

4. Hire purchase scheme

5. Hire purchase (House modernization scheme)

6. Employment oriented hire purchase scheme

7. Gold loan scheme

8. Trade financing scheme

9. Fixed deposit scheme

10. Sugama deposit scheme

11. New fixed deposit loan scheme

12. New housing finance scheme

13. Reliable customer loan

Loans & Advances

Although Chitty is in essence a loan/advance scheme, for subscribers Chitties not prized and, at the same time, they are in need of money. the relief has been provided by two loan schemes built within the chitty scheme, viz. Chitty Pass Book Loan and Chitty Loan.KSFE offers other loan/advance schemes, comparable to those given by banks and other financial institutions, and the same includes:

☐ KSFE Housing Loan

☐ Gold Loan Scheme

☐ KSFE Personal Loan

☐ Consumer/Vehicle Loan

☐ Special Car Loan

☐ Fixed Deposit Loan Scheme

☐ Sugama (Akshaya) Overdraft Scheme

☐ Vidyadhanam Education Loan Scheme

☐ KSFE Haritham Loan Scheme.

☐KSFE Housing Loan

KSFE helps you build your dream home. KSFE Housing Loan is also available for purchasing land for housing, renovation of existing house and for the outright purchase of house/flat. To avail this loan scheme, one must fulfill/meet any one of the following criteria: the applicant must be a salaried person, business men who are income tax assesses, NRIs, persons earning rental income or professionals like doctors/engineers/lawyers/chartered accountant. The principal is repayable within a period of 360 months (i.e., 30 years) or applicant's attainment of 70 years of age, whichever is earlier.

☐KSFE Personal Loan

KSFE offers a loan scheme for the customers which allows the customer to take a maximum of Rs.25, 00,000 (Rs.25 lakhs) as advance for a duration up to 60 months. KSFE personal loan can be availed by the customers of KSFE with a good record of accomplishment of one year or more.

☐Consumer/Vehicle Loan Purpose

KSFE CVL Scheme helps you in acquiring white articles, vehicles etc., which you have always dreamed of owning Available for The articles for which CVL is made available include all consumer durable articles including computers, motor vehicles -two & four wheelers, certain durable medical equipment's for clinics, agricultural equipment's / appliances etc. What is the maximum amount of advance? The maximum amount of advance is Rs.15, 00,000/- under this category. Security Acceptable Types of security acceptable for chitty prize money are acceptable in the case of CVL also. Interest Rate 13.00% (simple) is the interest rate applicable and for defaulted accounts 15.00 %(simple). Duration The duration of the advance is between 12 months and 60 months.

☐Special Car Loan

Loan offered by KSFE for buying new cars. This loan can be availed by salaried persons having a net monthly pay exceeding Rs.10,000 and self-employed professionals/businessmen/income tax assesse having an average annual income more than Rs.2 lakhs for the last 3 years. The minimum period of loan is 6 months and the maximum is 60 months. The interest rate payable for loans up to 35 months is at 12.00% per month and the rate is 14.00% if the loan period exceeds 35 months.

☐Sugama (Akshaya) Overdraft Scheme

The objective of the scheme is to provide an overdraft facility to Government Employees, Employees of Public Sector undertakings and Aided Schools/Colleges up to a sum of Rs.50, 000/- based on their own salary certificate. In case of employed couples coming under above category, overdraft up to Rs.5, 00,000/- can be availed. The loanee shall open a Sugama (savings) Account with any of the Branches of his/her choice. He/She can deposit and withdraw any amount as in the case of normal Sugama Account. Whenever the account is overdrawn, interest will be charged @ 13.00%, only for the specific number of days and amount overdrawn. If the account shows a credit balance, the account holder is eligible for normal Sugama interest @ 5.5% based on monthly minimum balance. The period of this overdraft facility is 36 months. It can be renewed subject to conditions. With this scheme, the employees coming under the above category will be benefitted to meet any financial exigency at a low cost. Since the loanee has the option to withdraw the amount as per his/her requirement and as the interest is charged only to that extent, the loanee can save the cost of interest as far as possible.

☐Vidyadhanam Education Loan Scheme

Vidhyadhanam Loan Scheme of KSFE is designed for all Keralite students who intends to seek admission to professional courses. Loan amount of minimum Rs. 0.50 Lakhs and a maximum of Rs 10 Lakhs will be disbursed according to the requirements from admission to completion of course. The loan is a long-term loan, which has to be repaid within 5 years' time from 12th month of completion of the course, or on employment whichever is earlier. The interest rate is 12.25 % for regular customers. 12 per cent for EWS category i.e., annual income of parent or guardian of students is less than One Lakh. However, for students under Economically Weaker Section, government will give a subsidy of 4% and therefore the effective rate will be only 8%.

☐ KSFE Haritham Loan Scheme

KSFE Haritham Loan Scheme is for the supply and installation of solar panels, bio-gas plants, solar water heaters as well as for the purchase of energy saving house hold durables viz., fridge, washing machine, air conditioners etc. having 3 star rating and above.

Evaluation progress of KSFE

Beginning

The Government of Kerala created KSFE on 6 November 1969.The paid up capital then was Rs. 2 Lakhs. Total number of employees at the start was 45. The number of branches KSFE began with was 10. The Head Office of KSFE is placed in Thrissur, the hub of Chitty business in Kerala.

Present Scenario

Paid up Capital is Rs. 100 Crores. Total number of employees is 6782. The number of branches is 600. The number of customers is more than 33 Lakhs. Our Turn Over as on sept.2017 is 33801Cr.

Board of directors

CHAIRMAN - Adv. PEELIPOSE THOMAS

DIRECTORS - Smt. C.A.Letha I.A.S (IG of Registration)

Sri. R.RAJA GOPA (Additional Secretary (Taxes))

Smt. MINI. V. R (Joint Secretary (Finance))

Adv. REJI ZACHARIAH

Sri. VIJAYAN CHERUKARA

Sri. R.MOHAMMED SHA

Sri. P.K.ANANDAKUTTAN

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Sri. P.C.PILLAI

Adv. V.K.PRASAD

Prof. D.NARAYANA

Prof. K.N.GANGADHARAN

Dr. P.V.UNNIKRISHNAN

Managing Director - Sri. A. PURUSHOTHAMAN

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Chapter 4

DATA ANALYSIS AND INTERPRETATION

CHAPTER-4

DATA ANALYSIS AND INTERPRETATION

This chapter discuss about the trends of different loans and advances and the impact of NPA on loans and advances. In KSFE, there are about fourteen loans and advances but presently only four of them are active. Therefore, for this study only those four loans and advances taken. They are Gold loan, Reliable customer loan & fixed deposit loan, new chitty loan, new housing finance scheme.

In KSFE when the customers do not pay the given loans, after six months they will consider it as Non-Performing Asset (NPA). They have to recover this amount. Therefore, the Revenue recovery department (RR) does those procedures. For that KSFE need to get permission from the Regional office. In Kerala, seven RR departments are working at different places for KSFE.

The process called auction takes the loans back. After publishing through Medias Auction is conducted. Anyone can buy that property or gold. In addition, after selling they pay commission to RR department. KSFE will provide their employees and other facilities for RR department. There will be a deputy collector in RR and that person has the authority to do these activities. Due to software failure, over burden of fails or because of any other reason some of the debt fails will not be send to the RR department such debt will be recognized as Non-RR.

1. Trend of loans and advances

Trends in total loans and advances disbursed and outstanding are examined in the following paragraphs.

4.1.1 Trend in total loans and advances disbursed for the period from 2001-02 to 2016-17

Table 4.1.1 Trend in total loans and advances disbursed for the period from 2001-02 to 2016-17

Years	Amount	Growth Index
2001-02	34464	100
2002-03	38196	111
2003-04	53108	154
2004-05	67982	197
2005-06	57917	168
2006-07	104454	303
2007-08	124558	361
2008-09	145234	421
2009-10	73065	212
2010-11	188885	548
2011-12	232742	675
2012-13	345178	1002
2013-14	371906	1079
2014-15	340781	989
2015-16	1811894	5257
2016-17	396867	1152

Source: Annual report of KSFE *In this study 2001-02 is taken as base year

The trend of loans and advances disbursed is in an increasing trend. Highest amount of loan and advances disbursed in the year 2015-16 (5258 %) and lowest amount of loan disbursed in the year 2005-06 (5 %).As a whole, it is increasing trend. It shows general increasing trend. It increased tenfold when compare with previous years. During 2016-17 the demand for gold has decreased when compare with previous year it is because of demonetization.

4.1.2Trend in total loans and advances outstanding for the period from 2001-02 to 2016-17

Table 4.1.2Trend in total loans and advances outstanding for the period from 2001-02 to 2016-17

Years	Amount	Growth Index
2001-02	51482	100
2002-03	47069	91
2003-04	47957	93
2004-05	55739	108
2005-06	62818	122
2006-07	78114	152
2007-08	95741	186
2008-09	120128	233
2009-10	145903	283
2010-11	157094	305
2011-12	178055	346
2012-13	235864	458
2013-14	278173	540
2014-15	315966	614
2015-16	395632	768
2016-17	465577	904

Source: Annual report of KSFE

From this analysis, it is understood that the total loans and advances disbursed shows an increasing trend. Highest amount of loans and advances disbursed in the year 2016-17 (904 %).Outstanding loans and advances constantly increasing. Increase in general growth index of outstanding amount is less than that of disbursement. It is the primary indication of efficient collection of loans and advances.

Structural analysis would give a better understanding than before. So the structural changes of loans and advances are analyzed in the following tables. A break up analysis of loans and advances will give better insight of growth in loans and advances. Therefore, a break up analysis of total loans and advances disbursed and outstanding are given below.

4.1.3 Structure of loans and advances disbursed for the period from 2001-02 to 2016-17

Table 4.1.3 Structure of loans and advances disbursed for the period from 01-02 to16-17

Year	Gold loan	RCL&FDL	NCL	NHFS	Others	Total
2001-02	7935 (23)	4024 (12)	15678 (45)	1110 (3)	5717 (17)	34464 (100)
2002-03	14811 (39)	6118 (16)	10760 (28)	805 (2)	5702 (15)	38196 (100)
2003-04	33291 (63)	7742 (15)	8377 (16)	867 (2)	2831 (5)	53108 (100)
2004-05	45569 (67)	11515 (17)	7997 (12)	833 (1)	2068 (3)	67982 (100)
2005-06	56024 (67)	16158 (20)	7662 (9)	826 (.10)	2171 (3)	82841 (100)
2006-07	75781 (73)	17829 (17)	8277 (8)	897 (.86)	1670 (2)	104454 (100)
2007-08	86555 (69)	18709 (15)	17160 (14)	551 (.44)	1583 (1)	124558 (100)
2008-09	96959 (67)	17682 (12)	28172 (19)	696 (.48)	1725 (1)	145234 (100)
2009-10	11668 (16)	17777 (24)	40914 (56)	782 (1)	1924 (3)	73065 (100)
2010-11	124677 (66)	23674 (13)	38170 (20)	696 (.37)	1668 (1)	188885 (100)
2011-12	164625 (71)	23205 (10)	41730 (18)	735 (.32)	2447 (1)	232742 (100)
2012-13	235525 (68)	35653 (10)	70117 (20)	2144 (1)	1739 (1)	345178 (100)
2013-14	198618 (53)	60536 (16)	108508 (29)	2505 (1)	1739 (.46)	371906 (100)
2014-15	157305 (46)	76374 (22)	91059 (27)	13996 (4)	2047 (1)	340781 (100)
2015-16	796985 (44)	349145 (19)	643996 (36)	20657 (1)	1111 (.06)	1811894 (100)
2016-17	169777 (42)	100467 (25)	91860 (23)	33580 (9)	1183 (.30)	396867 (100)

Source: Annual report of KSFE *Figures given in brackets are percentage of each item with total

From this analysis, we can understand that among the loans and advances customers are coming mainly for Gold loan than any other loans. Gold loan disbursed during 2001-02 was 23 percent but in 2016-17, it has become 42 percent. Likewise, RCL&FDL and NHFS has increased but NCL and other loans and advances has decreased. The share of other loans has decreased more when compared with others.

4.1.4 Structure of loans and advances Outstanding for the period from 2001-02 to 2016-17

Table 4.1.4 Structure of loans and advances Outstanding for the period from 2001-02 to 2016-17

Year	Gold loan	RCL&FDL	NCL	NHFS	Others	Total
2001-02	4040 (8)	4112 (8)	29606 (58)	4686 (9)	9038 (18)	51482 (100)
2002-03	7326 (16)	4670 (10)	21875 (46)	4079 (9)	9119 (19)	47069 (100)
2003-04	16344 (34)	6246 (13)	15191 (32)	3801 (8)	6375 (13)	47957 (100)
2004-05	25145 (45)	10868 (19)	11669 (21)	3581 (6)	4476 (8)	55739 (100)
2005-06	29799 (47)	17321 (28)	9196 (15)	3424 (5)	3078 (5)	62818 (100)
2006-07	40783 (52)	22465 (29)	9144 (12)	3196 (4)	2526 (3)	78114 (100)
2007-08	46532 (49)	26417 (28)	17436 (18)	2921 (3)	2435 (3)	95741 (100)
2008-09	51078 (43)	30410 (25)	32997 (27)	2919 (2)	2724 (2)	120128 (100)
2009-10	58330 (40)	31763 (22)	49427 (34)	3238 (2)	3145 (2)	145903 (100)
2010-11	63954 (41)	35129 (22)	51504 (33)	3284 (2)	3223 (2)	157094 (100)
2011-12	81991 (46)	35353 (20)	53971 (30)	3339 (2)	3401 (2)	178055 (100)
2012-13	118278 (50)	43729 (19)	66577 (28)	3803 (2)	3477 (1)	235864 (100)
2013-14	107492 (39)	67772 (24)	93740 (34)	5505 (2)	3664 (1)	278173 (100)
2014-15	81392 (26)	93556 (30)	118921 (38)	18403 (6)	3694 (1)	315966 (100)
2015-16	74264 (19)	125086 (32)	124354 (31)	70381 (18)	1547 (.39)	395632 (100)
2016-17	78210 (17)	163734 (35)	156905 (34)	62967 (14)	3761 (1)	465577 (100)

Source: Annual report of KSFE *Figures given in brackets are percentage of each item with total

From this analysis, we can understand that the structure of each item in loans and advances has changed year after year. In the year, 2002 gold loan outstanding was only 8 percent but in 2017, it has become 17 percent. Likewise, RCL&FDL in 2002 8 percent, in 2017 it has become 35 and NHFS in 2002 was 9 percent in 2017 14 percent these has changed their structure when years passed. However, new chitty loan and others has decreased. Therefore, it can be conclude the structure of loans and advances in KSFE is not static it changes when time passes.

Analysis of individual heads of Loans and advances disbursed

4.1.5Trend in Gold loan disbursed for the period from 2001-02 to 2016-17

Table 4.1.5Trend in Gold loan disbursed for the period from 2001-02 to 2016-17

Years	Amount(in lakhs)	Growth Index
2001-02	7935	100
2002-03	14811	187
2003-04	33291	420
2004-05	45569	574
2005-06	56024	706
2006-07	75781	955
2007-08	86555	1091
2008-09	96959	1221
2009-10	116688	1470
2010-11	124677	1571
2011-12	164625	2075
2012-13	235525	2968
2013-14	198618	2503
2014-15	157305	1982
2015-16	796985	10044
2016-17	169677	2138

Source: Annual report of KSFE

The trend of total amount disbursed for gold loan has increased continuously during these fifteen years. During 2015-16, disbursed amount for gold loan has reached its highest percent (10044 %). Disbursed amount showed a lowest trend during 2001-02 (100 %). From this analysis, it is understood that during 2015-16 the demand for gold loan was at its highest peak when compared with the previous years.

4.1.6Trend in Reliable customer loan (RCC) and Fixed deposit loan (FDL) disbursed for the period from 2001-02 to 2016-17

Table 4.1.6Trend in Reliable customer loan (RCC) and Fixed deposit loan (FDL) disbursed for the period from 2001-02 to 2016-17

Years	Amount(in lakhs)	Growth Index
2001-02	4024	100
2002-03	6118	152
2003-04	7742	192
2004-05	11515	286
2005-06	16158	402
2006-07	17829	443
2007-08	18709	465
2008-09	17682	439
2009-10	17777	442
2010-11	23674	588
2011-12	23205	577
2012-13	35653	886
2013-14	60536	1504
2014-15	76374	1898
2015-16	349145	8677
2016-17	100467	2497

Source: Annual report of KSFE *Break up figure is not available

The amount given for Reliable customer loan (RCL) and Fixed deposit loan (FDL) has a continuous increase. It showed a continuous increase from 2001-02 up to 2016-17. Highest amount was disbursed during 2015-2016 (8667 %). From 2013-14 to 2015-16, the demand for gold loan has increased ten times than that of base year.

4.1.7Trend in new chitty loan disbursed for the period from 2001-02 to 2016-17

Table 4.1.7Trend in new chitty loan disbursed for the period from 2001-02 to 2016-17

Years	Amount(in lakhs)	Growth Index
2001-02	15678	100
2002-03	10760	69
2003-04	83377	532
2004-05	7997	51
2005-06	7662	49
2006-07	8277	53
2007-08	17160	110
2008-09	28172	180
2009-10	40914	270
2010-11	38170	244
2011-12	41730	266
2012-13	70117	447
2013-14	108508	692
2014-15	91059	581
2015-16	643996	4108
2016-17	91860	586

Source: Annual report of KSFE

The amount disbursed for new chitty loan is always fluctuating. Highest amount was disbursed during 2015-2016 (4108 %) and lowest amount disbursed during 2005-06 (49 %). During 2016, the amount disbursed has increased more than forty times than that of base year. During 2003-03, and from 2003-04 to 2005-06 shows very low trend and from 2006-07 the trend is increasing.

4.1.8Trend in new housing finance scheme disbursed for the period from 2001-02 to 2016-17

Table 4.1.8Trend in new housing finance scheme disbursed for the period from 2001-02 to 2016-17

Year	Amount(in lakhs)	Growth Index
2001-02	1110	100
2002-03	805	73
2003-04	867	78
2004-05	833	75
2005-06	826	74
2006-07	897	81
2007-08	551	50
2008-09	696	63
2009-10	782	71
2010-11	696	63
2011-12	735	66
2012-13	2144	193
2013-14	2505	226
2014-15	13996	1261
2015-16	20657	1861
2016-17	33580	3025

Source: Annual report of KSFE

The amount of new housing finance scheme disbursed was higher during 2016-17 (3025 %). Up to 2012-13 trend was increasing but increasing slowly and after that has increased to tenfold than that of base.

4.1.9Trend in other loans disbursed for the period from 2001-02 to 2016-17

Table 4.1.9Trend in of other loans disbursed for the period from 2001-02 to 2016-17

Years	Others	Growth Index
2001-02	5717	100
2002-03	5702	100
2003-04	2831	50
2004-05	2068	36
2005-06	1802	32
2006-07	1670	29
2007-08	1583	28
2008-09	1725	30
2009-10	1924	34
2010-11	1668	29
2011-12	2447	43
2012-13	1739	30
2013-14	1739	30
2014-15	2047	36
2015-16	1280	22
2016-17	1183	21

Source: Annual report of KSFE

Others loans disbursed KSFE is lower when compared with other loans and advances. The first two years showed constant trend but after that, the trend is decreasing. The trend is always fluctuating. The demand for other loans and advances is decreasing. The reason for that is the customers are unaware about the various kinds of loans and advances offered by KSFE.

When we analyzed the above five tables of individual of loans and advances disbursed it shows the changes of each loans and advances. The demand for new chitty loan is higher when compare with other loans and advances. In 2016-17, NCL disbursed was 3025 percent, which is twenty percent higher than that of base year. However, other loans and advances is decreasing in during 2001-02 it was 100percent but in 2016-17 it has become 21 percent. The disbursement percent of gold loan, RCL&FDL, NHFS all shows higher than that of other loans.

Analysis of loans and advances outstanding

4.1.10Trend in Gold loan outstanding for the period from 2001-02 to 2016-17

Table 4.1.10 Trend in Gold loan outstanding for the period from 2001-02 to 2016-17

Years	Amount(in lakhs)	Growth Index
2001-02	4040	100
2002-03	7326	181
2003-04	16344	405
2004-05	25145	622
2005-06	29799	738
2006-07	40783	1010
2007-08	46532	1152
2008-09	51078	1264
2009-10	58330	1444
2010-11	63954	1583
2011-12	81991	2030
2012-13	118278	2928
2013-14	107492	2661
2014-15	81392	2015
2015-16	74264	1838
2016-17	78210	1936

Source: Annual report of KSFE

The amount of Gold loan outstanding was always in an increasing trend. During 2012-13 (2928 %), showed the highest outstanding amount. The amount of gold outstanding is showing an increasing trend. However, when we compare it with the disbursed amount it can be understand that the outstanding amount shows decreasing trend. During 2016-17, disbursed amount is 169677 and the outstanding amount is 78210. KSFE is getting back more than fifty percent of disbursed amount. However, we cannot say that they are efficient in getting back the loans and advances because, the trend of outstanding amount is increasing.

4.1.11Trend in Reliable customer loan (RCL) and Fixed deposit loan (FDL) outstanding for the period from 2001-02 to 2016-17

Table 4.1.11Trend in Reliable customer loan (RCL) and Fixed deposit loan (FDL) outstanding for the period from 2001-02 to 2016-17

Years	Amount(in lakhs)	Growth Index
2001-02	4112	100
2002-03	4670	114
2003-04	6246	152
2004-05	10868	264
2005-06	17321	421
2006-07	22465	546
2007-08	26417	642
2008-09	30410	740
2009-10	31763	772
2010-11	35129	854
2011-12	35353	860
2012-13	45430	1105
2013-14	69847	1699
2014-15	93556	2275
2015-16	131145	3189
2016-17	163734	3982

Source: Annual report of KSFE

The outstanding amount for RCL&FDL shows an increasing trend. Highest outstanding amount calculated during 2016-17 (3189 %) which is thirty times than of base year and lowest outstanding amount calculated during base year. The outstanding amount was always in an increasing trend. When we compare it with the disbursed amount, the outstanding amount shows increasing trend which means that KSFE is not efficient in allocation of RCL&FDL loans and advances.

4.1.12Trend in New chitty loan outstanding for the period from 2001-02 to 2016-17

Table 4.1.12Trend in New chitty loan outstanding for the period from 2001-02 to 2016-17

Year	Amount(in lakhs)	Growth Index
2001-02	29606	100
2002-03	21875	74
2003-04	15191	51
2004-05	11669	39
2005-06	9196	31
2006-07	9144	31
2007-08	17436	59
2008-09	32997	112
2009-10	49427	167
2010-11	51504	174
2011-12	53971	182
2012-13	72762	246
2013-14	102015	345
2014-15	118921	402
2015-16	124353	420
2016-17	156905	530

Source: Annual report of KSFE

The outstanding amount of new chitty loan shows decreasing trend from 2002-03 to 2005-06 after that the trend is increasing. During 2016-17, the outstanding amount of new chitty loan is higher (530 %) than that of other years. When we compare it with the disbursed amount, it is clear that the trend is decreasing. It is clear that KSFE is getting back NCL loans properly.

4.1.13Trend in New housing finance scheme outstanding for the period from 2001-02 to 2016-17

Table 4.1.13Trend in New housing finance scheme outstanding for the period from 2001-02 to 201617

Years	Amount(in lakhs)	Growth Index
2001-02	4686	100
2002-03	4079	87
2003-04	3801	81
2004-05	3581	76
2005-06	3424	73
2006-07	3196	68
2007-08	2921	62
2008-09	2919	62
2009-10	3238	69
2010-11	3284	70
2011-12	3339	71
2012-13	3803	81
2013-14	5505	118
2014-15	18403	393
2015-16	35453	757
2016-17	62967	1344

Source: Annual report of KSFE

Up to 2012-13, the outstanding amount is always fluctuating. From 2013-14 it shows increasing trend. During2016-17,the outstanding amount has increased ten times (1344 %) than that of base year. When we compare it with the disbursed amount it is clear that up to 2011-12 the outstanding amount of NHFS shows increasing trend and after that it shows decreasing trend. From this, it is clear that up to 2011-12 KSFE is not efficient in getting back the NHFS and after that they have taken necessary measures and reduced the outstanding amount.

4.1.14Trend in other loans outstanding for the period from 2001-02 to 2016-17

4.1.14Trend in other loans outstanding for the period from 2001-02 to 2016-17

Years	Amount	Growth Index
2001-02	9038	100
2002-03	9119	101
2003-04	6375	71
2004-05	4476	50
2005-06	3078	34
2006-07	2526	28
2007-08	2435	27
2008-09	2724	30
2009-10	3145	35
2010-11	3223	36
2011-12	3401	38
2012-13	3477	38
2013-14	3664	41
2014-15	3694	41
2015-16	1547	17
2016-17	3761	42

Source: Annual report of KSFE

The other loans outstanding is always fluctuating. When we compare it with the other loans disbursed, the trend is fluctuating but the trend is increasing. Therefore, it is clear from the analysis that the outstanding amount of other loans is increasing which means that the collection of other loans is not efficient.

From this analysis, it is understood that the amount of loans and advances outstanding is higher for each loans and advances. The outstanding amount is higher for RCL&FDL loans 163734 (3982 %). It is clear that KSFE is not efficient in getting back the loans and advances.

Analysis of NPA

4.1.15Trend in NPA for the period from 2001-02 to 2016-17

Table 4.1.15Trend in NPA for Few years the period from 2001-02 to 2016-17

Years	Amount(in crores)	Growth Index
2005-06	8.9	100
2006-07	7.9	89
2007-08	6.87	77
2008-09	126	1416
2009-10	265	2978
2010-11	1291	14506
2011-12	1692	19011
2012-13	2153	24191
2013-14	3524	39596
2014-15	1085.22	12193
2015-16	1521	17090
2016-17	1684	18921

Source: Annual report of KSFE

Up to 2004-05 there is no NPA in KSFE. The highest amount of NPA is calculated on 2013-14 (39596 %) and the lowest amount of NPA was calculated on 2007-08 6.87 (77 %). This analysis shows that NPA always shows an increasing in trend up to 2013-14 and after that, it is fluctuating. It is clear that they are not taking necessary measures to reduce it.

4.1.16 Comparison of Total NPA with Total Outstanding loans & advances for the period from 2001-02 to 2016-17

Table 4.1.16 Comparison of Total NPA with Total Outstanding loans & advances for the period from 2001-02 to 2016-17

Year	Total NPA	Total Outstanding Loans & Advances	Percent
2001-02	0	51482	0
2002-03	0	47069	0
2003-04	0	47957	0
2004-05	0	55739	0
2005-06	8.9	62818	0.01
2006-07	7.9	78114	0.01
2007-08	6.87	95741	0.01
2008-09	126	120128	0.10
2009-10	265	145903	0.18
2010-11	1291	157094	0.82
2011-12	1692	178055	0.95
2012-13	2153	235864	0.91
2013-14	3524	278173	1.27
2014-15	1084.22	315966	0.34
2015-16	1521	395632	0.38
2016-17	1684	465577	0.36

Source: Annual report of KSFE (in crore)

Total TNPA/Total Outstanding loans and advances

From this, it is understood that among the total outstanding amount of loans and advances NPA is increasing. Highest NPA was calculated on 2013-14 (1.27). The ratio of NPA is increasing but in the last three years, the amount of NPA seems to be decreasing.

4.1.17.1 Impact of NPA on working capital for the period from 2001-02 to 2016-17

Table 4.1.17.1 Working capital without NPA for the period from 2001-02 to 2016-17

Year	Current assets (in crores)	Current liabilities (in crores)	Working capital before NPA
2001-02	25847305885	14999942178	10847363707
2002-03	28187793568	15477833949	12709959619
2003-04	28701880457	16097166321	12604714136
2004-05	28626073894	16652039001	11974034893
2005-06	30246817368	17391599912	12855217456
2006-07	31673434447	19205568928	12467865519
2007-08	39605962635	19792123756	19813838879
2008-09	50251058505	26397901015	23853157490
2009-10	69191156668	37947332394	31243824274
2010-11	82836510002	49791545085	33044964917
2011-12	100387386153	98035745653	2351640500
2012-13	127834403428	124900316031	2934087397
2013-14	157098989596	153551645192	3547344404
2014-15	184914497064	180140481638	4774015426
2015-16	208326567476	203013427246	5313140230
2016-17	236069946548	229623736	235840322812

Source: Annual report of KSFE

Working capital = Current assets - Current liabilities

From this analysis, it is understood that the KSFE has enough working capital to do their business activities. They are able to meet their day today needs and short-term debts with working capital. KSFE has enough liquid cash with them.

4.1.17.2 Impact of NPA on working capital for the period from 2001-02 to 2016-17

Table 4.1.17.2 Impact of NPA on working capital for the period from 2001-02 to 2016-17

Year	Current assets (in crores)	Current liabilities (in crores)	Working capital before NPA	Total NPA (in crores)	Working capital after NPA
2001-02	25847305885	14999942178	10847363707	0	10847363707
2002-03	28187793568	15477833949	12709959619	0	12709959619
2003-04	28701880457	16097166321	12604714136	0	12604714136
2004-05	28626073894	16652039001	11974034893	0	11974034893
2005-06	30246817368	17391599912	12855217456	89000000	12766217456
2006-07	31673434447	19205568928	12467865519	79000000	12388865519
2007-08	39605962635	19792123756	19813838879	68700000	19745138879
2008-09	50251058505	26397901015	23853157490	1260000000	22593157490
2009-10	69191156668	37947332394	31243824274	2650000000	28593824274
2010-11	82836510002	49791545085	33044964917	12910000000	20134964917
2011-12	100387386153	98035745653	2351640500	1692000000	659640500
2012-13	127834403428	124900316031	2934087397	21530000000	-18595912603
2013-14	157098989596	153551645192	3547344404	35210000000	-31662655596
2014-15	184914497064	180140481638	4774015426	10852200000	-6078184574
2015-16	208326567476	203013427246	5313140230	15210000000	-9896859770
2016-17	236069946548	229623736	235840322812	16840000000	219000322812

Source: Annual report of KSFE

Working capital after NPA = Current assets-Current liabilities-Working Capital-NPA

From this analysis, we can understand that the amount of liquid cash is decreasing year after year. In the previous table of this study, there is enough working capital to do their day-to-day activities. However, when liquid cash decreasing when NPA incurred. From 2012-13 to 2015-16 KSFE has no liquid cash. When we compare with the above table it is very clear that if there is no NPA KSFE has enough working capital and with NPA, they have no enough working capital. Certain years they have zero amount of working capital.

2. Analysis of Financial Position

Ratio analysis is a widely used tool of financial analysis. The term ratio in it refers to the relationship expressed in mathematical terms between two individual figures or group of figures connected with each other in some logical manner and selected from financial statements of the concern. The ratio analysis is based on the fact that a single accounting figure by itself may not communicate any meaningful information but, when expressed as a relative to some other figure, it may definitely provide some significant information the relationship between two or more accounting figure/groups is called a financial ratio. It helps to express the relationship between two accounting figures in such a way that users can draw conclusions about the performance, strengths and weakness of a firm. Financial ratios can broadly classified into five categories.

Classification of Ratios

1. Liquidity Ratios
2. Leverage Ratios
3. Profitability Ratios
4. Efficiency Ratios
5. Operational Ratios

For the analysis only two ratios has taken that is Liquidity ratio and Leverage ratio.

1. Liquidity ratio

The term liquidity refers to the firm's ability to pay its current liabilities out of its current assets. Liquidity ratios are used to measure the liquidity position or short-term financial position of a firm. These ratios are used to access the short-term debt paying ability of a firm. These ratios are highly useful to creditors and commercial banks that provide short-term credit. Important liquidity ratios are current ratio, quick ratio, super quick ratio etc.

4.2.1.1Current ratio

Current ratio is defined as the relationship between current assets and current liabilities. It is the most common ratio for measuring liquidity. It is calculated by dividing current assets and current liabilities. Current assets are those, the amount of which can be realized with in a period of one year. Current liabilities are those amounts which are payable with in a period of one year.

A very high current ratio is not always desirable since it means less efficient use of funds. This is because a high current ratio means excessive dependence on long-term source of raising funds.

Current Ratio = Current Assets/ Current Liabilities

4 .2.1.1 Current ratio for the period from 2001-02 to 2016-17

Table 4.2.1.1 Current ratio for the period from 2001-02 to 2016-17

Year	Current asset (in crores)	Current liabilities (in crores)	Current ratio
2001-02	2585	1500	1.72
2002-03	2819	1548	1.82
2003-04	2870	1610	1.78
2004-05	2863	1665	1.72
2005-06	3025	1739	1.74
2006-07	3167	1921	1.65
2007-08	3961	1979	2.00
2008-09	5025	2640	1.90
2009-10	6919	3795	1.82
2010-11	8284	4979	1.66
2011-12	10039	9804	1.02
2012-13	12783	12490	1.02
2013-14	15710	15355	1.02
2014-15	18491	18014	1.03
2015-16	20833	20301	1.03
2016-17	23607	22962	1.03

Source: Annual report of KSFE

Generally, a current ratio of 1.33: 1 is considered as ideal. This means that current assets shall be at least twice of current liabilities. Up to 2011 current ratio is more than 1.33, after that their current ratio is declining, which shows the KSFE have current assets just equal to current liabilities, which is not satisfactory as the safety margin very less, or zero. The KSFE should keep more current asset so that it can maintain satisfactory safety margin. The liquidity of KSFE is decreasing.

* As there is no inventory, Quick Asset ratio and Current ratio are same. Therefore, there is no need for Quick asset ratio table.

2. Leverage ratio

Many financial analysts are interested in the relative use of debt and equity in the firm. The term "solvency" refers to the ability of a concern to meet its long-term obligation. Accordingly, long-term solvency ratios indicate a firm's ability to meet the fixed interest and costs and repayment schedules associated with its long-term borrowings. For example, debt equity ratio, proprietary ratio, etc.

4.2.2.1 Debt ratio

Debt Ratio that indicates what proportion of debt a company has relative to its assets. The measure gives an idea to the leverage of the company along with the potential risks the company faces in terms of its debt-load.

A debt ratio of greater than one indicates that a company has more debt than assets; meanwhile, a debt ratio of less than one indicates that a company has more assets than debt. Used in conjunction with other measures of financial health, the debt ratio can help investors determine a company's level of risk.

Debt Ratio = Total Debt/ Total Assets

4.2.2.1 Debt ratio for the period from 2001-02 to 2016-17

Table 4.2.2.1 Debt ratio for the period from 2001-02 to 2016-17

Year	Total debt (in crores)	Total asset (in crores)	Debt ratio
2001-02	2562	2588	0.99
2002-03	2776	2823	0.98
2003-04	2813	2875	0.98
2004-05	2789	2868	0.97
2005-06	2930	3030	0.97
2006-07	3066	3177	0.97
2007-08	3855	3969	0.97
2008-09	2260	5034	0.45
2009-10	677	6936	0.10
2010-11	8115	8304	0.98
2011-12	9804	1006	9.74
2012-13	12490	12814	0.97
2013-14	15359	15738	0.98
2014-15	1807	18516	0.10
2015-16	20367	20857	0.98
2016-17	23053	23629	0.98

Source: Annual report of KSFE

In this analysis, it is understood that the total debt of KSFE is increasing. They are not in a secured position. The ratio between total asset and total debt is always less than one. They are having high risk.

4.2.2.2 Debt equity ratio

It expresses the relationship between the external equities and internal equities or the relationship between borrowed funds and "owners" capital. It is a popular measure of the long-term financial solvency of a firm. This relationship is shown by the debt equity ratio. This ratio indicates the relative proportion of debt and equity in financing the assets of a firm. This ratio is computed by dividing the total debt of the firm by its equity i.e. net worth.

Debt equity ratio = Long term debt / Owners equity

4.2.2.2 Debt equity ratio for the period from 2001-02 to 2016-17

Table 4.2.2.2 Debt equity ratio for the period from 2001-02 to 2016-17

Year	Long term debt (in crores)	Owners' equity (in crores)	Debt equity ratio
2001-02	0	27	0
2002-03	0	47	0
2003-04	0	62	0
2004-05	0	79	0
2005-06	0	100	0
2006-07	0	111	0
2007-08	0	1104	0
2008-09	0	134	0
2009-10	0	168	0
2010-11	0	191	0
2011-12	0	259	0
2012-13	0	324	0
2013-14	4	280	0.01
2014-15	57	445	0.13
2015-16	66	4904	0.01
2016-17	91	576	0.16

Source: Annual report of KSFE

This ratio indicates the firm's capacity to meet the debt of the firm. An ideal debt equity ratio is 1:1. Up to 2012-13 Debt equity ratio is zero. In addition, last four years shows a trend less than the ideal ratio. Therefore, KSFE will face some difficulty in those years to meet the debt with this asset, because the ratio is not meeting the Ideal standard.

Chapter 5

SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION

Chapter 5

Summary of Findings, Suggestion, Conclusion

5.1 INTRODUCTION

The KSFE compete with the commercial banks for public savings and as a source of loanable fund from the chit company to a big financial institution. The KSFE has a success story. At present, the company had a wide network of branches spread throughout the state and cater the needs of the people. The company offers a wide variety of products for the overall development of the economy. The study entitled performance of loans and advances of KSFE Ltd. has undertaken with an objective of analyzing the different types of loans and advances, also to study the impact of NPA on loans and advances of the KSFE Ltd. The study was conducted for a period of 15 years from 2002 to 2017. So, to analyze the financial performance of KSFE Ltd. The study was based on primary data and secondary data. The tools for financial analysis such as trend analysis and ratio analysis was used for analyzing the data.

5.1.2 Findings

1.The demand for loans and advances is increasing. Highest amount demanded in the year 2015 - 16. The growth index of disbursement of loans and advances is increasing.

2. The trend of total loans and advances outstanding is increasing. The given loans are not getting back properly. Outstanding loans and advances constantly increasing. Increase in general growth index of outstanding amount is less than that of disbursement. It is the primary indication of efficient collection of loans and advances.

3.Gold loan disbursed during 2001-02 was 23 percent but in 2016-17, it has become 42 percent. Likewise, RCL&FDL and NHFS has increased but NCL and other loans and advances has decreased. The share of other loans has decreased more when compared with others. The structure of disbursing loans and advances is in increasing trend. The disbursing structure of other loans are decreasing. The main reason for that is customers are not aware about the various kinds of loans and advances offered by KSFE.

4. The structure of loans and advances outstanding is also increasing. When we compare it with disbursed amount, the trend is increasing. RCL&FDL loans standard in first position in outstanding amount. In the year, 2002 gold loan outstanding was only 8 percent but in 2017, it

has become 17 percent. Likewise, RCL&FDL in 2002 8 percent, in 2017 it has become 35 and NHFS in 2002 was 9 percent in 2017 14 percent these has changed their structure when years passed. However, new chitty loan and others has decreased. Therefore, it can be conclude the structure of loans and advances in KSFE is not static it changes when time passes.

5. Gold loan the disbursing structure shows increasing trend. RCL&FDL also shows an increasing trend. NCL disbursed is always fluctuating. NHFS shows increasing trend and other loans disbursed is always fluctuating the demand is reducing. The reason for that is customers are not aware about the various kinds of loans and advances provided by KSFE.

6. The amount of gold outstanding is showing an increasing trend. However, when we compare it with the disbursed amount it can be understand that the outstanding amount shows decreasing trend. During 2016-17, disbursed amount is 169677 and the outstanding amount is 78210. KSFE is getting back more than fifty percent of disbursed amount. However, we cannot say that they are efficient in getting back the loans and advances because; the trend of outstanding amount is increasing. The reason for that is customers are not getting speed loans in KSFE when compared with other NBFC's.

7. The outstanding amount was always in an increasing trend. When we compare it with the disbursed amount, the outstanding amount shows increasing trend which means that KSFE is not efficient in allocation of RCL&FDL loans and advances.

8.During 2016-17, the outstanding amount of new chitty loan is higher (530 %) than that of other years. When we compare it with the disbursed amount, it is clear that the trend is decreasing. It is clear that KSFE is getting back NCL loans properly.

9. The outstanding amount of new chitty loan shows decreasing trend from 2002-03 to 2005-06 after that the trend is increasing. During 2016-17, the outstanding amount of new chitty loan is higher (530 %) than that of other years. When we compare it with the disbursed amount, it is clear that the trend is decreasing. It is clear that KSFE is getting back NCL loans properly.

10. During 2016-17, the outstanding amount has increased ten times (1344 %) than that of base year. When we compare it with the disbursed amount it is clear that up to 2011-12 the outstanding amount of NHFS shows increasing trend and after that it shows decreasing trend. From this, it is

clear that up to 2011-12 KSFE is not efficient in getting back the NHFS and after that they have taken necessary measures and reduced the outstanding amount.

11. The other loans outstanding is always fluctuating. When we compare it with the other loans disbursed, the trend is fluctuating but the trend is increasing. Therefore, it is clear from the analysis that the outstanding amount of other loans is increasing which means that the collection of other loans is not efficient.

12. The highest amount of NPA is calculated on 2013-14 (39596 %) and the lowest amount of NPA was calculated on 2007-08 6.87 (77 %). This analysis shows that NPA always shows an increasing in trend up to 2013-14 and after that, it is fluctuating. It is clear that they are not taking necessary measures to reduce it.

13. From 2012-13 to 2015-16 KSFE has no liquid cash. When we compare with the above table it is very clear that if there is no NPA KSFE has enough working capital and with NPA, they have no enough working capital. Certain years they have zero amount of working capital.

14. Generally, a current ratio of 1.33: 1 is considered as ideal. This means that current assets shall be at least twice of current liabilities. Up to 2011 current ratio is more than 1.33, after that their current ratio is declining, which shows the KSFE have current assets just equal to current liabilities, which is not satisfactory as the safety margin very less, or zero. The KSFE should keep more current asset so that it can maintain satisfactory safety margin. The liquidity of KSFE is decreasing.

15. In this analysis, it is understood that the total debt of KSFE is increasing. They are not in a secured position. The ratio between total asset and total debt is always less than one. They are having high risk.

16. This ratio indicates the firm's capacity to meet the debt of the firm. An ideal debt equity ratio is 1:1. Up to 2012-13 Debt equity ratio is zero. In addition, last four years shows a trend less than the ideal ratio. Therefore, KSFE will face some difficulty in those years to meet the debt with this asset, because the ratio is not meeting the Ideal standard.

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5.1.3 Suggestions

1. Provide awareness to the customers about various kinds of loans and advances.

2. Like private NBFC's give importance for loans and advances. Open special counters in every branches for providing speed loans and advances.

3. Simplification of security norms and formalities should be implemented without affecting the safety of the Company. This will minimize the inconveniences caused to the customers. Opening-up of enquiry counters at the branch and the supply of detailed printed leaflets or brochures in the Malayalam language regarding the security procedures are essential.

4. KSFE Ltd. should mobilize the loans and advances to customers at proper time and in a cost effective manner.

5. Take necessary measures to get back the loans and advances before it becoming NPA. When it became NPA speed up the procedure to recover the loans and advances.

6. Loans and advances suited for students like educational loans, and other loans such as calamity loan, etc should be introduced.

7. In the emerging competitive scenario, KSFE should be innovative and introduce attractive newer schemes and packages, modify and redesign existing schemes and diversify wherever suitable opportunities exist.

8. They should modify and redesign the existing schemes to attract new customers.

9. Core banking system in all branches of KSFE Ltd. should be encouraged to make easy payment and speed-up collection and thus by increase the management efficiency of KSFE.

10. KSFE needs to be protected against high politicization so that the Company can implement the decisions immediately. Incorporation of professional and financial experts into the Board of Directors of KSFE, is also desirable.

11. A Default section should be opened in every branch for timely and strict follow-up. Measures like incentives, concessions, discounts or even persuasion should be adopted to reduce default rate and the quantum of NPA.

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5.1.4 Conclusion

KSFE is one among those NBFC's in India who has affected due to liberalization, privatization, globalization and demonetization. The present project attempted to discuss the different types of loans and advances and impact of NPA on loans and advances of KSFE. For the purpose of study, secondary data for 15 years and discussion with the HR and IT department were analyzed using appropriate tools and techniques. The analysis of various financial statements over years using various financial tools witnessed the types of loans and advances and the impact of NPA on loans and advances.

In the starting years, KSFE has many loans, advances but now only four main exist other loans and advances are carry forwarding the balance in the previous years. NPA has made impact on loans and advances. The amount the given to the customers is not getting back properly. It also affected the working capital of KSFE.

During certain years, KSFE has no working capital when compared with NPA so during those years it affect their day today activities. The demand of loans and advances is increasing bur they are not taking back all the given loans and advances. In addition, it resulted in the increasing of NPA. These resulted in affecting their business slightly.

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