A STUDY ON FINANCIAL PERFORMANCE OF KERALA STATE FINANCIAL ENTREPRISE Ltd.

By

SCANY JOSE

(2016-31-003)

MAJOR PROJECT REPORT

Submitted in partial fulfillment of the

Requirements for the Post Graduate Degree of

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Faculty of Agriculture

Kerala Agricultural University

COLLEGE OF CO-OPERATION, BANKING AND MANAGEMENT

VELLANIKKARA, THRISSUR- 680656

KERALA, INDIA

2018

Declaration

DECLARATION

I, hereby declare that this project report entitled **"STUDY ON FINANCIAL PERFORMANCE OF KERALA STATE FINANCIAL ENTREPRISE 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 us for any degree/diploma, associateship, fellowship or another similar title of any other University or Society.

Place: Vellanikara

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Certificate

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CERTIFICATE

Certified that this project report entitled **"A STUDY ON FINANACIAL PERFORMANCE OF KERALA STATE FINANCIAL ENTREPRISE Ltd."** is a record of project work done by **SCANY JOSE (2016-31-003)** under my guidance and supervision and that it has not previously formed the basis for the award of any degree, fellowship, or associateship to them.

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Needless to say I myself is responsible for any errors or inadequacies and imperfections which may remain in this work.

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CONTENTS

LIST OF TABLES

LIST OF FIGURES

Design of the study

CHAPTER - 1

DESIGN OF THE STUDY

1.1 INTRODUCTION

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property.

The term non-bank financial institution refers to companies that offer financial services, but do not hold banking licenses and cannot accept deposits. Insurance companies, brokerage firms, and companies offering microloans are examples of non-bank financial institutions. The types of services offered by a NBFI typically fall into the following categories:

- **Risk Pooling Institutions**: organizations such as insurance companies that spread financial risk among a large number of entities.
- **Institutional Investors**: organizations such as pension funds and mutual funds that trade securities in volumes that qualify for lower commissions.
- **Other Non-Bank Financial Institutions**: organizations that provide financial services such as leasing of assets, market makers (who provide liquidity), management companies, financial advisors, and securities brokers.

A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).

NBFCs lend and make investments and hence their activities are akin to that of banks; however there are a few differences as given below:

- NBFC cannot accept demand deposits;

- NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself;
- Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.

Non-Banking Financial Companies (NBFCs) have played a critical role in stimulating the growth of the Indian economy and have made a significant contribution towards supporting the government's agenda of extending financial inclusion. In fact, they have emerged as key financiers to businesses, especially the high-potential, credit-hungry MSME sector.

RBI data shows that, in FY17, NBFCs and housing finance companies cumulatively extended Rs 2.59 lakh crore in credit to commercial enterprises, meeting 18 percent of their total credit needs. This marked a year-on-year increase of 28 percent in NBFC lending from FY16 – a sharp contrast to the banking system, which has been grappling with a mountain of bad loans for quite some time now.

Due to heavy debts in the public sector banks, their lending capacity is declining especially in rural areas. With this, NBFCs are increasing their presence. The main reasons for the success of NBFCs are such as lower cost, wider reach, and strong risk management capabilities with a better understanding of customer segments. Credit demand of our country can be fulfilled with the help of NBFCs as traditional banks are not able to serve all.

P. Vijaya Bhaskar, former Executive Director of the Reserve Bank of India, explained "NBFC companies are game-changers that are very important to the economy". The NBFC sector has grown considerably in the last few years. The majority of the people want to invest their savings in gold, jewellery, real estate, speculation, foreign exchange and conspicuous consumption. Under these circumstance, the NBFI undertake the task of encouraging the flow of personal savings from unproductive to productive uses. Further as the economy develops the De-monetized sector is gradually transformed into the monetized sector. As a result, NBFCs' credit grows, the increase in the amount of money being lent to customers is higher than that of the banking sector with more customers opting for NBFCs. The amount of loans advanced in the year rose to Rs. 14,846 billion, growing at a faster pace of 12.7% as compared to the previous year in the country. Such rise has helped to bridge the credit gap in the country and reduced the dependence on banking institutions, thus providing an alternate source of finance to the people and allowing lower credit rated individuals and entities to avail financing as well.

In India, ensuring financial access to fuel growth and entrepreneurship is not an easy task however with the help of government initiatives such as the launch of government-backed schemes; there has been a substantial increase in the number of bank accounts in all over the country.

It will provide an opportunity to NBFCs to ensure sustainable growth over the period of time. In a comparison of traditional banks, it is believed that NBFCs have a strong understanding of the market which usually helps them in position themselves as a better alternative of banks. With the increasing demand for digital in the daily life of the consumers, NBFCs have to think about their strategy to enhance their position in the market and the process of an end to end customer facing.

The Kerala State Financial Enterprises Limited, popularly known as **KSFE**, Is a Miscellaneous Non-Banking Company, Is fully owned by the Government of Kerala. Is one of the most profit-making public sector undertaking of the State. Was created by the Government of Kerala with the objective of providing an alternative to the private chit promoters in order to bring in social control over the chit fund business, so as to save the public from the clutches of unscrupulous fly-by-night chit fund operators. Has been registering impressive profits every year, without fail since its inception.

A striking point is that all the funds mobilized by KSFE through its various deposit schemes and chitties are advanced wholly to the public in Kerala itself; whereas other financial institutions and banks channel their deposits collected in Kerala for advances outside the State.

Promotion of financial inclusion has been an important social and financial need across the countries .Financial inclusion is the delivery of financial services at affordable costs to vast sections of disadvantaged and low income groups. Non-Banking Financial Companies (NBFC) like KSFE are having an important role in promoting financial inclusion. Kerala State Financial Enterprises (KSFE) is contributing towards financial inclusion by providing a variety of services to common people in Kerala. Like Chitty, Chitty loan, Consumer/Vehicle loan, Reliable customer loan, Gold loan, fixed deposit, Housing finance, Car loan, Vidhyadhanam loan etc. Easy access is possible as KSFE is having around 500 branches which is spread over rural and urban areas of Kerala. It has a great prospect in nearby future and aiming to be competitive with other banks in Kerala.

So the role of NBFI's like Kerala State Financial Enterprises Ltd. become more important in mobilizing money and investing these savings for capital formation and economic development.

Financial performance analysis means establishing relationship between the items in the balance sheet and profit and loss account for determining the financial strength and weakness of the firm. The study entitled to know the financial position of the company that helps in making sound decision by analyzing the recent trends. In this study an attempt is made to identify the financial strength and weakness of the firm by properly establishing the relationship between the items in the balance sheet and profit and loss account of KSFE Ltd., Thrissur on the past 7 years.

The study aims to analyze the efficiency, profitability, solvency position of the company. The changes can be observed by comparison of the balance sheet at the beginning and at the end of the period and these changes can help in forming an opinion about the progress of an enterprise. The present study attempts to discuss the financial performance of the company.

Finance is defined as the provision of money at the time when it is required. Every enterprise, whether big, medium or small, need finance to carry on its operation and to achieve its targets, in fact, finance is so indispensable today that it is rightly said to be the lifeblood of the enterprise. Without adequate finance, no enterprise can possibly accomplish its objectives.

Financial management refers to that part of the management which is concerned with the planning and controlling of the firm's financial resources. It deals with finding out various sources for raising funds for the firm. Financial performance analysis means establishing relationship between the items in the balance sheet and profit and loss account for determining the financial strength and weakness of the firm. It is the process of scanning of the financial statement to judge profitability, solvency, stability, growth and prosperity of the firm.

The study entitled "Financial Performance analysis of Kerala State Financial Enterprise Limited, Thrissur" has been oriented with a view to study the financial position of the company that helps in making sound decision by analyzing the recent trends.

1.2 STATEMENT OF THE PROBLEM

The growth of KSFE has been much faster than that of commercial banks. The main reason behind this is that, in comparison to commercial bank, they pay higher interest rate to the depositors and charge lower interest rate from borrowers. Thus, 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 problem under study is to know whether the financial statements of the company reveal a good financial position and smooth financial running of the business.

By digging into the crown jewels of a company's annual report –the income statement; the statement of comprehensive income; the balance sheet; the cash flow statement, and the statement of changes in equity – the investor hopes to learn four things about the company's current and future condition:

1. How profitable is the company? How likely is it to remain so in the future?

2. How solvent is the company? Is it carrying too much debt?

3. How liquid is the company? Is there enough cash on hand to handle short-term needs?

4. How stable is the company? Can it remain in business over the long run?

1.3 OBJECTIVES OF THE STUDY

The objectives of the study is:

- To study the financial performance of the company.

1.4 METHODOLOGY

1.4.1 Source of Data

The study was based on Secondary data and it was collected from the firm's internal records and publications such as annual report of the company for a period of seven years, published research papers, journals, books, website and articles.

1.4.2 Period of Study

The study was conducted for a period of 7 years from 2010-11 to 2016-17.

1.4.3 Location of the Study

The study was conducted in KSFE Ltd. located in Thrissur, Kerala.

1. 4.4 Sampling Design

Sampling unit: KSFE Ltd. Thrissur

Sampling size: Seven years financial statements.

1.4.5 Variables Selected for the Study

The following variables were selected for study:

- Share capital
- Reserves
- Owned fund
- Deposit mix
- Borrowings
- Borrowed fund
- Total income
- Total expense
- Loans and advances
- Subscribers
- Turnover
- Interest income
- Interest expenses
- Non-Interest income
- Non-Interest expenses
- Net profit or loss
- Spread
- Burden

1.4.6 Tools for the analysis

The most popular way to analyse the financial statements is computing ratios. The following ratio were used for study.

- Solvency ratio
    1. Proprietors ratio
    2. Owned fund to borrowed fund ratio
    3. Interest coverage ratio
    4. Debt ratio
    5. Fixed asset to net worth ratio
- Profitability ratio
    1. Earnings per share ratio
    2. Profit margin ratio
    3. Foremans commission ratio
    4. Interest income ratio
    5. Return on equity
- Efficiency ratio
    1. Overhead efficiency ratio
    2. Interest expense to interest income ratio
    3. Total expenditure to total income ratio
    4. Spread ratio
    5. Burden ratio

6. Profitability ratio

- Comparative income statement analysis
- Trend analysis

1.5 SCOPE OF THE STUDY

- The study was carried at the Kerala state financial enterprise ltd., Thrissur to analyze its financial performance on the past 7 years. The study aims to analyze the solvency position, profitability and efficiency of the company. Solvency position were studied using the ratio proprietors ratio, owned fund to borrowed fund ratio, interest coverage ratio, debt ratio, fixed asset to net worth ratio. Profitability were studied using the ratio earnings per share ratio, profit margin ratio, foremans commission ratio, interest income ratio, return on equity. Efficiency of the KSFE Ltd. Were studied using the ratio overhead efficiency ratio, interest expense to interest income ratio, total expenditure to total income ratio, spread ratio, burden ratio, profitability ratio.the changes can be observed by comparison of the balance sheet at the beginning and at the end of a period and these changes can help in forming an opinion about the progress of KSFE. So as to understand the direction of movement of activity of business, trend analysis of trend income statement and its components, Balance sheet statement and its components, total deposits of KSFE Ltd. total loans and advances of KSFE Ltd. branches of KSFE Ltd. total turnover of KSFE Ltd. and Trend of total subscribers of KSFE Ltd. were studied.

1.6 LIMITATIONS OF THE STUDY

- In-depth study was not possible due to time constraint.
- Non-monetary factor like human behavior, their relationship etc. were not considered.
- Ratio analysis, comparative income statement and trend analysis itself will not completely show the company's good or bad financial position.
- Inter firm comparison was not possible due to the non-availability of competitor's data.
- The analysis and interpretation were purely based on secondary data contained in the published annual reports of KSFE during the study period.

1.7 CHAPTERIZATION

Chapter 1: Design of the study

Chapter 2: Review of literature

Chapter 3: Industry profile

Chapter 4: Theoretical framework

Chapter 5: Data analysis

Chapter 6: Findings, suggestions and conclusion

Review of literature

CHAPTER - 2

REVIEW OF LITERATURE

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property. A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).

In line with this, some related earlier studies conducted by individuals and institutions are reviewed to have an in-depth insight into the financial performance of non-banking financial institutions.

Amitha (1999) University of Baroda in her study "financial performance of Non-Banking financial institution in India" found that the ratio for all categories of NBFCs are generally different from each other. The analysis of variance along with the details about average ratios may become a useful guide to companies to decide about diversification or continuation in the same line of business considering overall profitability within in the entrepreneur's choice in the light of behavior of parameters which go along with the category of NBFC.

Nahar M (2001) optioned the organization, particularly in the service sector are building up long term relationship with customers to keep them satisfied. Customer satisfaction must have been one of the determinant of success of the KSFE should improve the product features to suit the customers.

G. Sudarsana Reddy (2003) conducted a study relating to the financial performance. The objectives of the study were evaluate the financing methods and practices and to analyze the investment pattern and utilization of fixed assets. The study also ascertain the working capital condition and also reviewed the performance of profitability. The study also suggest various measures to improve the profitability.

Sadare (2004) in this study revealed that lower is the ratio of operating cost to total asset, better is the efficiency. There are many organization which are having higher ratio in terms of operating expenses

29

to total asset. If an attempt is made to reduce such ratios the same will help these organization to show better performance in terms of efficiency as well as profitability.

Sreelekha (2007) suggested, "The NBFCs perform a significant role as financial intermediaries and in promoting growth of the industry and service. The attention should be on strategies that are required for tackling issues such as sustainability and viability of the products facing stiff competition from similar companies in the private sector, operational efficiency".

Shailendra bhushan Sharma Ans Lokesh Goel (2012) write on "functioning and reforming in non-banking financial companies in India". Non-Banking financial companies do offer all sorts of banking service, such as loans and credit facilities, retirement planning, money markets, underwriting and merger activities. These companies play an important role in providing credit to the unorganized sector and to the small borrowers at the local level. Hire purchase is by far the largest activity of NBFCs, with the expectation of the exclusive privilege that commercial banks exercise in cheques. This paper provides an exhaustive account of the functioning and reforms pertaining to NBFCs in India.

Subina Syal Menka Goswami (2012) write on "financial evolution of Non-banking financial institutions". The Indian financial system consists of the various financial institution, financial instruments and the financial markets that facilitate and ensure effective channelization of payment and credit of funds from the potential investors of 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 institution and be helpful in taking effective long term investment decisions.

Sornaganesh and Maria Navis sons (2013) "A fundamental analysis of NBFCs in India." This study was made to analyze the performance of five NBFCs in India. The annual reports of the companies are evaluated so as 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.

Amit Kumar and Anshika Agarwal (2014) published a paper entitled "latest trends in Non-Banking Financial Institutions". In Indian economy, there are two major financial institutions. The Non-Banking institutions play an important role in our economy as they provide financial service 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 economy, and many other functions. This paper analyses the growth and enhanced prosperity of financial institutions in India.

Naresh Makhijani (2014) writes on "Non-Banking Finance Companies". Over the last few years the Non-Banking Finance Companies 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 RBI 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 NBFC sector.

N. S. Vishwanathan, Deputy Governor, Reserve Bank of India – April 18, (2018) in a Speech Delivered at National Institute of Bank Management, Pune on Fourteenth Convocation says "It is not Business as Usual for Lenders and Borrowers. As I have emphasized, the revised framework relies more on outcome check rather than process check. The lenders have complete freedom to decide on the contours of the resolution plan. However, the credibility of the resolution plan is sought to be ensured through the requirement of independent credit evaluation by credit rating agencies. To ensure greater credibility of the rating opinion, contrary to the "issuer pays" model of credit rating, the new framework prescribes "user pays" model for credit opinions – user here being the banks. For credit rating agencies, the incentive to not give erroneous or questionable credit opinion is the credibility and reputation of the agency in the market, which is its main currency for sustained business. Going forward, we will put in place necessary evaluation standards for assessing the performance of rating agencies on this score".

International Journal of Research in Economics and Social Sciences (IJRESS) 2016 says that, The NBFCs division has demonstrated a consistent year-by-year development in net benefits in the course of recent couple of years. The impacts of the market recovery are evident particularly in the year 2014. With the Government and RBI's expanded spotlight on financial inclusion, one could expect a proceeded growth run in the coming years. NBFCs have progressively increased in size and market share, signifying the success of the business models followed by them and the opportunities available in their targeted markets. The total share of NBFCs has gradually risen from 10.7% in 2009 to 14.3% of banking assets in 2014, thus gaining complete significance. If we see the assets side, the share of NBFCs' assets as a fraction of Gross Domestic Product (GDP) at current market prices has increased progressively from 8.4% in 2006 to 12.5% in 2013.

Financial Stability Report, December (2015) highlights on Recent trends in funding sources for NBFCs. NBFCs have emerged as the largest net receiver of funds from the rest of the financial system. According to the Financial Stability Report, 2015, scheduled commercial banks (SCBs) have the highest exposure to NBFCs at 1,927 billion INR, followed by asset management companies managing mutual funds (AMC-MFs) at 1,376 billion INR and insurance companies at 1,064 billion INR (as of September 2015).

Sunil Kanoria President ASSOCHAM in his publication Non-Banking Finance Companies: The Changing Landscape(2016) states that "In order to compete in this changing lending landscape, NBFCs need to realize the immense value of alternative data and make investments in technology and analytics to develop advanced credit scoring models that leverage both traditional and non-traditional data sources. NBFCs will need to develop behavior-based credit risk models on the lines of those developed by online lenders, which incorporate the social graph, personal network, employment history and educational background of the borrower into their credit scoring rules. Customers who are qualified to obtain credit but are unable to do so because of their credit score (or lack thereof) will specifically benefit from the use of alternative credit scoring mechanisms that work alongside the NBFC's traditional credit underwriting model. This will introduce healthy competition, spur product innovation, and ultimately help support the Indian government's agenda of full financial inclusion".

D. S Rawat Secretary General ASSOCHAM (2014) in his study states that "The NBFC sector in India has undergone a significant transformation over the past few years. It has come to be recognized as one of the systemically important components of the financial system and has shown consistent year-on-year growth. NBFCs play a critical role in the core development of infrastructure, transport, employment generation, wealth creation opportunities, and financial support for economically weaker sections; they also make a huge contribution to state exchequer".

Nahar M. (2001) opined that organizations, particularly in the service sector are building up long-term relationships with customers to keep them satisfied. Customer satisfaction must have been one of the determinants of the success of the Kerala State Financial Enterprises should improve the product features to suit the needs of customers.

Thomas Isaac (2009) stated that the business of Kerala State Financial Enterprise (KSFE) would be doubled in two years. The minister declared this while launching the Golden Jubilee Chitty and 267th branch of KSFE at Payyoli on November 1, according to an official press release issued on Saturday. The

KSFE would be made the biggest financial institution in the state. The development of KSFE would destroy loan sharks and illegal chitty companies

Timothy Koch (2003) identified a number of strategies to increase spread in banks. These include timely recovery of interest and instalments on loans and advances, recovery of interest on substandard, doubtful and loss assets, acceleration of the flow of credit to high yielding advance of good quality cost, consciousness while mobilizing high cost certificate of deposit and term deposit. According to him, the problem of burden in bank could be tackled by focusing attention on loss making branches to turn them into profit making ones, improving the clientele base in commercial pockets and improving staff productivity.

Debashish (2002) viewed that performance of a bank can be measured by a number of indicators. Profitability is the most important and reliable indicator as it gives a broad indication of the capability of the bank to increase its earning. The study focused on identifying the most critical profitability ratio using a multivariate analysis and identified five variables, i.e. priority sector advances to net assets, interest income to total assets, non-interest income to total assets and wage bill or total expenses among the thirteen variables as the significant discriminations of bank profitability.

Koeva (2003) finds that even though nationalized banks appear to be less profitable than private and foreign banks, ownership is not the key determinant of efficiency and profitability. Intermediation costs, according to her, depend on operating costs, priority sector lending, nonperforming loans, investment in government securities, and the composition of deposits.

Ram and Ray (2003) conducted study of productivity and efficiency of public sector banks with their private sector counterparts, domestic and foreign, found that it is difficult to sustain the proposition that efficiency and productivity has been lower in public sector banks relative to their peers in the private sector. Out of a total of six comparisons they have made, there were no differences in three cases, PSBs did better in two, and foreign banks in one.

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Non – banking financial companies in India.

CHAPTER – 3

NON BANKING FINANCIAL COMPANIES

3.1 A Non-Banking Financial Company (NBFC)?

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property. A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).

3.2 The requirements for registration with RBI?

A company incorporated under the Companies Act, 1956 and desirous of commencing business of Non-Banking financial institution as defined under Section 45 I (a) of the RBI Act, 1934 should comply with the following:

i. It should be a company registered under Section 3 of the companies Act, 1956.

ii. It should have a minimum net owned fund of ₹ 200 lakh. (The minimum net owned fund (NOF) required for specialized NBFCs like NBFC-MFIs, NBFC-Factors and CICs is indicated separately in the FAQs on specialized NBFCs).

3.3 RBI REGULATIONS

The RBI Act regulates different types of NBFC'S under the provision of Chapter III- B and Chapter III- C

i) Corporate NBFCs fall under Chapter III-B, and

ii) Incorporate NBFCs fall under Chapter III-C

- **REGISTRATION: –** In terms of Section 45-IA of the RBI Act, 1934, it is mandatory that every NBFC should be registered with RBI to commence or carry on any business of non-banking financial institution as defined in clause (a) of Section 45 I of the RBI Act, 1934.
- **NET OWNED FUNDS:-** Under Section 45 I(a) of the RBI Act, 1934 NBFC should have a minimum net owned fund of Rs 25 lakh to Rs 200 lakh
- **MAINTENANCE OF ASSETS:-**The NBFCs are required to invest in India in approved securities at least 5% or higher percentage as specified by the RBI from time to time, of the outstanding deposits at the close of the business on the second preceding quarter
- **RESERVE FUND:-**Every NBFC must create a reserve fund to which at least 20% of its net profit must be transferred before the declaration of any dividend
- **POWER OF REGULATION/PROHIBITION:-**The RBI can by general/special order regulate or prohibit the issue by any NBFI the issue of any prospectus or advertisement soliciting deposits of money from the public
- **POWER TO COLLECT INFORMATION FROM ANY NBI's:-**The RBI can issue direction to NBIs to furnish information relating to/connected with deposits.
- **POWER TO CALL FOR INFORMATION FROM FIs AND ISSUE DIRECTIONS:-**To regulate the credit system, the RBI can ask for information from FIs relating to their business as well as directions for the conduct of their business
- **PENALTIES:-**If any prospectus/advertisement inviting deposit from the public, whoever willfully makes a false statement in any material particular knowing it to be false or willfully omits to make a material statement, would be punishable with imprisonment for a term up to three years and would also be liable to a fine.

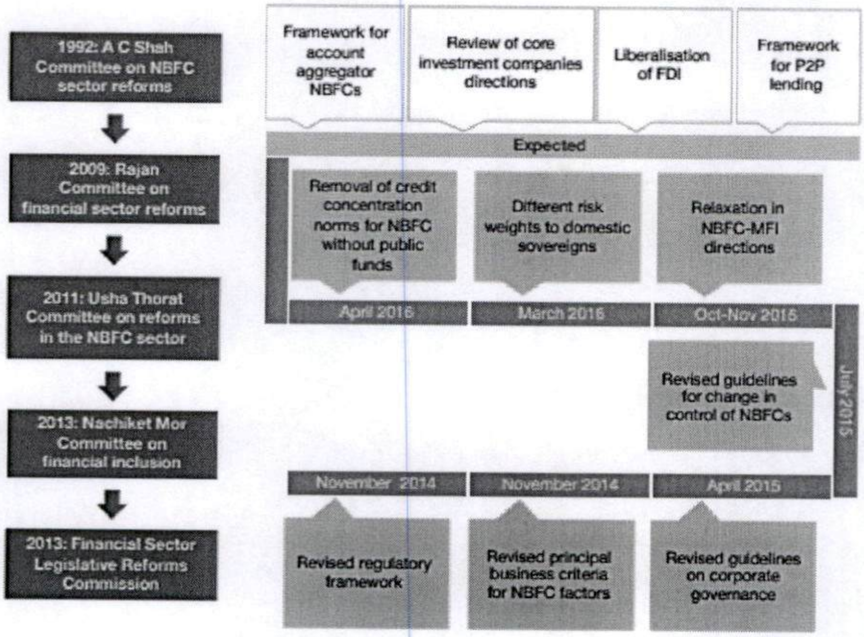
Failure by a person to produce any book/account/other documents or to furnish any statement/information/particulars is punishable with fine. The penalty imposed by the RBI is payable within 30 days from the date on which the notice demanding payment is served on the NBFC.

3.3.1 THE REGULATORY AND SUPERVISORY OBJECTIVE IS TO:

- Ensure healthy growth of the financial companies.
- Ensure that these companies function as a part of the financial system within the policy framework, in such a manner that their existence and functioning do not lead to systemic aberrations.

- The quality of surveillance and supervision exercised by the Bank over the NBFCs is sustained by keeping pace with the developments that take place in this sector of the financial system.

FIGURE 3.1 KEY CHANGES IN THE NBFC REGULATORY FRAMEWORK



SOURCE: Non-Banking Finance Companies: The Changing Landscape (2016) publication

3.3.2 RECENT CHANGES IN THE REGULATORY FRAMEWORK

A comprehensive review of the NBFC regulations was conducted by the RBI in 2014. The revised regulatory framework is designed to focus supervisory attention to those NBFCs which genuinely can pose risks to the financial system and bring operational freedom to smaller NBFCs. The foremost step in this direction was the revision in the threshold for systemic significance from 100 crore INR to 500 crore INR. Under the new regulatory framework, non-deposit accepting NBFCs with total assets less than 500 crore INR are considered as not being systemically important and subject to a light touch regulation. Those with total assets above 500 crore INR are considered as systemically important non-deposit accepting NBFCs and have been subjected to a more stringent set of regulations.

3.4 ROLE OF NBFCS

- To develop sectors like Transport & Infrastructure.
- For Substantial employment generation.
- To help increase wealth creation Broad base economic development Major thrust on semi-urban, rural areas & first time buyers / user.
- To finance economically weaker sections.

3.5 IMPORTANCE OF NBFCs

In the present economic environment it is very difficult to cater need of society by Banks alone so role of Non-Banking Finance Companies and Micro Finance Companies become indispensable.

The role of NBFCs as effective financial intermediaries has been well recognized as they have inherent ability to take quicker decisions, assume greater risks, and customize their services and charges more according to the needs of the clients.

At present, NBFCs in India have become prominent in a wide range of activities like hire-purchase finance, equipment lease finance, loans, investments, etc. They play a major role in developing the large number of industries as well as entrepreneur in different sectors of different areas, and also to cover all the areas which is being untouched or uncovered by RBI or other FCIs.

A robust banking and financial sector is critical for activating the economy and facilitating higher economic growth. Financial intermediaries like NBFCs have a definite and very important role in the financial sector, particularly in a developing economy like ours. After the proliferation phase of 1980s and early 90s, the NBFC s witnessed consolidation and now the number of NBFCs eligible to accept deposits is around 600, down from 40000 in early 1990s. The number of asset financing NBFCs would be even lower around 350, the rest are investment and loan companies. The role of non-banking sector in both manufacturing and services sector is significant and they play the role of an intermediary by facilitating the flow of credit to end consumers particularly in transportation, SMEs and other unorganized sectors.
NBFCs have often been leaders in financial innovations, which are capable of enhancing the functional efficiency of the financial system, instances of unsustainability, often on account of high rates of interest on their deposit and periodic bankruptcies.

NBFC"s have also had a major impact in developing small business in rural India through local presence and strong customer relationships. Usually the loan officers in such NBFC's know the end customer or have a strong informal understanding of the credibility of the borrower and are able to structure their loans appropriately.

3.6 THERE ARE THREE CATEGORIES OF NBFC"S,

- **Asset Financing Companies** (AFC)
- **Loan Companies** (LC)
- **Investment Companies** (IC)

The various categories of NBFCs registered with RBI are discussed below.

TABLE 3.1 DIFFERENT TYPES/CATEGORIES OF NBFCS REGISTERED WITH RBI?

NON-BANKING FINANCIAL ENTITY	PRINCIPAL BUSINESS
1. Non-Banking Financial Company.	In terms of the Section 45-I(f) read with Section 45-i(c) of the RBI Act, 1934, as amended in 1997, their principal business is that of receiving deposits or that of a financial institution, such as lending, investment in securities, hire purchase finance or equipment leasing.
(a) Equipment leasing company (ELC)	Equipment leasing or financing of such activity.
b) Hire purchase finance company (HP)	Hire purchase transactions or financing of such transactions.
(c) Investment company (1C)	Acquisition of securities. These include Primary Dealers (PDs) who ideal in underwriting and market making for government securities.
(d) Loan company (LC)	Providing finance by making loans or advances, or otherwise for any activity other than its own; excludes EL/HP/Housing Finance Companies.
	Arrangement by whatever name called, in one lump-sum or in instalments by way of contributions or subscriptions or by sale

39

(e) Residuary non-banking company which receives deposits under any scheme or (RNBC)	of units or certificates or other instruments, or in any manner. These companies do not belong to any of the categories as stated above.
II. Mutual Benefit Financial Company a (MBFC) i.e., Nidhi Company.	Any company which is notified by the Central Government as Nidhi Company under section 620A of the Companies Act, 1956 (1 of 1956).
III. Mutual Benefit Company (MBC), i.e., potential Nidhi company.	A company which is working on the lines of a Nidhi company but has not yet been so declared by the Central Government, has minimum net owned fund (NOF) of Rs.10 lakh, has applied to the RB1 for CoR and also to Department of Company Affairs (DCA) for being notified as Nidhi company and has not contravened directions/ regulations of RBI/DCA.
IV. Miscellaneous non-banking company (MNBC)	Managing, Conducting or agent of any transaction or arrangement by which the company supervising as a promoter, foreman enters into an agreement with a specified number of subscribers that every one of them shall subscribe a certain sum in instalments over a definite period and that every one of such subscribers shall in turn, as determined by tender or in such manner as may be provided for in the arrangement, be entitled to the prize amount.

3.7 FUNCTIONS OF NBFCs

a) Regulatory function

b) Supervisory function

They are explained as follows:

A) REGULATORY FUNCTION

They ensure that NBFCs serve the financial system efficiently and to protect the interest of depositors. The activities of NBFCs were being regulated by the provisions of Chapter III-B of the RBI Act, 1934 for over three decades. The emphasis of these regulations was, however, on the acceptance of deposit by NBFCs mainly as an adjunct to monetary and credit policy. Entry norms for NBFCs and prohibition of deposit acceptance by unincorporated bodies engaged in financial business. Compulsory registration, maintenance of liquid assets and creation of reserve fund. Power of the RBI to issue directions for NBFCs.

B) SUPERVISORY FUNCTION:

Reserve Bank of India has instituted a comprehensive supervisory mechanism. They are:

- On-site inspection
- Off-site surveillance system
- Market intelligence

They are explained as follows:

ON-SITE INSPECTION:

It means that a NBFCs are complying with regulatory stipulation and supervisory guidelines. Has adequate capital and liquidity and is being properly managed. It should have adequate system and controls in place.

OFF-SITE SURVEILLANCE:

It includes to be an in house review and an analytical system based on receipt of various statutory returns and other statements from the supervised entities at fixed intervals.

41

MARKET INTELLIGENCE:

It includes a system of capturing developments that takes place in the financial services sector through various channels including press, electronic media and put the information to proper use with utmost sensitivity so that RBI remains alert in its actions.

3.7.1 OTHER FUNCTIONS OF NON-BANKING FINANCIAL COMPANIES

1. Receiving of Deposits: The primary function of non-banking financial institution is to receive deposits from the public in various ways such as issue of debentures, unit certificates, savings certificates, subscription etc. Hence, deposits of non-banking companies comprise of money received from the public by way of deposits or a loan or in any other form.

2. Lending of money: Another equally important function is lending of money. Non-banking companies provide financial assistance in various forms-hire purchase finance, leasing finance, consumption finance, and finance for social activities and so on. Easy and timely finance is available and generally those customers who have been denied of bank finance approach these companies and enjoy the credit facilities extended by them.

3. Investment of money: These companies also invest their surplus money on various outlets. In the case of investment companies, their main function is to invest on principle securities and pass on the benefits to small investors.

3.8 SERVICES RENDERED BY NBFCS

1. Mobilization of savings: The NBFCs play a positive role in accessing certain deposits segments. These companies encourage savings and promote thrift among public. They offer attractive schemes to suit the needs of different classes of customers and attract the idle money by offering attractive rates of interest too. It is found that nearly 98 percent of the deposits received by them are at the rate of 13 percent and above.

2. Provision of easy, simple and adequate credit: NBFCs offer and timely credit to those who are in need of it. They do not follow much formalities and procedures. Moreover, they provide loans even for meeting unusual expenses like marriage and other religious functions. The NBFCs are accessible to all.

3. Acting as financial supermarket: NBFCs provide a financial supermarket to customers by offering a variety of services. They are very keen in scanning for diversification activities. A variety of services like mutual funds, specialist for operations, counseling, merchant banking etc. are being provided by them apart from their traditional services. Most of these companies reduce risk through this diversification process.

4. Channelizing funds for productive purposes: NBFCs mobilize the small savings of the public and direct them to productive ventures. Industrialists are able to carry on their production with lesser capital since the capital intensive equipment is supplied to them by leasing companies.

5. Encouraging thrift and developing savings habit: NBFCs encourage thrift and develop savings habit among people by receiving deposits from the public in various forms convenient to them. Generally, they mobilize the savings the savings of the people through the issue of debentures, unit certificates, savings certificates, chits, subscriptions, etc.

6. Providing housing finance: When commercial banks are generally reluctant to enter into the field of housing finance, NBFCs, particularly Housing Finance Companies provide housing finance on convenient terms and thereby they play a significant role in fulfilling one of the basic requirements of the mankind.

7. Increasing the standard of living: People with limited means are not able to enjoy the consumer durable goods. By providing consumer goods on easy installments basis, these NBFCs increases the standard of living of the people. Above all, an impetus has been given to the transport operators. Increased transport facilities facilitates the movement of goods from one place to another and this availability of all kinds of goods, in turn, increases the standard of living of the people.

8. Promoting economic development: NBFCs play an expanded role so as accelerate the pace of growth of the financial market and to provide a wider choice to investors. Most of them work on the principle of providing a good return on savings while reducing the risk through diversification. Thus, they promote business stability in the economy by keeping the capital market active and busy. They also promote the growth of enterprises only. Moreover, they do not indulge in speculative activities. They are interested in price stability and thus, they have a healthy influence on the stock market. Thus, they contribute positively to the economic development of any country.

9. Rendering investment advice: These companies, particularly investment companies provide expert advice in investment of funds as well as for supervising investment. They provide protection to small

investors by providing the much needed diversification of investment. They render invaluable services to investors particularly to small ones by choosing the right type of securities which will give the maximum yield.

3.9 COMMERCIAL BANKS V/S NON-BANKING COMPANIES

Commercial banks and non-banking companies are both financial intermediaries receiving deposits from public and lending them or investing them as the case may be according to circumstances. Hence, NBFCs are called Para banks. But there are some vital differences between them. They are:

1. Cheque can be issued against bank deposit whereas no such facility is available in the case of NBFCs.

2. The commercial banks can manufacture credit out of the raw material of deposits by creating claims against themselves. But, NBFCs cannot create credit as commercial banks do. They can lend only out the resources on hand. So, they have limited capacity to create credit.

3. Commercial banks are able to enjoy certain facilities like rediscounting facilities, deposit insurance coverage facilities, refinancing facilities, etc. These facilities are not extended to NBFCs.

4. Generally, the commercial banks offer lesser rate of interest and also charge lesser rate of interest than that of the NBFCs.

5. Commercial banks are subjected to strict supervision and control of the RBI whereas the NBFCs are more or less completely free from the RBI's control.

6. A variety of assets in the form of loans of various types, cash credits, overdrafts, bills discounting etc. are held by commercial banks whereas the asset of NBFCs are more or less specialized in nature. For instance, hire purchase companies specialize in consumer loans and housing finance companies specialize in housing finance alone.

Though the NBFCs are competing with the commercial banks in tapping the savings of the public in the form of deposits, most of the deposits of these companies find their way ultimately to the commercial banks. In one way or other, they are re-deposited with banks. Besides, some NBFCs do keep a certain percentage of their deposits with the nationalized banks. Hence, it is vital that these two sectors must work hand in hand with each other in the Indian financial system. When compared to banks, the volume of business done by these NBFCs is small.

Company and product profile

CHAPTER – 4

COMPANY PROFILE

4.1 INTRODUCTION ON KSFE

KSFE was established in 1969 with a network of 10 branches and a paid up capital of Rs.2 lakhs, by the Government of Kerala. It was registered under the Indian Companies Act 1956 on 6-1 1-1969 as a filly owned Government Company with an authorized share capital of Rs.25 lakhs. This was later increased to 50 lakhs and 100 lakhs. The share capital contribution of the government was progressively increased from Rs.2 lakhs to Rs.7 lakh in the year 1970-71, to Rs. 12 lakh in the year 1971-72, to Rs.28 lakh in the year 1977-78, and to Rs.38 lakh in the year 1987-88.

Now the company has a commendable branch network of 252 branch offices and a paid up capital of Rs.3 crores. The company employs 3468 people directly and 2000 people indirectly. It has various schemes that cater to the needs of the different segments of the population such as mobilizing savings by instruments like chitties and deposit schemes and channelizing them to the needy people for owning houses and household durables, motor vehicles and equipment for self-employment and providing finance for augmenting working capital needs of small traders. It had started chit business in the state with a view to reduce the hardship that the people had to undergo as a result of failure of chit funds. The chit businesses done by KSFE Ltd. takes the task of mobilizing savings and channelizing them to investment.

Thus it finances the credit needs of the people in all walks of life i.e., agriculturists, industrialists and professionals. It is widely favored by the poor who are not in a position to get credit from any other sources. Thus it has a great role in financing the low income people in the society, in the eradication of poverty and in reducing inequalities of wealth all of which will lead to economic welfare. The management of the company is vested in the board of directors constituted by the Governor from time to time. The Governor may, from time to time, appoint 2 directors other than the Managing director as Chairman and Vice-Chairman of the board. The general body representing the shareholders is the supreme governing body of the company.

4.2 VISION OF THE COMPANY

The vision of Kerala State Financial Enterprises is to become a significant player in the financial services sector by:-

¬ Providing a whole range of quality services and products.

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

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

¬ Retaining the pre-eminent role in Chitty business.

¬ Continuing focus on extending resources to the Govt. of Kerala. Sustaining commitment to the weaker sections of society, as the neighborhood institution for support, trust and security.

4.3 OBJECTIVES

The objectives of the company are listed in the Memorandum of Association of the Company. The following are the important objectives.

1. To start, conduct, promote, manage and carry on the business of chitties in India or elsewhere.

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

3. To start, promote, conduct, operate, carry on and manage the business of dealers agents and traders under 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 government, state or central, or anybody or organization there under or any other company.

Besides these, there are many other objectives which are incidental to the main objectives.

They are:

(1) To advance, deposit or lend money.

(2) To receive or grant or concession of any nature.

4.4 MANAGEMENT OF THE KSFE LTD.

The Management of the company is vested in the Board of Directors constituted by Governor from time to time. The number of Directors shall not be less than 2 and shall not ne more than 9. The maximum number has been subsequently raised to 15. The Directors shall hold office during the pleasure of the Governor. The Governor may, from time to time, appoint 2 Directors other than the Managing Director as Chairman and Vice Chairman of the Board. The first Board was constituted as per Government Order No.G.O. (Rt) 4876/69/Fin. Dated 26th November 1969 and they assumed charge on 28th November 1969. The Managing

49

Director is appointed by the Governor on such terms and remuneration as he may think fit from among the Directors for the conduct and Management of the business of the company subject to the control and supervision of the Board of Directors. General Body representing the shareholders shall be the supreme governing body of the Company.

4.5 DIFFERENT DEPARTMENTS

(i) **Business Department**

This is headed by General Manager (Business) who is responsible for all business activities of the Company.

(ii) **Finance Department**

This department is headed by the General Manager (Finance). The main functions of this department are planning, budgeting and control, compilation of accounts, reconciliation and preparation of annual accounts, and controlling Deposit Schemes of the Company etc.

(iii) **Administration Department**

This is headed by the Administrative Officer to be in charge of personnel administration, salary, industrial relations, man power planning etc.

(v) **General Administration Department**

This department is headed by one of the senior officers of the Company who will be responsible for the General Administration including purchase, printing etc.

(vi) **Legal Department**

This department is headed by the Law Officer who is responsible for all day to day legal matters.

(vii) **Internal Audit Department**

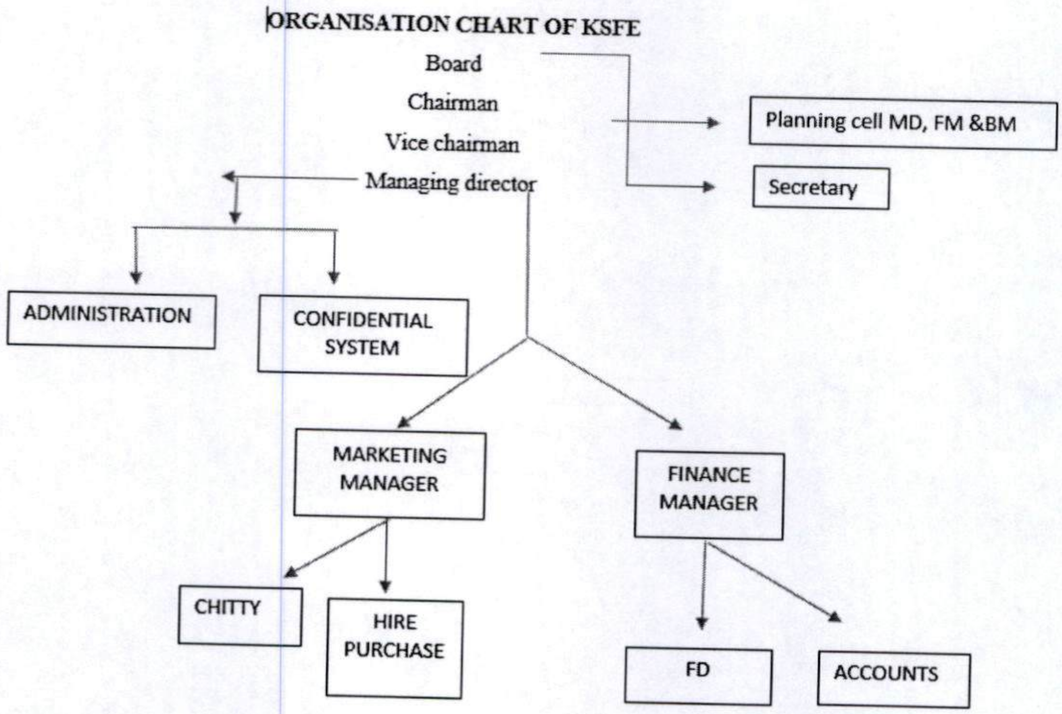
This department is headed by the Internal Audit Officer assisted by seventeen audit teams to exercise internal check and control.

4.6 ORGANISATION

The general administration of the organization and control of business development were initially centralized. But due to expansion decentralization was felt and regional offices came into existence with regional managers. The organizational set up is by and large a three tier system with the head office as the controlling body, the regional offices at the intermediary level having control of the units under them and at the base level the different units which are the profit generating centres. These units are engaged in chitty business and hire purchase fmancing as their main products and acceptance of deposits from the public as a parallel product. In the head office, the activities are grouped on functional as well as product basis.

48

FIGURE 4.1 ORGANISATION CHART OF KSFE Ltd.



4.7 THE FOLLOWING ARE THE PRODUCT DEPARTMENTS.

1. **Chitty department :**

   This is headed by chitty officer who is directly responsible for the chitty administration of the company.

2. **HP department**

   This is headed by the Hire Purchase Officer, who is directly responsible for the hire purchase administration of the company.

49

4.7.1 THE FUNCTIONAL DEPARTMENT CONSISTS OF

1. **Accounts department**

   This department is headed by the accounts officer. The main functions are planning, budgeting, compilation of accounts etc.

2. **Administrative department**

   Headed by the administrative officer. He is in charge of the personnel administration, salary, industrial relations, manpower planning etc.

3. **Secretarial department**

   This is headed by the company secretary. He is responsible for the functions conferred on him by the Companies Act 1956. He is also responsible for the general administration including purchase, printing etc.

4. **Legal department**

   This is headed by the part-time legal advisor. He is assisted by a legal superintendent. He has to advise the company on routine legal matters.

5. **Internal Audit Department**

   This is headed by internal audit officer. Three assistant teams will exercise internal check and audit and thus will assist the audit officer.

The departmental heads (Administrative Officer, Legal Superintendent and internal audit officer) report directly to the Managing Director. The chitty officer and HP officer report directly to the business manager and the Accounts officer reports directly to the Finance Manager. Regions At present there as 5 regional offices, headed by regional managers. The activities of the regional managers are grouped functionally as well as product wise. They are mainly responsible for the proper and healthy functioning of the branches and to be in charge of the overall growth and development of the branches under their jurisdiction.

4.8 UNITS

At the base level the units are graded into 3 categories on the basis of the total chitty sale.

1. Major branches

   Major Branches having a chitty sala of Rs.70 lakhs and above. All previously known Loan Units are treated as Major Branches.

2. Medium branches

   Medium Branches having a chitty sala of Rs.40 lakhs and above.

3. Small branches.

Each Unit is headed by a Unit Head viz, the Manager and its activities are grouped under Assistant Manager(s)/ Deputy Manager(s). The Unit Heads report directly to the Regional Managers concerned and to the Departmental Heads in the Head Office on matters pertaining to the departments concerned. In exceptional circumstances the Unit Heads can report directly to the General Manager (Business)/ General Manager (Finance) and Managing Director.

4.9 STAFF RECRUITMENT

All the appointments to the different posts are made through recruitment by Kerala Public Service Commission. The company has a training cell to impart training to the officers and staff including new recruits to develop their ability to meet the requirements of the job assigned to them. The company has a performance appraisal system too. In the case of officers, the performance appraisal system is done qualitatively and quantitatively by analyzing the relevant data of their performance in a given year in the prescribed form along with the officers' self-assessment. But in the case of employers and junior executives, performance assessment is done only qualitatively through a system of confidential report.

4.10 SCHEMES OF KSFE

1. Loans & Advances

Although Chitty is in essence a loan/advance scheme, for subscribers whose chitties are not getting prized and, at the same time they are in need of money, relief has been provided by two loan schemes built within the chitty scheme, viz. Chitty Pass Book Loan and New Chitty Loan.

KSFE offers other loan/advance schemes, comparable to those given by banks and other financial institutions, and the same includes:

Gold Loan Scheme, Reliable Customer Loan, Consumer/Vehicle Loan, Special Car Loan, New Housing Finance Scheme, Flexy Trade Loan, Tax Planning Loan Scheme, Fixed Deposit Loan Scheme and Sugama (Akshya) Overdraft Scheme.

2. Deposit schemes

Fixed Deposit, Short Term Deposit, Sugama Deposit (which is similar to the savings deposit in Banks), Chitty Security Deposit-in-Trust and Sugama Security Account.

3. Fee Based Activities of KSFE

Western Union Money Transfer - as sub agent of Paul Merchants Ltd, Life Insurance as a corporate agent of LIC, and General Insurance as a corporate agent of NIC.

4. Securities

From chitty subscribers and customers who avail loans/advances of KSFE, accepts various types of securities which include:

Fixed Deposits with KSFE or approved Banks, Bank Guarantee, NRI Deposits, LIC Policies, National Savings Certificate (NSC), Kisan Vikas Patra (KVP), Chitty Pass Book of Non-prized Chitties, Gold Security, Post-dated Cheques, Personal surety and Property Security.

4.11 PRODUCTS PROFILE OF THE COMPANY

Beginning with chits, the company has over the year 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 and channelizes them to acquire house and household durables, motor vehicles, equipment for self-employment and provides finance for augmenting working capital needs for small traders. The main products of the company are:

TABLE 4.1 PRODUCT PROFILE

S.NO	PRODUCT NAME	PRODUCT FEATURES
1	CHITTY	Chitty is the main product of KSFE. It is a unique financial product. Which blends the advantages of investment and advance. It is a risk free safe haven for the public as KSFE conducts only chitties fully governed by the provisions of Kerala chitties Act 1975. The installment per month for chitties range from Rs.500 to Rs.10000 and the usual duration of chitties are 30 months, 40 months, 50 months, 60 months and100 months.
2	CHITTY LOAN	Chitty Loan is a bridge between your actual financial need and the delay in chitty getting prized in your favour. The principal of the advance is

		settled by adjustment from the Chitty prize money and the interest has to be remitted every month.
3	CONSUMER VEHICLE LOAN (CVL)	If you have been customer of *KSFE*, with a good track record, for one year or more, you are eligible for the advance. The maximum amount of advance is Rs.1,00,000/- on personal security, and property security and Rs.5,00,000/- on financial documents security. The maximum duration of advance is 48 months.
4	GOLD LOAN	This was launched by the company on 16-10-1979. Under this scheme short term loans are provided on the security of gold ornaments. Gold coins bullions, etc. will not be accepted by the company for granting gold loan. The rules of the company for the time being relating to the pledge of ornaments shall be binding on the borrower.
5	PASSBOOK LOAN	A non-prized chitty subscriber, without any default in remittances of instalments, are eligible for a passbook loan, the ceiling of which is based on certain discounts from the paid up amount in the respective chitty. No security, other than the passbook is required for the advance.
6	TRADE FINANCE	An advance for the small-scale traders to enhance their working capital. The applicant should have a small-scale trading venture. The proof for the same such as license from the local body, lease deed etc. has to be produced. The repayment period is extended from 12-months to 60-months
7	HOUSING FINANCE	KSFE has entered into the field of Money Transfer Services which is a fee based activity, joining hands with M/s. Paul Merchants Limited, the principal agent of Western Union Financial Services Inco. New Jersey, USA, to act as their agent partner for promoting the Western Union Money Transfer Services through our branches in a phased manner.

8	SUGAMA DEPOSIT SCHEME	This scheme envisages periodical remittance of any amount and withdrawal from the account maintained with the company by persons or association of persons. The scheme helps the customer in the following manner. 1. The customer can transfer the monthly instalment, towards chitty. 2. Interest on Fixed Deposit can be transferred to this account.
9	FIXED DEPOSIT	It has many features of the FDs in banks. The returns are much higher than that offered by any reputed financial institution, the highest interest rate offered by nationalized and scheduled banks.
10	CAR LOAN	For enabling salaried persons and self-employed professional/ Businessmen / Income tax assesses to acquire new cars availing of advances, with moderate rates of interest. This loan is intended to provide the following categories. a. Salaried persons having a net monthly pay exceeding Rs. 10,000/-. Husband and wife can be considered as one unit. Net salary of spouse if employed can be considered for arriving at the net pay. b. Self-employed Professionals/Businessmen/Income Tax Assesses having an average annual total income exceeding Rs. 2,00,000/- for the last 3-years. The proof of same such as PAN Card / Electoral Identity Card / Driving Licence / Passport / Identity Card issued by the employer.
11	FLEXI TRADE LOAN	Flexi Trade Loan is intended to provide financial assistance to small traders/businessmen for supplementing their working capital requirements with over draft facility. Ongoing concerns such as Individuals, Partnership firms, Companies, Hindu Undivided Family, Association of persons, Body of Individuals, Trust and Registered Co-operative Societies with taxable income of Rs.1,00,000/- minimum for the past three years having KGST registration, CST registration wherever required and requisite licence from the Local Body are eligible for loan. Loan will not be available for Vegetables and fruit Traders Cold Storages,

		Hotels, Cinema Theatres, Flower Merchants and for those dealing in perishable and decaying items. The trader/business man should not have any overdraft/credit facility with banks/other financial institutions.
12	SUGAMA SECURITY SCHEME	The Sugama Security Scheme is intended for accepting amount outstanding in Sugama Deposits as security towards future liability in chitty and other schemes. The advantage under this scheme is that the advance will be secured and the monthly installments can be adjusted from the account and at the same time the customers can enjoy interest income on the Sugama Deposit
13	DEPOSIT-IN-TRUST SCHEME	Deposit-in-Trust means the prize money, in full/part entrusted to the Company (depending on the future liability) by the prized subscriber of a chitty as security against future liability intending to withdraw the same on furnishing adequate alternate security or repayable on termination of the chitty. However, amount deposited under this scheme should not exceed the future liability in the chitty.
14	SAFE DEPOSIT LOCKER	Company has just introduced Safe Deposit Locker facility in some units in order to give more service to the public. Lockers may be hired in the names of : 1. Individuals single or joint 2. Firms 3. Companies 4. Association of persons or clubs 5. Trustees 6. NRI's 7. Govt. Departments 8. Co-operative Societies 9. Body of Individuals Lockers can also be opened in the name of minors duly represented by guardian.

15	TAX PLANNING LOAN SCHEME (TPLS)	This is a novel loan scheme whereby any income tax payee can avail loan for the purchase of National Saving Certificates which will entail them for claiming deduction up to Rs.1lakh from the total income of a year. Loan will be given up to 80% of the face value of the certificate intended to be purchased. Balance amount has to be remitted by the customer. The amount of loan should be repaid as principal plus interest in equal monthly installment.
16	BHADRATHA SOCIAL SECURITY SCHEME	The Bhadratha Social Security Scheme is a deposit scheme of Government of Kerala introduced with effect from 1- 1 1- 1977. The scheme has been launched with the dual purpose of mobilizing savings from the public on a very large scale and providing benefit to the subscribers of the scheme in the form of pension, lump sum amount or both. The scheme has been designed more or less on the lines of the Post Office Cumulative Time Deposit Scheme. The intention of the government in introducing the scheme was to pool the funds raised through subscriptions and invest them in productive projects within the state. The company has to deposit the fund so collected into the treasury.
17	HIRE PURCHASE	The company, under its higher purchase scheme, advances for the purchase of all durable articles. It conducts the business through various branches. Normally the company advances 75% of the cost of articles. Advance shall be for a period of 36 months or less. A fixed rate (flat) of interest shall be collected from the customer as finance charges.
18	RELIABLE CUSTOMER LOAN (RCL)	This scheme is intended to provide easy credit facility to the customers. All the customers of KSFE, regardless of the scheme in which he/she is a client, whether employed or not, can be considered for Reliable Customer loan. He should not be a defaulter at the time of applying for the loan. The period of the loan extends from 12 to 36 months.

TABLE 4.2 GROWTH OF BUSINESS OVER YEARS

BUSINESS IN GROWTH (IN CRORE)	TURNOVER	ADVANCES	TOTAL DEPOSIT	AGGREGATE BUSINESS
2011	8 441 050 000	67 634 771 404	31 193 678 198	107 269 499 602
2012	9 946 830 000	81 752 607 321	36 956 441 019	128 655 878 340
2013	12 799 020 000	105 663 930 310	47 663 184 600	166 126 134 910
2014	15 570 540 000	129 809 620 659	61 476 787 287	206 856 947 946
2015	1 820 000 000	151 269 564 866	73 149 174 921	226 238 739 787
2016	20 520 000 000	168 585 499 138	86 515 571 560	275 621 070 698
2017	22 504 490 000	188 566 126 378	106 693 820 673	317 764 437 051

(Source: Annual Report of KSFE Ltd 2011 to 2017)

4.12 TOTAL INCOME OF KSFE Ltd.

The total income of the KSFE Ltd. comprises of foremans commission, finance charges, interest income on gold loan, fixed deposit loan, chitty loan, on trade loan, customer loan, vehicle loan and on others and other income consist of dividend income, profit on chitty subsidy, profit on sale of asset, writing fee and miscellaneous income. This is the main source of revenue of KSFE Ltd.

TABLE 4.3 TOTAL INCOME OF KSFE Ltd.

Year	Forman's Commission		Finance Charges		Interest		Other Income		Total Income	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
2011	3139343503	43.80	740056	0.010	3645242835	50.85	382088196	5.33	7167414590	100
2012	3742581533	44.17	472998	0.005	4133805443	48.78	596114951	7.03	8472974925	100
2013	4711421978	44.71	324976	0.003	5079258841	48.19	747095329	7.09	10538101124	100
2014	5853122663	44.83	160577	0.001	6307010650	48.31	894788633	6.85	13055082523	100
2015	6839971757	44.23	173008	0.001	7524980559	48.65	1100812507	7.11	15465937831	100
2016	7455849551	42.59	109328	0.001	8364706078	47.78	1684089299	9.62	17504754256	100
2017	7919399863	40.28	6395	0.000032	9532286936	48.49	2206529761	11.22	19658222955	100

(Source: Annual Report of KSFE Ltd 2011 to 2017)

4.13 TOTAL EXPENDITURE OF KSFE LTD.

The expenditure of KSFE Ltd consist of employee benefit expense which include salaries and wages, contribution to PF, contribution to gratuity, bonus and other incentive, staff welfare expense and other employee benefit expense. Finance cost consist of interest on fixed deposit, interest on Sugama deposit, other interest and other expenses consist of administrative expense, repairs and maintenance, remuneration to auditors, promotional and other expenses.

TABLE 4.4 TOTAL EXPENDITURE OF KSFE LTD.

	EMPLOYEE BENEFIT EXPENSE		FINANCE COST		OTHER EXPENSE		TOTAL EXPENSE	
YEAR	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
2011	2907160379	44.49	2450297963	37.15	1237123437	18.75	6594581779	100
2012	3210929556	40.76	2866792919	36.39	1798500488	22.83	7476222963	100
2013	3423089602	37.29	3921972906	42.73	1833294539	19.97	9178357047	100
2014	3632293832	32.27	5205631359	46.24	2417698717	21.47	11255623908	100
2015	3946329351	29.68	6305192469	47.43	3041542272	22.88	13293064092	100
2016	5171925125	34.73	7329380042	49.22	2387291653	16.03	14888596820	100
2017	5827685105	32.26	8164612401	45.19	4072291112	22.54	18064588618	100

(Source: Annual Report of KSFE Ltd 2011 to 2017)

4.14 SOURCE OF FUND

The total fund of KSFE consist of owned funds and borrowed funds. Owned fund include paid up share capital, reserve and surplus and undistributed profit. Borrowed fund include various types of unsecured deposit like deposit guaranteed by govt. of Kerala, matured and non- operative deposit, chitty security deposit and other deposit and secured fund from banks and other sources.

TABLE 4.5 TOTAL OWNED FUND OF KSFE Ltd.

YEAR	SHARE CAPITAL	RESERVE AND SURPLUS	TOTAL
2011	200000000	1711285525	1911285525
2012	200000000	2392019617	2592019617
2013	200000000	3044173350	3244173350
2014	200000000	3596265710	3796265710
2015	200000000	4249527617	4449527617
2016	500000000	4403662585	4903662585
2017	1000000000	4756408597	5756408597

(Source: Annual Report of KSFE Ltd 2011 to 2017)

TABLE 4.6 TOTAL BORROWED FUND OF KSFE Ltd.

YEAR	SECURED	UNSECURED	TOTAL
2011	162342806	31193678198	31356021004
2012	21020443	36956441019	36977461462
2013	110432562	47663184600	47773617162
2014	55433765	61476787287	61532221052
2015	2039475799	73149174921	75188650720
2016	2732265243	86515571560	89247836803
2017	58378185	106693820673	106752198858

(Source: Annual Report of KSFE Ltd 2011 to 2017)

THEORITICAL FRAMEWORK

CHAPTER – 5

THEORITICAL FRAMEWORK

5.1 FINANCIAL PERFORMANCE

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Analysts learn about financial performance from data published by the company known as the annual report. The purpose of the report is to provide stakeholders with accurate and reliable financial statements. It provide an overview of the company's financial performance.

In addition, these statements are audited and signed by the leadership of the company along with a number of other disclosure documents. In this way, the annual report represents the most comprehensive source of information on financial performance made available for investors on an annual basis. Included within the annual report are three financial statements, the balance sheet, the income statement and the cash flow statement.

5.1.1 BALANCE SHEET

The balance sheet is a snapshot in time. It provides an overview of how well the company is managing assets and liabilities. Analysts can find information about long-term vs. short-term debt on the balance sheet. They can also find information about what kind of assets the company owns and what percentage of assets are financed with liabilities vs. stockholders' equity.

5.1.2 INCOME STATEMENT

The income statement provides a summary of operations for the entire year. Also referred to as the profit and loss statement, the income statement provides operating profit margin and net profit margin. It also provides an overview of the number of share outstanding as well as a comparison against prior year performance.

5.1.3 CASH FLOW STATEMENT

The cash flow statement is a combination of both the income statement and the balance sheet. For some analysts, the cash flow statement is the most important financial statement because it provides a reconciliation between net income and cash flow. This is where analysts can see how much the company is spending on stock repurchases, dividends and capital expenditures. It also provides the source and uses of cash flow from operations, investing and financing.

Financial management refers to that part of the management activity which is concerned with the planning and controlling of firm's financial resources. It deals with finding out various sources for raising funds for the firms. The financial statement for non-banking financial institution is not that different from a regular company. The nature of operation means that there is significant difference in the sub classification of accounts.

Banks use much more leverage than other business and earn a spread between the interest income they generate on their asset (loans) and their cost of fund (customer deposit).

5.2 FINANCIAL PERFORMANCE ANALYSIS

Financial performance analysis means establishing relationship between the items in the balance sheet and profit and loss account for determining the financial strength and weakness of the firm. It is the process of scanning of the financial statements to judge profitability, solvency, stability, growth and prosperity of a firm.

The study entitled "Financial Performance Analysis of Kerala State Financial Enterprises Limited, Thrissur" has been oriented with a view to study the financial position of the company that helps in making sound decision by analyzing the recent trend.

5.2.1 AREAS OF FINANCIAL PERFORMANCE ANALYSIS:

Financial analysts often assess the firm's production and productivity performance (total business performance), profitability performance, liquidity performance, working capital performance, fixed assets performance, fund flow performance and social performance. Various financial ratios analysis includes

1. Solvency Analysis

2. Efficiency Analysis

3. Liquidity Analysis

4. Profitability Analysis

5.2.2 SIGNIFICANCE OF FINANCIAL PERFORMANCE ANALYSIS:

1. **Assessment of past performance:**
   Past performance is often a good indicator of future performance. Therefore, an investor or creditor is interested in the trend of operating expenses, net income, cash flows and return on investment. These trends offer a means for judging management's past performance and are possible indicator.
2. **Assessment of current position:**
   The analysis of current position indicates where the business stands today. Financial statement analysis shows the current position of the firm in terms of the types of assets owned by a business firm and the different liabilities due against the enterprises.
3. **Prediction of profitability and growth prospects:**
   The financial statement analysis help in assessing and predicting the earning prospects and growth rates in earnings which are used by investors while comparing investment alternatives and other users in judging the earnings potential of business entries. Investors also consider the risk or uncertainty associate with the expected return. The decision makes are futuristic are always concerned with the future. Financial statements which contain the information on past performance are analyzed interpreted and used as the basis for forecasting the future return and risk.
4. **Predication of bankruptcy and failure:**
   Financial statement analysis is a significant tool in assessing and predicting the bankruptcy and probability of business failure. Through the analysis of the solvency position, the probability of business failure can be predicated to the greater extent. After such prediction managers and investors both can take some preventive measures to avoid or minimize losses.
5. **Loan decision by banks and financial institutions:**
   Financial statement analysis is used by banks, finance companies, lending agencies, and other to make sound loan or credit decision. With the help different borrowers. Because it helps in determining credit risks, deciding terms and condition of loans, interest rates, maturity date, etc.
6. **Assessment of the operational, efficiency:**
   Financial statement analysis is the tool that helps to assess the operational efficiency of the management of a company. The actual performance of the firm which are revealed in the financial statements can be compared performance can be used as the indicator of efficiency of the management.

7. **Simplifying the information:**

Basically, the financial statement analysis further interprets the information disclosed in the financial statements. It attempts the tools that make the information readable and understandable even the average types of users. For this purpose, the information is analyzed in rations, trend percentages, graphs, diagrams, etc.

5.2.3 PARTIES INTERESTED IN FINANCIAL STATEMENT ANALYSIS

The interest of various related groups is affected by the financial performance of a firm. The type of analysis varies according to the specific interest of the party Involved:

- **Trade creditors**: interested in the liquidity of the firm (appraisal of firm's liquidity)
- **Bond holders**: interested in the cash-flow ability of the firm (appraisal of firm's capital structure, the major sources and uses of funds, profitability over time, and projection of future profitability)
- **Investors**: interested in present and expected future earnings as well as stability of these earnings (appraisal of firm's profitability and financial condition)
- **Management**: interested in internal control, better financial condition and better performance (appraisal of firm's present financial condition, evaluation of opportunities in relation to this current position, return on investment provided by various assets of the company etc.)
- **Government agencies:** the government needs financial information to decide on permitting contraction or expansion of business, import/ export etc. in many cases, it becomes mandatory for the business to submit its financial information to different government agencies as prescribed by law.
- **Public:** the public needs financial information to know about the employment opportunities, discharge of responsibility towards the society etc.
- **Employees:** the employees are interested in financial information since their present as well as future is associated with the concern.

5.2.4 IMPORTANCE OF FINANCIAL STATEMENT ANALYSIS

Financial statement analysis is equally important to the management, shareholders creditors, debtors, potential investors, government agencies, bankers, general public, etc. the importance of financial statement analysis can be summarized as follows:

- Helpful in planning and decision making.
- Helps in the evaluation of performance.
- Helps in the diagnosis of managerial and operating problems.

- Helpful to the bankers for credit decision.
- Basis for tax calculations.
- Helps the government to formulate polices.
- Basis of controlling.

5.2.5 LIMITATIONS OF THE FINANCIAL STATEMENT ANALYSIS.

The following are the limitations of financial statement analysis:

- It ignores the qualitative aspects of the business.
- Accurate comparison may not be possible if the companies have followed different accounting principles.
- Financial statement analysis only identifies/ diagnoses the problems but cannot suggest the solutions.
- There is the change of wrong analysis and misleading to the users.

5.2.6 TYPES OF FINANCIAL ANALYSIS

Financial statement analysis are classified according to their objectives, Materials used and Modus operandi. Financial statement analysis, according to objectives are further subdivided into Short term and long term.

Short term analysis include

i. Working capital position analysis,

ii. Liquidity analysis,

iii. Return analysis,

iv. Profitability analysis,

v. Activity analysis.

Long term analysis include

i. Profitability analysis,

ii. Capital structure analysis,

iii. Financial position,

iv. Future prospects.

Financial statement analysis according to materials used include Internal and External analysis. Financial statement analysis according to modus operandi include Horizontal and vertical analysis. They are briefly explained below.

1. Internal Analysis

Internal analysis is made by the top management executives with the help of Management Accountant. The finance and accounting department of the business concern have direct approach to all the relevant financial records. Such analysis emphasis on the overall performance of the business concern and assessing the profitability of various activities and operations.

2. External Analysis

Shareholders as investors, material suppliers, government department and tax authorities and the like are doing the external analysis. They are fully depending upon the published financial statements. The objective of analysis is varying from one party to another.

3. Short Term Analysis

The short term analysis of financial statement is primarily concerned with the working capital analysis so that a forecast may be made of the prospects for future earnings, ability to pay interest, debt maturities – both current and long term and probability of a sound dividend policy.

A business concern has enough funds in hand to meet its current needs and sufficient borrowing capacity to meet its contingencies. In this aspect, the liquidity position of the business concern is determined through analyzing current assets and current liabilities. Hence, ratio analysis is highly useful for short term analysis.

4. Long Term Analysis

There must be a minimum rate of return on investment. It is necessary for the growth and development of the company and to meet the cost of capital. Financial planning is also necessary for the continued success of a company. The fixed assets structure, leverage analysis, ownership pattern of securities and the like are made in the long term analysis.

5. Horizontal Analysis

It is otherwise called as dynamic analysis. When financial statements for a number of years are viewed and analyzed, the analysis is called horizontal analysis. The preparation of comparative statements is an example of this type of analysis.

6. Vertical Analysis

It is otherwise called as static analysis. Under this type of analysis, the ratios are calculated from the balance sheet of one year and/or from the profit and loss account of one year. It is used for short term analysis only.

5.2.7 TOOLS AND TECHNIQUES USED FOR FINANCIAL ANALYSIs

Various tools and techniques used for financial statement analysis are:

- Comparative statement
- Trend analysis
- Common size statement
- Fund flow analysis
- Cash flow analysis
- Ratio analysis
- Cost- volume profit analysis

1. **Comparative statement**

   A comparative statement is a document that compares a particular financial statement with prior period statements or with the same financial report generated by another company. Analysts and business managers use the income statement, balance sheet and cash flow statement for comparative purposes. The process reveals trends in the financials and compares one company's performance with another business. The various kinds of comparative statements are :

   a) **Comparative Income Statement:**

   A Comparative Income Statement shows the absolute figures of incomes and expenses of two or more years and also the absolute change of those figures, together with the percentage change of those figures which, in other words, help the analyst to understand the change both in terms of absolute figures, as well as in terms of percentage.

   b) **Comparative Expenses statement**

   Comparative Expenses statement helps to ascertain the changes of various component of expenses which will help the management to take decision in future. For expense, if it is found that percentage of direct expenses are comparatively high in succeeding years or previous year, the reason for such increase must be ascertained. So comparative expenses statement will highlight the changes in various components of expenses which provide very useful information to the management and accordingly the management can look into the matter and will take necessary steps.

c) **Comparative Balance Sheet**

Comparison from a single Balance Sheet is not possible, the same can be compared with the Balance Sheets of the previous years. In other words, if we take two or more Balance Sheets and compare them with their respective figures of assets and liabilities, a meaningful conclusion can be drawn after analyzing and scrutinizing their changed figures and the reason for such changes which is very helpful on the part of the management to take financial decisions and future courses of action.

2. **Trend Analysis**

Trend analysis is a technique used in technical analysis that attempts to predict the future stock price movements based on recently observed trend data. Trend analysis is based on the idea that what has happened in the past gives traders an idea of what will happen in the future. There are three main types of trends: short-, intermediate- and long-term.

3. **Common size statement**

A common size financial statement displays all items as percentages of a common base figure rather than as absolute numerical figures. This type of financial statement allows for easy analysis between companies or between time periods for the same company. The values on the common size statement are expressed as ratios or percentages of a statement component, such as revenue. While most firms don't report their statements in common size format, it is beneficial for analysts to compute it to compare two or more companies of differing size or different sectors of the economy. The various types of common size statements are:

a) **The common size income statement,** It is also referred to as the profit and loss (P&L) statement, provides an overview of flows of sales, expenses and net income during the reporting period. The income statement equation is sales minus expenses and adjustments equals net income. This is why the common size income statement defines all items as a percentage of *sales*. The term "common size" is most often used when analyzing elements of the income statement, but the balance sheet and the cash flow statement can also be expressed as a common size statement.

b) **Common Size Balance Sheet Statement**

The balance sheet provides a snapshot overview of the firm's assets, liabilities and shareholders' equity for the reporting period. A common size balance sheet is set up with the same logic as the common size income statement. The balance sheet equation is assets equals liabilities plus stockholders' equity. As a result, analysts define the balance sheet as a percentage of *assets*. Another version of the common size balance sheet shows asset line items as a percentage of total assets, liabilities as a percentage of total liabilities and stockholders' equity as a percentage of total stockholders' equity.

c) **Common Size Cash Flow Statement**

The cash flow statement provides an overview of the firm's sources and uses of cash. The cash flow statement is divided among cash flows from operations, cash flows from investing and cash flows from financing. Each section provides additional information about the sources and uses of cash in each business activity. One version of the common size cash flow statement expresses all line items as a percentage of *total cash flow*. The more popular version expresses cash flow in terms of total operational cash flow for items in *cash flows from operations*, total investing cash flows for cash flows from investing activities, and total financing cash flows for cash flows from financing activities.

4) FUND FLOW ANALYSIS

Fund flow is the net of all cash inflows and outflows in and out of various financial assets. Fund flow is usually measured on a monthly or quarterly basis; the performance of an asset or fund is not taken into account, only share redemptions, or outflows, and share purchases, or inflows. Net inflows create excess cash for managers to invest, which theoretically creates demand for securities such as stocks and bonds.

5) CASH FLOW ANALYSIS

Cash Flow Analysis is the evaluation of a company's cash inflows and outflows from operations, financing activities, and investing activities. In other words, this is an examination of how the company is generating its money, where it is coming from, and what it means about the value of the overall company.

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6) RATIO ANALYSIS

A **ratio analysis** is a quantitative **analysis** of information contained in a company's financial statements. **Ratio analysis** is used to evaluate various aspects of a company's operating and financial performance such as its efficiency, liquidity, profitability and solvency.

TYPES OF RATIOS

Ratios can be categorized into four broad categories:-

- PROFITABILITY RATIO
- LIQUIDITY RATIO
- SOLVENCY RATIO
- EFFICIENCY RATIO

They are explained as follows:

1) **PROFITABILITY RATIO:**

Profitability ratio is used to evaluate the company's ability to generate income as compared to its expenses and other cost associated with the generation of income during a particular period. This ratio represents the final result of the company. Profitability represents final performance of company i.e. how profitable company. It also represents how profitable owner's funds have been utilized in the company. The various profitability ratios are:

- **Earnings Per Share**

This ratio measures profitability from the point of view of the ordinary shareholder. A high ratio represents better the company is.

Formula: Net Profit ÷ Total no of shares outstanding

- **Profit margin ratio**

Profit margin is one of the commonly used profitability ratios to gauge profitability of a business activity. It represents how much percentage of income generated has turned into profits.

Formula: Net Profit ÷ Total income

- **Foreman"s commission ratio**

Foreman"s commission is the main source of income to the KSFE. The foreman is entitled to a certain percentage of the chitty amount (not more than 5% of the chitty amount) as his commission from each member. This ratio shows the relationship between Foreman"s Commissions and total income. The ratio is calculated as:

Formula: Foremans Commission ÷ Total income

- **Interest Income Ratio**

  This ratio shows the relationship between Total interests received and total income. The ratio is calculated as:

  Formula: interest received ÷ Total income

- **Return on equity**

  This ratio is important to know how efficiently a bank is using its equity to generate profits.

  Formula: Total income ÷ equity*100

2) Liquidity ratio

Liquidity ratios are a class of financial metrics used to determine a debtor's ability to pay off current debt obligations without raising external capital. Current liabilities are analyzed in relation to liquid assets to evaluate the coverage of short-term debts in an emergency. The various liquidity ratios are:

- **Current ratio:**

  The current ratio is also known as the working capital ratio. It will measure the relationship between current assets and current liabilities. It measures the firm's ability to pay for all its current liabilities, due within the next one year by selling off all their current assets. The formula for is as follows

  Formula: current asset ÷ current liability

3) Solvency ratio

Solvency ratio is a key metric used to measure an enterprise's ability to meet its debt and other obligations. The lower a company's solvency ratio, the greater the probability that it will default on its debt obligations. The various solvency ratios are:

- **The debt to equity ratio**

  It measures the relationship between debt of a firm and its total equity. Since both these figures are obtained from the balance sheet itself, this is a balance sheet ratio. The debt-equity ratio holds a lot of significance. Firstly it is a great way for the company to measure its leverage or indebtedness. A low ratio means the firm is more financially secure, but it also means that the equity is diluted. In contrast, a high ratio indicates a risky business where there are more creditors of the firm than there are investors. In fact, a high debt to equity ratio may deter more investors from investing in the firm, and even deter creditors from lending money. While there is no industry standard as such it is best to keep this ratio as low as possible. The maximum a company should maintain is the ratio of 2:1, i.e. twice the amount of debt to equity. Let us take a look at the formula.

  Formula: Debt ÷ Shareholders Funds

- **Proprietary ratio**

  It expresses the relationship between the proprietor's funds, i.e. the funds of all the shareholders and the capital employed or the net assets. Like the debt ratio shows us the comparison between debt and capital, this ratio shows the comparison between owner's funds and net assets. A high ratio is a good indication of the financial health of the firm. It means that a larger portion of the total capital comes from equity. Or that a larger portion of net assets is financed by equity rather than debt. One point to note, that when both ratios are calculated with the same denominator, the sum of debt ratio and the proprietary ratio will be 1. The ratio is as follows,

  Proprietary Ratio = Shareholders Fund ÷ Net Assets

- **Interest Coverage Ratio**

  All debt has a cost, which we normally term as an interest. Debentures, loans, deposits etc all have an interest cost. This ratio will measure the security of this interest payable on long-term debt. It is the ratio between the profits of a firm available and the interest payable on debt instruments. The formula is,

  Interest Coverage Ratio = Net Profit before Interest and Tax Interest charged

- **Fixed asset to net worth ratio**

  Measure of the solvency of a firm, this ratio indicates the extent to which the owners' cash is frozen in the form of brick and mortar and machinery, and the extent to which funds are available for the firm's operations. A ratio higher than 0.75 indicates that the firm is vulnerable to unexpected events and changes in the business climate. This ratio establishes the relationship between fixed assets and shareholder funds. It is calculated by **fixed assets by shareholder funds.**

- **Debt Ratio**

  It 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. **Debt Ratio = Total Debt/ Total Assets**

4) **Efficiency ratio**

Efficiency ratios also called activity ratios measure how well companies utilize their assets to generate income. The various efficiency ratios are:

- **Overhead efficiency ratio**

This ratio is a measure a company's efficiency and generally identified with or used by banks and financial institutions to indicate the ability of the management to keep the overheads low. It is also referred to "Overhead Efficiency Ratio". It is computed by different banks in different manner. One of the following formulas is used to compute this ratio. **Overhead efficiency ratio = non- interest income / non-interest expenses.**

- **Interest expense to interest income ratio**

This ratio shows the relationship between interest expenses and interest income. The ratio is calculated as **interest expense/ interest income x100.**

- **Total Expenditure to Total Income Ratio**

This ratio shows the relationship between total expenditure and total income. The ratio is calculated as total expenditure/ total income.

- **Spread ratio**

It can be expressed as the relationship between spread and total fund of financial institution. It can be calculated as: **spread ratio = (interest received – interest paid)/total fund x 100.**

- **Burden ratio**

It is the proportion of burden to total fund of the financial institution. The ratio can be expressed as: **(Non- Interest expense-Non – Interest income)/Total Fund*100.**

- **Profitability ratio**

It can be expressed as the final figure of analysis. The ratio can be expressed as the **(spread – burden)/total fund*100.**

Analysis and interpretation

CHAPTER – 6

ANALYSIS AND INTERPRETATION

6.1 FINANCIAL ANALYSIS OF KSFE

Financial analysis is defined as the process of identifying financial strength and weakness of a business establishing relationship between the items of balance sheet and income statement. Ratio analysis is the most widely used technique of financial statement analysis. Comparative analysis and trend analysis can also be used as a technique for financial statement analysis. The data shown are related to the study conducted on the financial performance of KSFE Ltd. the data needed for the study are collected on the basis of information given in the annual report (2011 – 2017) of the company. This chapter highlights the financial performance of KSFE Ltd. There are various methods and techniques used for studying the financial performance of a financial institution. The following techniques are used by me for analyzing the financial performance of KSFE Ltd...

- Trend analysis
- Comparative Analysis
- Ratio analysis

6.2 TREND ANALYSIS

Trend signifies tendency. Therefore, review and appraisal of tendency in accounting variables is simply called as trend analysis. Trend ratio is also an important tool for horizontal financial analysis. Under this technique of financial analysis, the ratios of different items for various period are calculated and then comparison is made. An analysis of ratio over the past few years may well suggest the trend or direction in which the concern is going upward or downward. The method of trend percentages is a useful analytical device for the management since by substituting percentages for large amount, the brevity and readability are achieved. Trend percentages are immensely helpful in making a comparative study of the financial statements for several years.

6.2.1 Uses or advantages of trend analysis:

- It helps in easily knowing the direction of movement of the activity of the business, whether upward or downward.
- Trend analysis is helpful in forecasting and budgeting.

- It helps in comparing one period with another period.
- It makes data brief and easily understandable.

6.2.2 Procedure for calculation of trend:

- One year is taken as the base year. Usually, the first year is taken as the base year.
- The figure of base year are taken as 100.
- Trend percentages are calculated in relation to the base year.

If a figure in a year is less than the base year figure, the trend percentage will be less than 100 and if the figure is more than the base year figure the trend percentage will be more than 100.

Trend percentage = current year amount / base year amount * 100

The trend analysis under following categories were selected by me for analyzing the financial performance of KSFE Ltd.

- Trend income statement and its components.
- Balance sheet statement trend and its components.
- Trend of total deposits of KSFE Ltd.
- Trend analysis of total loans and advances of KSFE Ltd.
- Trend of branches of KSFE Ltd.
- Trend of total turnover of KSFE Ltd.
- Trend of total subscribers of KSFE Ltd.

6.2.3 TREND INCOME STATEMENT

The income statement is significant among the major financial statements in that it sheds light on how well the company performed in earning a profit. As such, using the income statement to spot trends that indicate the direction of future profits is a worthwhile exercise. The income statement highlights the company's profitability over a period of time. The income statement comprises of total revenue, total expenditure and net profit.

The below table 6.1 shows the trend income statement of the study period 2011 to 2017. It shows the trend of total income, total expense and net profit over the study period. In this analysis the year 2011 is taken as the base year. Therefore all particulars of the base year are taken as 100. It is good practice to analyze different items within the income statement to make sense of how the company achieved its net income for the period.

77

TABLE 6.1 TREND INCOME STATEMENT IN THE STUDY PERIOD (2011-2017)

YEARS	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
PARTICULARS							
REVENUE:							
REVENUE FROM OPERATION	100	116	144	179	211	233	257
OTHER INCOME	100	156	195	234	287	440	577
TOTAL (A)	**100**	**118**	**147**	**182**	**215**	**244**	**274**
EXPENSE:							
EMPLOYEE BENEFIT EXPENSE	100	110	117	124	135	177	200
FINANCE COST	100	116	160	212	257	299	333
OTHER EXPENSE	100	145	147	194	246	192	322
TOTAL (B)	**100**	**119**	**139**	**170**	**202**	**225**	**273**
OPERATING PROFIT (A-B)	**100**	**99**	**246**	**327**	**389**	**483**	**288**
LESS: PRIOR PERIOD ITEM	100	-102885	663	247	489	160011	0
PROFIT BEFORE TAX	**100**	**221**	**246**	**327**	**388**	**295**	**288**
LESS: TAX	100	175	241	458	545	487	270
PROFIT AFTER TAX	**100**	**260**	**250**	**214**	**253**	**128**	**305**

(Source: Annual Report of KSFE Ltd 2011 to 2017)

The various aspects of income statement on which the trend percentage analysis is made are as follows.

- Trend analysis of total income.
- Trend analysis of total expense.
- Trend analysis of Net Profit.

6.2.3.1 TOTAL INCOME

Total income is the major source of revenue earned by KSFE. Ltd. over a period of time. It comprise of foremans commission, finance charges and interest income and other income of KSFE. Ltd.

6.2.3.2 TOTAL EXPENDITURE

Expense means the money spent or cost incurred by KSFE. Ltd. in their effort to generate revenue. The expense of KSFE. Ltd are in the form of employee benefit expense, finance cost, administrative and other expense, repairs and maintenance, remuneration to auditors, promotional expense and other expense.

6.2.3.3 PRIOR PERIOD ADJUSTMENTS

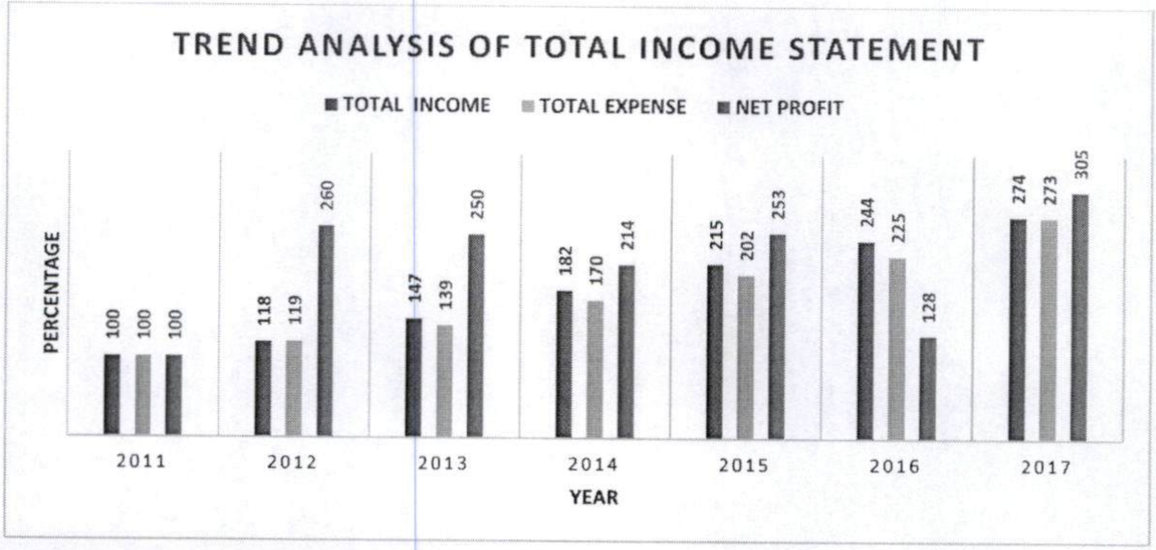
Adjustments caused by the realization of the income tax benefits arising from the operating losses of purchased subsidiaries before they were acquired.

6.2.3.4 NET PROFIT

Net profit is also referred to as the net earnings. It is a measure of the profitability of KSFE. It is the actual profit earned by KSFE Ltd.

79

FIGURE 6.1 TREND ANALYSIS OF TOTAL INCOME STATEMENT IN THE STUDY PERIOD (2011-2017)



(Source: Annual Report of KSFE Ltd 2011 to 2017)

INTERPRETATION

The above figure 6.1 shows the trend in total income of KSFE Ltd. for the period 2011 to 2017. Taking 2011 as the base year, the total income, total expenditure and net profit has been analyzed over years. It shows that the total income and total expenditure has increased year by year and so the operating profit also shows an increasing trend. In the year 2016 the total income percentage is 244 percentage and that of total expense is 225 percent. The Net Profit during the year 2015 was 253 percent and it decreased to 128 percent in the year 2016 since the prior period expenses which include salaries and allowances and other prior period expenses were much higher than that of prior period income in the year 2016. And later in the year 2017 Net Profit increased to 305 percent since the total income was much higher than that of total expense. The income statement reveals that the KSFE Ltd. is profitable enough and the financial performance of KSFE Ltd. is much better than before.

80

6.2.4 BALANCE SHEET

Balance sheet is a financial statement which depicts the true financial position of the company. Trend analysis is performed on the balance sheet so as to see if the financial position are improving or declining. Balance sheet comprise of owned fund, borrowed fund, fixed asset and current asset. The below table 6.2 shows the trend Balance sheet of the study period 2011 to 2017.

It shows the trend of total Net worth, total owned fund, total borrowed fund, trend of loans and advances, trend of total deposits. In this analysis the year 2011 is taken as the base year. Therefore all particulars of the base year are taken as 100. It is good practice to analyze different items within the Balance sheet to make sense of what the company true financial position depicts in the final year.

TABLE 6.2 BALANCE SHEET TREND IN THE STUDY PERIOD (2011-2017)

YEARS	2011	2012	2013	2014	2015	2016	2017
PARTICULARS							
I.SOURCE OF FUNDS:							
1. OWNED FUND							
A) SHARE CAPITAL	100	100	100	100	100	250	500
B)RESERVES AND SURPLUS	100	139	177	210	248	257	278
TOTAL OWNED FUND (A)	**100**	**135**	**169**	**198**	**232**	**256**	**301**
2. LIABILITY							
NON - CURRENT LIABILITY							
A) LONG TERM PROVISIONS	100	100	100	106	1667	1910	2636
CURRENT LIABILITY							
A) SHORT TERM BORROWINGS	100	117	152	196	239	284	340
B) OTHER CURRENT LIABILITY	100	122	154	184	210	228	245
TOTAL LIABILITY (B)	**100**	**120**	**153**	**189**	**222**	**250**	**284**
TOTAL (A+B)	**100**	**121**	**154**	**189**	**222**	**251**	**284**
II. APPLICATION OF FUND							
NON - CURRENT ASSET							
1) FIXED ASSET							
A) TANGIBLE ASSET	100	118	152	140	121	120	106
B)INTANGIBLE ASSET	100	100	100	100	100	139	56
C) CAPITAL WORK IN PROGRESS	100	0.2	0.21	100	100	0.43	0.43
TOTAL NON - CURRENT ASSET (A)	**100**	**108**	**139**	**128**	**112**	**111**	**98**
CURRENT ASSET							
A) CASH AND CASH EQUIVALENT	100	123	142	174	212	245	285
B) SHORT TERM LOANS AND ADVANCES	100	120	156	191	223	249	279
C) OTHER CURRENT ASSET	100	110	223	294	425	639	956
TOTAL CURRENT ASSET (B)	**100**	**121**	**154**	**189**	**223**	**251**	**285**
TOTAL (A+B)	**100**	**121**	**154**	**189**	**222**	**251**	**284**

(Source: Annual Report of KSFE Ltd 2011 to 2017)

82

The various aspects of income statement on which the trend percentage analysis is made are as follows.

- Trend analysis of Owned Fund
- Trend analysis of Borrowed Fund
- Trend in total source of fund (working capital)
- Trend analysis of deposits.
- Trend analysis of loans and advances.

6.2.4.1 SOURCE OF FUND

The funds of KSFE Ltd. consist of owned fund and borrowed fund. Owned fund include paid up share capital and reserve fund. Borrowed fund include various types of deposits and borrowings of KSFE Ltd. These are the major source of fund of KSFE Ltd.

6.2.4.1.1Owned fund

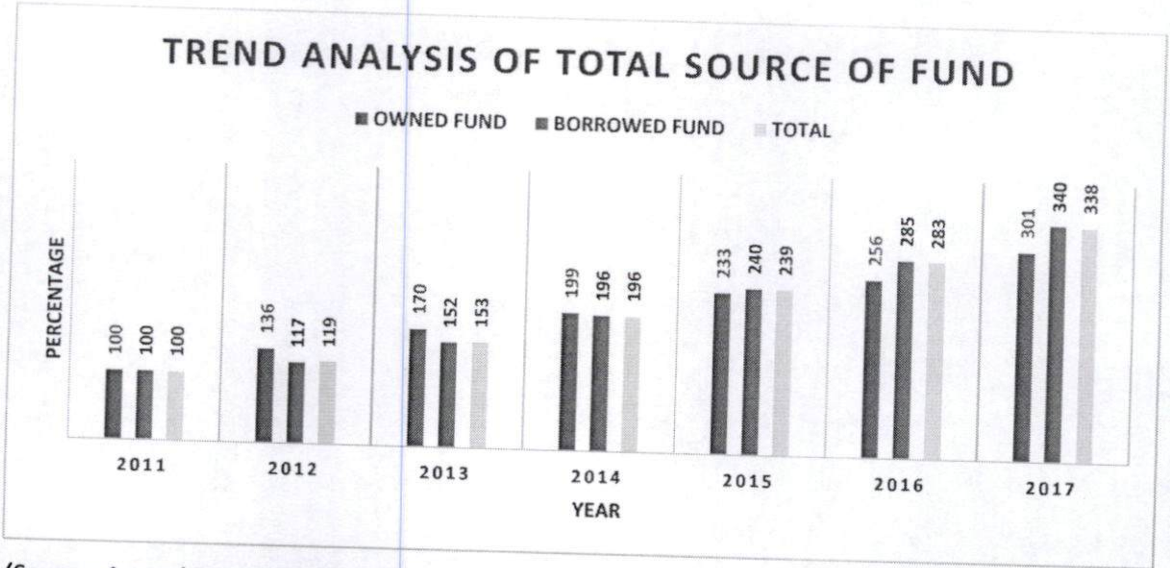
It include total paid up share capital and reserve and surplus. Reserves and other funds constitute another part of owned fund of KSFE Ltd. These are kept by the KSFE. Ltd. for meeting unforeseen contingencies that might arise in future. As per 2017 annual report of KSFE Ltd. a sum of 85.27 crore has been transferred to reserves as decided by board.

6.2.4.1.2 Borrowed fund

Borrowed fund are the major source of fund of KSFE. Ltd. it include short term borrowings, which consist of secured borrowings from banks and other parties and unsecured deposits which consist of deposits guaranteed by government of Kerala, matured and Non-Operative deposit, public deposits, chitty deposits, hire purchase, and other deposits.

83

FIGURE 6.2 TREND ANALYSIS OF TOTAL SOURCE OF FUND IN THE STUDY PERIOD (2011-2017)



(Source: Annual Report of KSFE Ltd 2011 to 2017)

INTERPRETATION

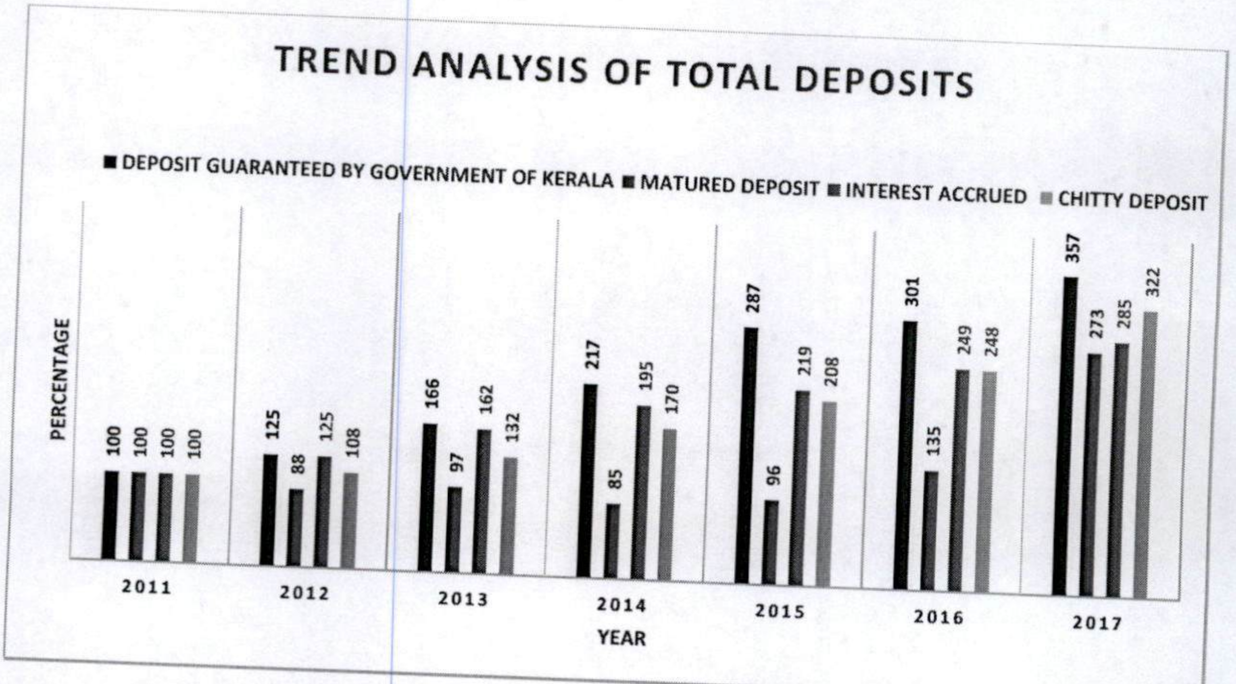
- The above figure 6.2 shows the trend in total source of fund of KSFE Ltd. for the period 2011 to 2017. Taking 2011 as the base year, the total fund has been analyzed over years. The total fund of KSFE. Ltd has been mobilized through owned and borrowed fund. The total fund has increased year by year and in the year 2017 the total fund trend percentage has increased from 283 percent in the year 2016 to 338 percent, and it reveals the efficiency of KSFE Ltd. in mobilizing fund from various sources.
- Total owned fund which consist of reserve and surplus shows an increase in trend to 301 percent in the year 2017. Additional reserve helps to strengthen the financial position of an enterprise, it also helps to meet additional requirements of working capital.
- Borrowed fund which consist of deposits and borrowings shows an increasing trend to 340 percentage in the year 2017. It shows an increase of operating liquidity of KSFE Ltd. The reason behind the increasing trend of total fund was due to an increase of total short term borrowings such as the fixed deposit under government guarantee and the Sugama deposit and chitty deposits also rose than the previous level.

TABLE 6.3 TREND ANALYSIS OF DEPOSIT IN THE STUDY PERIOD (2011 TO 2017)

YEAR	DEPOSIT GUARANTEED BY GOVERNMENT OF KERALA	MATURED DEPOSIT	INTEREST ACCRUED	CHITTY DEPOSIT
2011	100	100	100	100
2012	125	88	125	108
2013	166	97	162	132
2014	217	85	195	170
2015	287	96	219	208
2016	301	135	249	248
2017	357	273	285	322

(Source: Annual Report of KSFE Ltd 2011 to 2017)

FIGURE 6.3 TREND ANALYSIS OF TOTAL DEPOSITS IN THE STUDY PERIOD (2011-2017)



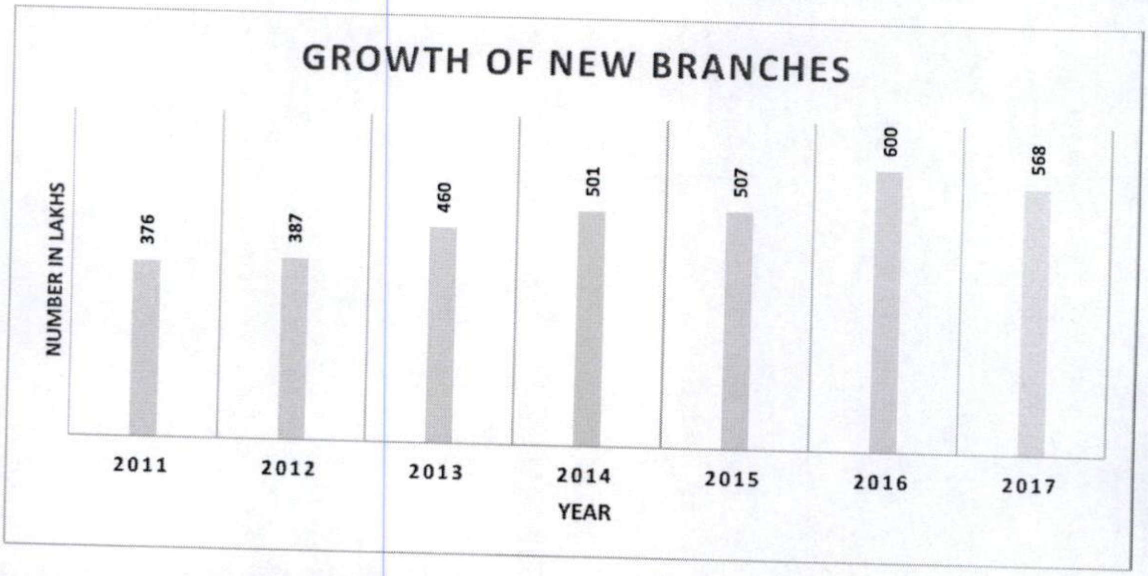
(Source: Annual Report of KSFE Ltd 2011 to 2017)

85

INTERPRETATION:

The above table 6.3 and figure 6.3 shows the trend in total deposits of KSFE Ltd. for the period 2011 to 2017. Taking 2011 as the base year, the government deposit, matured deposit, chitty deposit and interest accrued have has been analyzed over years. The study reveals that the fixed deposit under government increased to 357 percent in the year 2017 from the base year. The interest accrued which consist of public deposit and short term deposit rose to 285 percent and chitty deposits rose to 322 percent in the year 2017 as a result of chitty campaigns during the year 2016-2017. The deposit trend shows an increasing trend over years which denotes that the KSFE Ltd. is highly efficient in mobilizing fund from various sources.

FIGURE 6.4 GROWTH OF NEW BRANCHES IN THE STUDY PERIOD (2011 TO 2017)



(Source: Annual Report of KSFE Ltd 2011 to 2017)

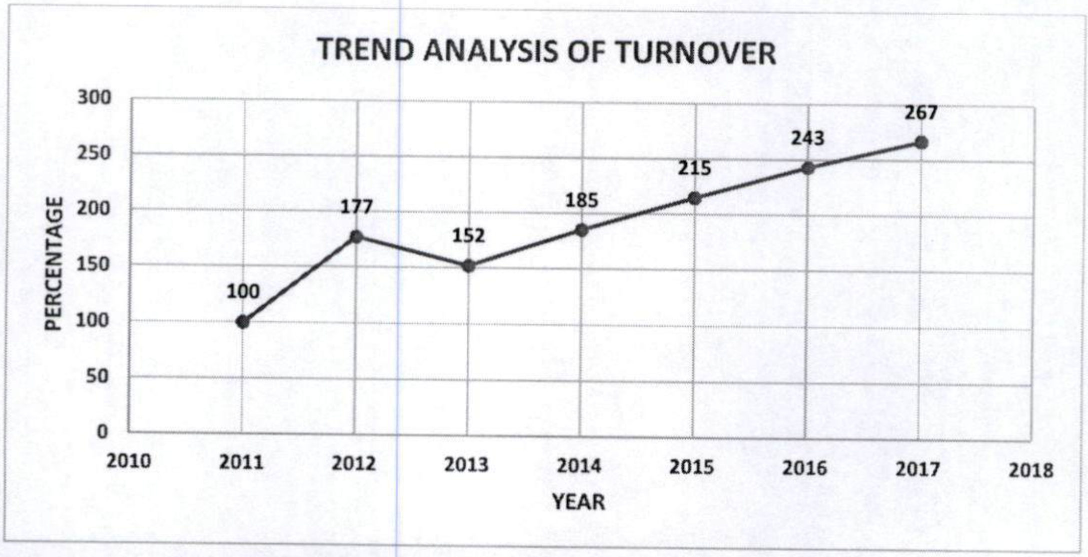
The above figure 6.4 shows the increase in number of branches of KSFE Ltd. for the period 2011 to 2017. And in the year 2017 the Company is operating throughout its 568 units. The company is able to serve its customers throughout the state of Kerala. There was no significant change in nature of business during the period. Increase in number of branch is an important financial highlight which reveals that the KSFE Ltd. has a better financial performance, since earning a profit allows KSFE Ltd. to open new branches and expand their business. Profitability is a factor which determines ability to expand their business, and so the data proves that the company was profitable enough.

TABLE 6.4 TREND ANALYSIS OF TURNOVER IN THE STUDY PERIOD (2011 TO 2017)

YEAR	TURN OVER	TREND
2011	844 105	100
2012	994 683	118
2013	1 279 902	152
2014	1 557 054	184
2015	1 820 000	216
2016	2 052 000	243
2017	2 250 449	266

(Source: Annual Report of KSFE Ltd 2011 to 2017)

FIGURE 6.5 TREND OF TURNOVER OF KSFE Ltd. IN THE STUDY PERIOD (2011 TO 2017)



(Source: Annual Report of KSFE Ltd 2011 to 2017)

INTERPRETATION:

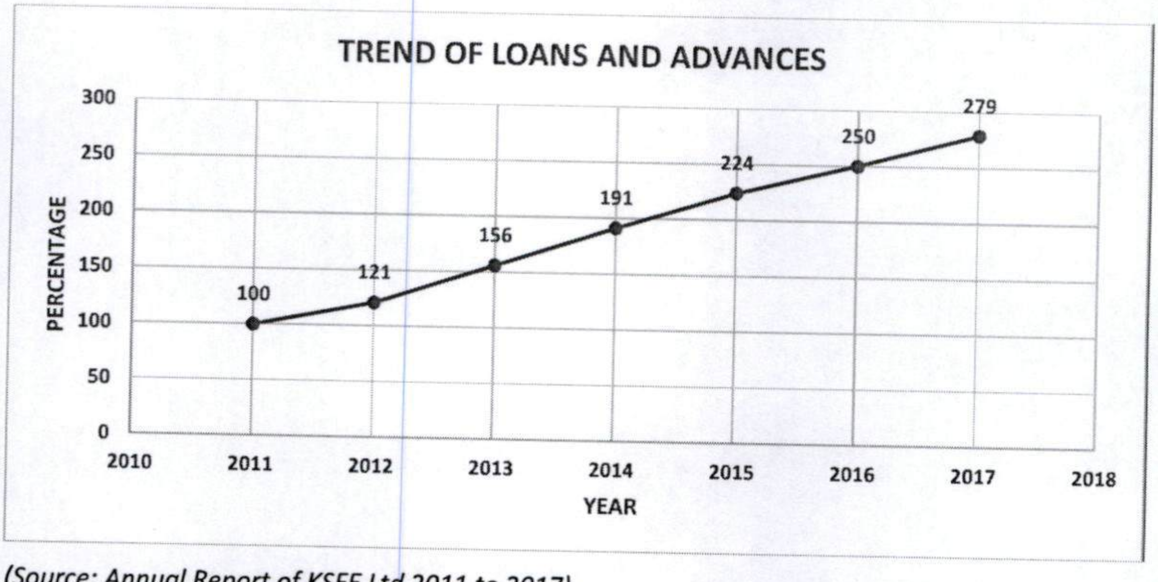
The above table and figure 6.5 shows the trend in total turnover of KSFE Ltd. for the period 2011 to 2017. Taking 2011 as the base year, the total turnover has been analyzed over years. Turnover includes total auctioned sala and loans outstanding. The total sala of chitties conducted from all branches rose to 267 percent in the year 2017 as against base year. The increased turnover increase the profitability of business, and there by it reveals that the financial performance of KSFE Ltd. is much better than before.

TABLE 6.5 TREND ANALYSIS OF LOANS AND ADVANCES IN THE STUDY PERIOD (2011 TO 2017)

YEAR	TOTAL LOANS AND ADVANCES	TREND
2011	67 634 771 404	100
2012	81 752 607 321	121
2013	105 663 930 310	156
2014	129 809 620 659	191
2015	151 269 564 866	224
2016	168 585 499 138	250
2017	188 566 126 378	279

(Source: Annual Report of KSFE Ltd 2011 to 2017)

FIGURE 6.6 TREND OF LOANS AND ADVANCES IN THE STUDY PERIOD (2011 TO 2017)



(Source: Annual Report of KSFE Ltd 2011 to 2017)

INTERPRETATION:

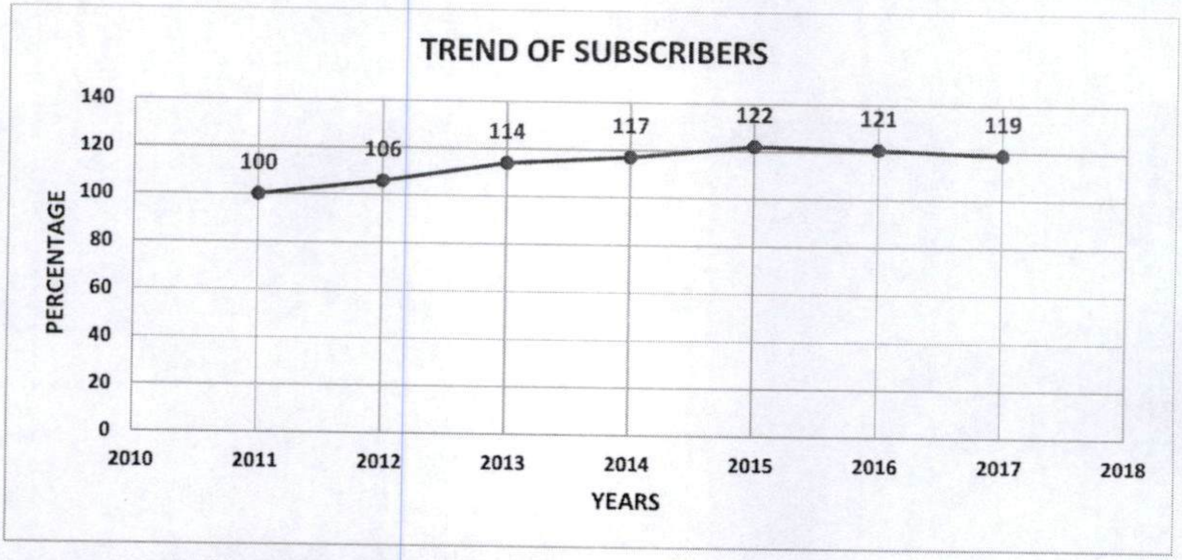
The above table 6.5 and figure 6.6 shows the trend in total loans and advances of KSFE Ltd. for the period 2011 to 2017. Taking 2011 as the base year, the trend of total loans and advances has been analyzed over years. It shows an increasing trend to 279 percent in the year 2017 as against the base year. It could be noticed from the above analysis that the company gives more importance to loans and advances. It shows the efficiency of deployment of KSFE Ltd. moreover it proves that the KSFE Ltd. is efficient enough and the overall performance of it is satisfactory.

TABLE 6.6 TREND ANALYSIS OF SUBSCRIBERS IN THE STUDY PERIOD (2011 TO 2017)

YEAR	NO.OF SUBSCRIBERS	TREND
2011	1 405 868	100
2012	1 496 998	106
2013	1 605 238	114
2014	1 645 720	117
2015	1 708 626	121
2016	1 704 351	121
2017	1 669 480	118

(Source: Annual Report of KSFE Ltd 2011 to 2017)

FIGURE 6.7 TREND OF SUBSCRIBERS IN THE STUDY PERIOD (2011 TO 2017)



(Source: Annual Report of KSFE Ltd 2011 to 2017)

INTERPRETATION:

The above table 6.6 and figure 6.7 shows the trend in total Subscribers of KSFE Ltd. for the period 2011 to 2017. Taking 2011 as the base year, the trend of total subscribers has been analyzed over years. The subscriber base shows an increasing trend to 122 percent in the year 2015. And later in the following years it decreased to 119 percent in the year 2017. Since low key campaigns were conducted in many places of the state without much attractive offers. Acquiring new customers is something which is very important for the growth of a business. But then chit business faced with cash crunch due to demonetization. Customers

89

faced inconvenience and found it difficult to pay monthly installment. And even KSFE Ltd. found it difficult to honor the payout commitments to subscribers because their cash flow got affected.

6.3 COMPARATIVE FINANCIAL STATEMENT

Comparative financial statements are those statements which have been designed in a way so as to provide time perspective to the consideration of various elements of financial position embodied in such statements. In these statements, figures for two or more periods are placed side by side to facilitate comparison. But the income statement and balance sheet can be prepared in the form of comparative financial statement.

6.3.1 Comparative income statement

The income statement discloses net profit or net loss on account of operations. A comparative income statement will show the absolute figures for two or more periods. The absolute change from one period to another and if desired. The change in terms of percentages. Since, the figures for two or more periods are shown side by side; the reader can quickly ascertain whether sales have increased or decreased, whether cost of sales has increased or decreased etc.

Table 6.7 Comparative Income Statement for the years 2011&2012 of KSFE

PARTICULARS	YEAR ENDING 31st MARCH		INCREASE/ DECREASE	
	2011	2012	AMOUNT	PERCENTAGE
REVENUE:				
REVENUE FROM OPERATION	6 785 326 394	7 876 859 974	1 091 533 580	16.08
OTHER INCOME	382 088 196	596 114 951	214 026 755	56.01
TOTAL (A)	**7 167 414 590**	**8 472 974 925**	**1 305 560 335**	**18.21**
EXPENSE:				
EMPLOYEE BENEFIT EXPENSE	2 907 160 379	3 210 929 556	303 769 177	10.44
FINANCE COST	2 450 297 963	2 866 792 919	416 494 956	16.99
DEPRICIATION AND AMORTIZATION	50 624 660	76 026 226	25 401 566	50.17
OTHER EXPENSE	1 237 123 437	1 798 500 488	561 377 051	45.37
TOTAL (B)	**6 645 206 439**	**7 952 249 189**	**1 307 042 750**	**19.66**
OPERATING PROFIT (A-B)	**522 208 151**	**520 725 736**	**-1 482 415**	**-0.28**
LESS: PRIOR PERIOD ITEM	615 139	-632 886 096	-632 270 957	-1027.85
PROFIT BEFORE TAX	**521 593 012**	**1 153 611 832**	**632 018 820**	**121.17**
LESS: TAX	242 175 119	426 079 740	183 904 621	75.93
PROFIT AFTER TAX	**279 417 893**	**727 532 092**	**448 114 199**	**160.37**

(Source: Annual Report of KSFE Ltd 2011 to 2017

91

INTERPRETATION:

- Total revenue of KSFE has increased to 18.21% in 2012, since the revenue from operation and income from other sources has increased to 16.08% and 56.01%. KSFE Ltd. has been constantly seeking to increase revenue in an effort to boost profitability.
- Total expense of KSFE has increased to 19 % in 2012, it was due to an increase of 10.44% in employee benefit expense. 16.99% in finance cost. 50.17% increase in depreciation and amortization expense. And 45.17% increase in other expense.
- Thereby the operating profit created out of deducting total expense from total revenue of KSFE has also decreased to 0.28% in 2012 since the growth rate of total expense was greater than total revenue.
- After deducting tax and prior period item from operating profit there was an increase in Net Profit of the company in 2012.
- It indicate that the company is efficient and the financial position of the KSFE Ltd. is fairly good enough.

Table 6.8 Comparative Income Statement for the years 2012&2013 of KSFE

PARTICULARS	YEAR ENDING 31st MARCH		INCREASE/ DECREASE	
	2012	2013	AMOUNT	PERCENTAGE
REVENUE:				
REVENUE FROM OPERATION	7876859974	9791005795	1914145821	24.30
OTHER INCOME	596114951	747095329	150980378	25.32
TOTAL (A)	**8472974925**	**10538101124**	**2065126199**	**24.37**
EXPENSE:				
EMPLOYEE BENEFIT EXPENSE	3 210 929 556	3 423 089 602	212 160 046	6.60
FINANCE COST	2 866 792 919	3 921 972 906	1 055 179 987	36.80
DEPRICIATION AND AMORTIZATION	76 026 226	71 646 569	-4 379 657	-5.76
OTHER EXPENSE	1 798 500 488	1 833 294 539	34 794 051	1.93
TOTAL (B)	**7 952 249 189**	**9 250 003 616**	**1 297 754 427**	**16.31**
OPERATING PROFIT (A-B)	**520 725 736**	**1 288 097 508**	**767 371 772**	**147.36**
LESS: PRIOR PERIOD ITEM	632 886 096	4 083 068	-628 803 028	-99.35
PROFIT BEFORE TAX	**1 153 611 832**	**1 284 014 440**	**130 402 608**	**11.30**
LESS: TAX	426 079 740	585 062 707	158 982 967	37.31
PROFIT AFTER TAX	**727 532 092**	**698 951 733**	**-28 580 359**	**-3.92**

(Source: Annual Report of KSFE Ltd 2011 to 2017)

93

INTERPRETAION:

- Total revenue of KSFE has increased to 24.37% in 2013, since the revenue from operation (which consist of Forman's commission, interest charge) and other income has increased to 24.30% and 25.32%. It proves that strong performers do not settle simply for revenue growth, but strive for profitable and sustainable revenue growth.
- Total expense of KSFE has increased to 16.31 % in 2013, it was due to an increase of 6.6% in employee benefit expense. 36.80% in finance cost. And 1.93% increase in other expense. Whereas there was 5.7% decrease in depreciation and amortization expense.
- There was an increase in total revenue than that of total expense. Thereby the operating profit of KSFE has also increased in 2013.
- After deducting tax and prior period item from operating profit there was a decrease in Net Profit of the company to 3.9% in 2013.
- It indicate that the profitability of company is not better like before and financial position is not that satisfactory as compared to that of the previous years 2011 and 2012.

Table 6.9 Comparative Income Statement for the years 2013&2014 of KSFE

PARTICULARS	YEAR ENDING 31st MARCH		INCREASE/ DECREASE	
	2013	2014	AMOUNT	PERCENTAGE
REVENUE:				
REVENUE FROM OPERATION	9 791 005 795	12 160 293 890	2 369 288 095	24.19
OTHER INCOME	747 095 329	894 788 633	147 693 304	19.76
TOTAL (A)	**10 538 101 124**	**13 055 082 523**	**2 516 981 399**	**23.88**
EXPENSE:				
EMPLOYEE BENEFIT EXPENSE	3 423 089 602	3 632 293 832	209 204 230	6.11
FINANCE COST	3 921 972 906	5205631359	1283658453	32.72
DEPRICIATION AND AMORTIZATION	71 646 569	89 542 667	17 896 098	24.97
OTHER EXPENSE	1 833 294 539	2 417 698 717	584 404 178	31.87
TOTAL (B)	**9 250 003 616**	**11345166575**	**2 095 162 959**	**22.65**
OPERATING PROFIT (A-B)	**1 288 097 508**	**1 709 915 948**	**421 818 440**	**32.74**
LESS: PRIOR PERIOD ITEM	4 083 068	1 521 008	-2 562 060	-62.74
PROFIT BEFORE TAX	**1 284 014 440**	**1 708 394 940**	**424 380 500**	**33.05**
LESS: TAX	585 062 707	1 109 504 580	524 441 873	89.63
PROFIT AFTER TAX	**698 951 733**	**598 890 360**	**-100 061 373**	**-14.31**

(Source: Annual Report of KSFE Ltd 2011 to 2017

INTERPRETAION:

- Total revenue of KSFE has increased to 23.88% in 2014, since the revenue from operation (which consist of Forman's commission, interest charge) and other income has increased to 24.19% and 19.76%. The increased revenue proves that KSFE Ltd. was efficient enough in rendering better services to customers.
- Total expense of KSFE has increased to 22.65 % in 2014, it was due to an increase of 6.6% in employee benefit expense. 32.72% in finance cost. 31.877% increase in other expense. And 24.97% increase in depreciation and amortization expense.
- There was an increase in total revenue than that of total expense. Thereby the operating profit of KSFE has also increased in 2014 to 32.74%.
- After deducting tax and prior period item from operating profit there was a decrease in Net Profit of the company to 14.31% in 2014.
- It indicate that the company financial position is not that satisfactory as compared to that of the previous years.

Table 6.10 Comparative Income Statement for the years 2014&2015 of KSFE

PARTICULARS	YEAR ENDING 31st MARCH		INCREASE/ DECREASE	
	2014	2015	AMOUNT	PERCENTAGE
REVENUE:				
REVENUE FROM OPERATION	12 160 293 890	14 365 035 324	2 204 741 434	18.13
OTHER INCOME	894 788 633	1 097 768 036	202 979 403	22.68
TOTAL (A)	**13 055 082 523**	**15 462 803 360**	**2 407 720 837**	**18.44**
EXPENSE:				
EMPLOYEE BENEFIT EXPENSE	3 632 293 832	3 946 329 351	314 035 519	8.64
FINANCE COST	5 205 631 359	6 305 192 469	1 099 561 110	21.12
DEPRICIATION AND AMORTIZATION	89 542 667	137 983 089	48 440 422	54.09
OTHER EXPENSE	2 417 698 717	3 041 542 272	623 843 555	25.8
TOTAL (B)	**11 345 166 575**	**13 431 047 181**	**2 085 880 606**	**18.38**
OPERATING PROFIT (A-B)	**1 709 915 948**	**2 031 756 179**	**321 840 231**	**18.82**
LESS: PRIOR PERIOD ITEM	1 521 008	3 008 266	1 487 258	97.78
PROFIT BEFORE TAX	**1 708 394 940**	**2 028 747 913**	**32 0352 973**	**18.75**
LESS: TAX	1 109 504 580	1321525878	212 021 298	19.1
PROFIT AFTER TAX	**598 890 360**	**707 222 035**	**108 331 675**	**18.08**

(Source: Annual Report of KSFE Ltd 2011 to 2017)

INTERPRETAION:

- Total revenue of KSFE has increased to 18.44% in 2015, since the revenue from operation (which consist of Forman's commission, interest charge) and other income has increased to 18.13% and 22.68%. Though there is an increase in revenue the growth rate is not better than before.
- Total expense of KSFE has increased to 18.38% in 2015, it was due to an increase of 8.64% in employee benefit expense. 21.12% in finance cost. 25.8% increase in other expense. And 54.04% increase in depreciation and amortization expense.
- There was an increase in total revenue than that of total expense. Thereby the operating profit of KSFE has also increased in 2015 to 18.82%.
- After deducting tax and prior period item from operating profit there was an increase in Net Profit of the company to 18.08% in 2015.
- It indicate that the company financial position is satisfactory as compared to that of the previous years.

Table 6.11 Comparative Income Statement for the years 2015&2016 of KSFE

PARTICULARS	YEAR ENDING 31st MARCH		INCREASE/ DECREASE	
	2015	2016	AMOUNT	PERCENTAGE
REVENUE:				
REVENUE FROM OPERATION	14 365 035 324	15 820 664 957	1 455 629 633	10.13
OTHER INCOME	1 097 768 036	1 684 089 299	586 321 263	53.41
TOTAL (A)	**15462803360**	**17504754256**	**2 041 950 896**	**13.20**
EXPENSE:				
EMPLOYEE BENEFIT EXPENSE	3 946 329 351	5 171 925 125	1 225 595 774	31.05
FINANCE COST	6 305 192 469	7 329 380 042	1 024 187 573	16.24
DEPRICIATION AND AMORTIZATION	137 983 089	92 306 998	-45 676 091	-33.10
OTHER EXPENSE	3 041 542 272	2 387 291 653	-654 250 619	-21.51
TOTAL (B)	**13 431 047 181**	**14 980 903 818**	**1 549 856 637**	**11.53**
OPERATING PROFIT (A-B)	**2 031 756 179**	**2 523 850 438**	**492 094 259**	**24.22**
LESS: PRIOR PERIOD ITEM	3 008 266	984 296 215	981 287 949	326.19
PROFIT BEFORE TAX	**2 028 747 913**	**1 539 554 223**	**-489 193 690**	**-24.11**
LESS: TAX	1 321 525 878	1 180 811 375	-140 714 503	-10.64
PROFIT AFTER TAX	**707 222 035**	**358 742 848**	**-348 479 187**	**-49.27**

(Source: Annual Report of KSFE Ltd 2011 to 2017)

INTERPRETAION:

- Total revenue of KSFE has increased to 13.02% in 2016, since the revenue from operation (which consist of Forman's commission, interest charge) and other income has increased to 10.13% and 53.41%. Though growth rate is lesser than before KSFE Ltd. is still efficient in managing revenue.
- Total expense of KSFE has increased to 11.53% in 2016, it was due to an increase of 31.05% in employee benefit expense. 16.24% in finance cost. Whereas the other expense and the depreciation and amortization expense has decreased to 21.51% and 33.50%.
- There was an increase in total revenue than that of total expense. Thereby the operating profit of KSFE has also increased in 2016 to 24.22%.
- After deducting tax and prior period item from operating profit the overall profit of the KSFE Ltd. has decreased to 49.27% in 2016.
- It indicate that the company financial position is not satisfactory as compared to that of the previous years. But still it is efficient enough in managing the profit and promote better growth of business.

100

Table 6.12 Comparative Income Statement for the years 2016 & 2017 of KSFE

PARTICULARS	YEAR ENDING 31st MARCH		INCREASE/ DECREASE	
	2016	2017	AMOUNT	PERCENTAGE
REVENUE:				
REVENUE FROM OPERATION	15 820 664 956	17 451 693 194	1 631 028 238	10.3
OTHER INCOME	1 684 089 299	2 206 529 761	522 440 462	31.0
TOTAL (A)	**17 504 754 255**	**19 658 222 955**	**2 153 468 700**	**12.3**
EXPENSE:				
EMPLOYEE BENEFIT EXPENSE	5 171 925 125	5 827 685 105	655 759 980	12.6
FINANCE COST	7 329 380 041	8 164 612 401	835 232 360	11.3
DEPRICIATION AND AMORTIZATION	92 306 998	87 077 344	-5 229 654	-5.6
OTHER EXPENSE	2 387 291 653	4 072 291 112	1 684 999 459	70.5
TOTAL (B)	**14 980 903 817**	**18 151 665 962**	**3 170 762 145**	**21.1**
OPERATING PROFIT (A-B)	**2 523 850 438**	**1 506 556 993**	**-1 017 293 445**	**-40.3**
LESS: PRIOR PERIOD ITEM	984 296 215		-984 296 215	-100
PROFIT BEFORE TAX	**1 539 554 223**	**1 506 556 993**	**-32 997 230**	**-2.1**
LESS: TAX	1 180 811 375	6 53 810 981	-527 000 394	-44.6
PROFIT AFTER TAX	**358 742 848**	**852 746 012**	**494 003 164**	**137.7**

(Source: Annual Report of KSFE Ltd 2011 to 2017)

101

INTERPRETAION:

- Total revenue of KSFE has increased to 12.3% in 2017, since the revenue from operation (which consist of Forman's commission, interest charge) and other income has increased to 10.3% and 31.0%.
- Total expense of KSFE has increased to 21.1% in 2017, it was due to an increase of 12.6% in employee benefit expense. 11.3% in finance cost, and the other expense to 70.5%, whereas the depreciation and amortization expense has decreased to 0.5%.
- There was an increase in total expense than that of total revenue. Thereby the operating profit of KSFE has also decreased in 2017 to 40.3%.
- After deducting tax and prior period item from operating profit the overall profit of the KSFE Ltd. has a sudden hike to 137.7% in 2017.
- It indicate that the company financial position fairly good enough. It is performing much better than that of the previous years. Increased net profit reveals the efficiency of company in managing the expense and revenue.

6.4 RATIO ANALYSIS

Ratio analysis is the most powerful 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 are 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 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. The ratios under following categories were selected for analysis of KSFE Ltd. Thrissur District.

- Solvency ratio
- Profitability ratio
- Efficiency ratio

6.4.1 SOLVENCY RATIO

Solvency ratio is a key metric used to measure an enterprise's ability to meet its debt and other obligations. It measures the long term solvency position of the firm. The lower a company's solvency ratio, the greater the probability that it will default on its debt obligations. The various solvency ratios that I have used for analysis are as follows:

6.4.1.1 PROPRIETORY RATIO

It expresses the relationship between the proprietor's funds, i.e. the funds of all the shareholders and the capital employed or the net assets. A high ratio is a good indication of the financial health of the firm. It means that a larger portion of the total capital comes from equity. Or that a larger portion of net assets is financed by equity rather than debt. It helps to determine the long term solvency of the firm. The ratio is as follows,

Proprietary Ratio = Shareholders Fund ÷ Net Assets

The components of shareholders' fund are equity share capital and reserves and surplus whereas net asset means total asset – current liabilities.

TABLE 6.13 PROPRIETORS RATIO

YEAR	SHAREHOLDERS FUND	NET ASSET	RATIO
2011	1 911 285 525	1 911 285 525	1
2012	2 592 019 617	2 592 019 617	1
2013	3 244 173 350	3 244 173 350	1
2014	3 796 265 710	3 832 947 768	0.99
2015	4 449 527 617	5 023 573 769	0.88
2016	4 903 662 585	5 561 174 585	0.88
2017	5 756 408 597	6 663 671 041	0.86

(Source: Annual Report of KSFE Ltd 2011 to 2017)

INTERPRETATION:

Table 6.13 highlights the financial strength of the company from 2011 to 2017. This ratio highlights the proportion of shareholders fund in Net assets. It is clear that shareholders have contributed 100% of the total asset over the years from 2011 to 2013. And then there was a slight decrease in the ratio for the next four years from 2011 to 2017. The ratio shows a slight decline from 1 in the year 2013 to 0.86 in the year 2017. This shows that the contribution of shareholders fund in the total asset has slightly decreased over the years. The proprietary ratio from 2011 to 2017 indicate a secured position to creditors. And the company has sufficient amount of equity to support functioning of their business.

6.4.1.2 OWNED FUND TO BORROWED FUND RATIO

It measures the relationship between debt of a firm and its total equity. Since both these figures are obtained from the balance sheet itself, this is a balance sheet ratio. This ratio holds a lot of significance. Firstly it is a great way for the company to measure its leverage or indebtedness. Higher ratio is preferable for any business and it indicates the increased share of owned fund in the functioning of business. But in case of a financial institution it is quite different. Their main objective is to mobilize savings from members. lower ratio of owned fund to borrowed fund indicate dominance of borrowed fund in total fund and which means KSFE is efficient in mobilizing funds from various sources. Let us take a look at the formula.

104

Formula: owned fund / borrowed fund *100

The components of borrowed fund consist of deposits and borrowings of KSFE and owned fund consist of share capital and reserves and surplus.

TABLE 6.14 OWNED FUND TO BORROWED FUND RATIO

YEAR	BORROWED FUND	OWNED FUND	RATIO
2011	31 356 021 004	1 911 285 525	6.09
2012	36 977 461 462	2 592 019 617	7.01
2013	47 773 617 162	3 244 173 350	6.79
2014	61 532 221 052	3 796 265 710	6.16
2015	75 188 650 720	4 449 527 617	5.91
2016	89 247 836 803	4 903 662 585	5.49
2017	106 752 198 858	5 756 408 597	5.39

(Source: Annual Report of KSFE Ltd 2011 to 2017)

INTERPRETATION:

Table 6.14 and exhibits the ratio of owned fund to borrowed fund of KSFE Ltd. for a period of 7 years from 2011 to 2017. It is clear that the owned fund to borrowed fund ratio has decreased from 6.05 percent in 2011 to 5.39 percent in 2017. Both the owned and borrowed fund were increasing every year and the growth rate of owned fund was less than borrowed fund. Ratio shows a dominance of borrowed fund than owned fund in total funds. The major portion of borrowed fund was covered by deposits of different types. The ratio shows efficiency in mobilizing deposit from 2011 to 2017.

105

6.4.1.3 INTEREST COVERAGE RATIO

Interest coverage ratio is also known as debt service ratio or debt service coverage ratio. This ratio relates the fixed interest charges to the income earned by the business. It indicates whether the business has earned sufficient profits to pay periodically the interest charges. It is calculated by using the following formula.

Interest Coverage Ratio = Net Profit before Interest and Tax / Interest charged

Net profit before interest and tax means earnings before interest and tax. The interest expense consist of interest charged over deposits and borrowings of KSFE.

TABLE 6.15 INTEREST COVERAGE RATIO

YEAR	EBIT	INTERST EXPENSE	RATIO
2011	521 593 012	2 450 297 963	0.21
2012	1 153 611 832	2 866 792 919	0.4
2013	1 284 014 440	3 921 972 906	0.32
2014	1 708 394 940	5 205 631 359	0.33
2015	2 028 747 913	6 305 192 469	0.32
2016	1 539 554 223	7 329 380 042	0.21
2017	1 506 556 993	8 164 612 401	0.18

(Source: Annual Report of KSFE Ltd 2011 to 2017)

INTERPRETATION

Table 6.15 and exhibits the interest coverage ratio of KSFE Ltd. for a period of 7 years from 2011 to 2017. This ratio measures capacity of the firm to pay the interest charges. The lower the ratio, the more the company is burdened by debt expense. The data indicates that the interest coverage ratio of KSFE is slightly decreasing over years from 0.4 percentage in 2012 to 0.18 percentage in 2017. The interest expense has increased over years while the EBIT has increased from 2011 to 2015 while it declined in the year 2016 and 2017.

6.4.1.4 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. 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

The total debt consist of deposits and borrowings of KSFE Ltd. and the total asset consist of current and non- current asset.

TABLE 6.16 DEBT RATIO

YEAR	BORROWED FUND	TOTAL ASSET	RATIO
2011	31 356 021 004	83 058 851 614	0.37
2012	36 977 461 462	100 627 765 270	0.36
2013	47 773 617 162	128 144 489 381	0.37
2014	61 532 221 052	157 38 45 92 960	0.39
2015	75 188 650 720	185 164 055 407	0.40
2016	89 247 836 803	208 574 601 831	0.42
2017	106 752 198 858	236 287 407 041	0.45

(Source: Annual Report of KSFE Ltd 2011 to 2017)

INTERPRETATION:

Table 6.16 exhibits the ratio of debt to total assets of KSFE Ltd. for a period of 7 years from 2011 to 2017. It is clear that the debt ratio has increased from 0.37 percent in 2011 to 0.45 percent in 2017. Ratio shows a dominance of fixed asset than debt. The major portion of total asset was covered by borrowed fund. The

107

ratio shows that the KSFE has lowest risk level and strong equity position from 2011 to 2017. It also reveals the efficiency of company in mobilizing fund from various sources.

6.4.1.5 FIXED ASSET TO NET WORTH RATIO

Measure of the solvency of a firm, this ratio indicates the extent to which the owners' cash is frozen in the form of brick and mortar and machinery, and the extent to which funds are available for the firm's operations. A ratio higher than 0.75 indicates that the firm is vulnerable to unexpected events and changes in the business climate. This ratio establishes the relationship between fixed assets and shareholder funds. It is calculated by **fixed assets / shareholder funds.**

TABLE 6.17 FIXED ASSET TO NET WORTH RATIO

YEAR	FIXED ASSET	NET WORTH	RATIO
2011	222 341 612	1 911 285 525	0.11
2012	240 379 117	2 592 019 617	0.09
2013	310 085 953	3 244 173 350	0.09
2014	285 603 364	3 796 265 710	0.07
2015	249 558 343	449 527 617	0.55
2016	248 034 367	4 903 662 585	0.05
2017	217 460 492	5 756 408 597	0.03

(Source: Annual Report of KSFE Ltd 2011 to 2017)

INTERPRETATION:

Table 6.17 exhibits the ratio of fixed asset to net worth of KSFE Ltd. for a period of 7 years from 2011 to 2017. It is clear that the fixed asset to net worth ratio has increased from 0.11 in 2011 to 0.55 in 2016, and then it decreased to 0.03 in the year 2017. Both the net worth and total assets were increasing every year and the growth rate of fixed asset was less than Net worth. The ratio shows that the KSFE has lowest risk level and strong solvency position from 2011 to 2016.

6.4.2 PROFITABILITY RATIO

Profitability ratio is used to evaluate the company's ability to generate income as compared to its expenses and other cost associated with the generation of income during a particular period. This ratio represents the final result of the company. Profitability represents final performance of company i.e. how profitable company. It also represents how profitable owner's funds have been utilized in the company. The various profitability ratios are:

6.4.2.1 EARNINGS PER SHARE

This ratio measures profitability from the point of view of the ordinary shareholder. A high ratio represents better the company is. The earning per share of the company helps in determining the market price of the equity shares of the company. A comparison of earning per share of the company with another will also help in deciding whether the equity share capital is being effectively used or not. It also helps in estimating the company's capacity to pay dividend to its equity shareholders.

Formula: Net Profit ÷ Total no of shares outstanding

TABLE 6.18 EARNINGS PER SHARE RATIO

YEAR	NET PROFIT AFTER TAX	NUMBER OF EQUITY SHARE	RATIO
2011	279 417 893	2 000 000	139.708
2012	727 532 092	2 000 000	363.766
2013	698 951 733	2 000 000	349.475
2014	598890360	2 000 000	299.445
2015	70 72 22 035	2 000 000	353.611
2016	358 742 848	5 000 000	71.748
2017	852 746 012	10 000 000	85.27

(Source: Annual Report of KSFE Ltd 2011 to 2017)

INTERPRETATION:

Table 6.18 exhibits the earnings per share ratio of KSFE Ltd. for a period of 7 years from 2011 to 2017. It is clear that the earnings per share ratio has increased from 139.708 percent in 2011 to 363.766 percent in 2012 and this was due to increase in the net profit. Later the ratio has decreased from 363.766 percent in the year 2012 to 299.445 in the year 2014 and it was due to decrease in the net profit. In the year 2015 the ratio again increased to 353.611 percent and that was due to hike in the net profit. There was a sudden fall in profitability per share in the year 2016 and that was due to decrease in net profit and also due to the increase in number of shareholders from 2000000 to 5000000. Later in the year 2017 the ratio increased to 85.27 percent.

6.4.2.2 PROFIT MARGIN RATIO

Profit margin is one of the commonly used profitability ratios to gauge profitability of a business activity. It represents how much percentage of income generated has turned into profits. Net profit margin is an indicator of how efficient a company is and how well it controls its costs. The higher the margin is, the more effective the company is in converting revenue into actual profit. A higher profit margin indicates a more profitable company that has better control over its costs compared to its competitors.

Formula: Net Profit ÷ Total income

Total income consist of income generated by KSFE as Forman's commission, finance charge, interest received and income generated from other source.

TABLE 6.19 PROFIT MARGIN RATIO

YEAR	NET PROFIT AFTER TAX	TOTAL INCOME	RATIO
2011	279 417 893	7 167 414 590	0.038
2012	727 532 092	8 472 974 925	0.085
2013	698 951 733	10 538 101 124	0.066
2014	598 890 360	13 055 082 523	0.045
2015	707 222 035	15 462 803 360	0.0457
2016	358 742 848	17 504 754 256	0.0204
2017	852 746 012	19 658 222 954	0.043

(Source: Annual Report of KSFE Ltd 2011 to 2017)

INTERPRETATION

Table 6.19 exhibits the ratio of net profit to total income of KSFE Ltd. for a period of 7 years from 2011 to 2017. The ratio shows profitability of the firm. The ratio shows the high profitability in 2012. But over the years 2012 to 2014, the ratio is decreasing because the total income is more than net profit. In 2015, the net profit has again increased and thereby it increased the profitability of the firm to 0.0457. In 2016, the profitability of the firm decreases to 0.0204. Later in the year 2017 the ratio increased to 0.043 percent. It reveals that the profitability of KSFE better than the previous year.

6.4.2.3 FOREMAN'S COMMISSION RATIO

Foreman's commission is the main source of income to the KSFE. The foreman is entitled to a certain percentage of the chitty amount (not more than 5% of the chitty amount) as his commission from each member. This ratio shows the relationship between Foreman's Commissions and total income. The ratio is calculated as:

Formula: Foremans Commission ÷ Total income

Total income consist of income generated by KSFE as Forman's commission, finance charge, interest received and income generated from other source.

111

TABLE 6.20 FOREMANS COMMISSION RATIO

YEAR	FOREMANS COMMISSION	TOTAL INCOME	RATIO
2011	3 139 343 503	7 167 414 590	0.438
2012	3 742 581 533	8 472 974 925	0.441
2013	4 711 421 978	10 538 101 124	0.447
2014	5 853 122 663	13 055 082 523	0.448
2015	6 839 971 757	15 462 803 360	0.442
2016	7 455 849 551	17 504 754 256	0.425
2017	7 919 399 863	19 658 222 954	0.402

(Source: Annual Report of KSFE Ltd 2011 to 2017)

INTERPRETATION

Table 6.20 exhibits the foremans commission ratio of KSFE Ltd. for a period of 7 years from 2011 to 2017. Foreman's commission is the main source of income to the KSFE. From 2011 to 2014 the ratio shows an increasing trend from 0.438 to 0.488. It started decreasing over the year 2015 to 2017.

6.4.2.4 INTEREST INCOME RATIO

This ratio shows the relationship between Total interests received and total income. KSFE offers different loan schemes to the public. It includes gold loan, vehicle loan, chitty loan, housing loan etc. It is a main source of income to KSFE. This ratio shows the relationship between Total interests received and total income. The ratio is calculated as:

Formula: interest received ÷ Total income

Interest received consist of interest earned from different loan scheme of KSFE. Total income consist of income generated by KSFE as Forman's commission, finance charge, interest received and income generated from other source.

TABLE 6.21 INTEREST INCOME RATIO

YEAR	INTEREST RECEIVED	TOTAL INCOME	RATIO
2011	3 645 242 835	7 167 414 590	0.508
2012	4 133 805 443	8 472 974 925	0.487
2013	4 711 746 954	10 538 101 124	0.447
2014	6 307 010 560	13 055 082 523	0.483
2015	7 524 890 559	15 462 803 360	0.486
2016	8 364 706 078	17 504 754 256	0.477
2017	9 532 286 936	19 658 222 954	0.484

(Source: Annual Report of KSFE Ltd 2011 to 2017)

INTERPRETATION

Table 6.21 indicate interest income ratio. This ratio tries to reflect the relation between interest income and total income. From the table it is clear that the ratio shows a decreasing trend over the years 2011 from 0.508 to 0.477 in the year 2013 it was due to decrease in the contribution of interest income to the net income. Whereas the net income has been increasing over the years from 2011 to 2017. Later in the year 2014 to 2015 the ratio has increased to 0.483 percentage to 0.486 percentage and again it declined in the year 2016 to 0.477 percentage and then it increased to 0.484 percent in the year 2017. Even though there are slight variation, it is a good indication.

6.4.2.5 RETURN ON EQUITY

This ratio is important profitability ratio to know how efficiently KSFE is using its equity to generate profits. This ratio indicate the return on the equity share capital. Owners are more interested with this ratio since it indicate the success of the company in generating profit on their behalf. The higher the ratio better the owners like it. It is calculated as follows.

Formula: Net profit after tax ÷ equity*100

The net profit after tax is being taken from the KSFE income statement and equity is taken from the balance sheet of KSFE so as to determine the return on equity share capital.

TABLE 6.22 RETURN ON EQUITY

YEAR	NET PROFIT AFTER TAX	SHARE CAPITAL	RATIO
2011	274 417 893	200 000 000	137.2
2012	727 532 092	200 000 000	363.7
2013	698 951 733	200 000 000	349.4
2014	598 890 360	200 000 000	299.4
2015	707 222 035	200 000 000	353.6
2016	358 742 848	500 000 000	71.7
2017	852 746 012	1000 000 000	85.2

(Source: Annual Report of KSFE Ltd 2011 to 2017)

INTERPRETATION:

Table 6.22 depicts that return on equity ratio shows a fluctuating trend from 2011 to 2017. There was a sudden increase in the ratio to 363.76 in the year 2012 from 137.20 in 2011. It shows that the return on equity is high since the net profit has increased. But then over year's ratio shows a slight decline from 363.76 percent in the year 2012 to 71.74 percent in the year 2016. Ratio indicates that the return on equity of KSFE has decreased due to decrease in the Net profit. Later in the year 2017 the net profit increased and so the equity ratio also increased.

6.4 EFFICIENCY RATIO

Efficiency ratios also called activity ratios measure how well companies utilize their assets to generate income. It is typically used by a company to analyze how well a company uses its assets and liabilities internally. It also ties into the ability of a company to meet both its short term and long term obligations. It measures how well a company use its assets and manage its liabilities efficiently. It can be used to measure the overhead efficiency ratio, relationship between interest expenses to interest income, total expenditure to total income, spread ratio, burden ratio and overall profitability could be analyzed using Efficiency ratio. Efficiency ratios are important because an improvement in the ratios usually translate to improved profitability. There are many different ratios to analyze the efficiency of KSFE. Few of the ratios that I have used so as to determine the efficiency of KSFE are as follows:

6.4.1 OVERHEAD EFFICIENCY RATIO

This ratio is a measure a company's efficiency and generally identified with or used by financial institutions to indicate the ability of the management to keep the overheads low. It is also referred to "Overhead Efficiency Ratio". It is computed by different financial institution in different manner. One of the following formulas is used to compute this ratio.

Overhead efficiency ratio = non- interest income / non-interest expenses.

The components of overhead efficiency ratio consist of Non – interest income and Non – interest expense. The Non –Interest Income of KSFE consist of foremans commission, finance charges, and other income. And the Non – Interest Expense of KSFE include employee benefit expense and many other expenses. The relationship between non- interest income and non-interest expenses help to analyze the overhead efficiency ratio of KSFE Ltd.

TABLE 6.23 OVERHEAD EFFICIENCY RATIO

YEAR	NON - INTEREST INCOME	NON- INTEREST EXPENSE	RATIO
2011	3 522 171 755	4 144 283 816	0.84
2012	4 339 169 482	5 009 430 044	0.86
2013	5 458 842 283	5 256 384 141	1.03
2014	6 748 071 873	6 049 992 549	1.11
2015	7 940 957 252	6 987 871 623	1.13
2016	9 140 048 178	7 559 216 778	1.21
2017	10 125 936 019	9 899 976 217	1.02

(Source: Annual Report of KSFE Ltd 2011 to 2017)

INTERPRETATION:

Table 6.23 depicts overhead efficiency ratio of KSFE Ltd. from 2011 to 2017. This ratio shows the efficiency of managing indirect cost. Operating expenses shows an increasing trend. Over the year 2011 to 2016 the ratio shows an increasing trend because of high non-interest income over the non-interest expense of KSFE Ltd. The higher growth of non-interest income over non – interest expense is favorable to a healthy organization. The data reveals that KSFE Ltd. is efficient enough in managing the overheads.

6.4.2 INTEREST EXPENSE TO INTEREST INCOME RATIO

It is yet another type of efficiency ratio which is used to determine the overall efficiency on KSFE Ltd. in managing the interest income and interest expense. The interest income is the major source of income earned by KSFE Ltd. This ratio shows the relationship between interest expenses and interest income. Higher interest income to interest expense ratio would be more preferable for a financial institution. Higher ratio increases the overall profitability of the company.

The ratio is calculated as **interest expense/ interest income x100.**

The components of interest income are interest earned on various loans and advances like interest earned on chitty loan, gold loan, fixed deposit loan etc. and the interest expense of KSFE Ltd. consist of interest expended on deposits and borrowings like interest expended on fixed deposit, Suguma deposit etc.

TABLE 6.24 INTEREST EXPENSE TO INTEREST INCOME RATIO

YEAR	INTEREST INCOME	INTEREST EXPENSE	RATIO
2011	3645242835	2450297963	0.67
2012	4133805443	2866792919	0.69
2013	5079258841	3921972906	0.77
2014	6307010560	5205631359	0.82
2015	7524890559	6305192469	0.83
2016	8364706078	7329380042	0.87
2017	9532286936	8164612401	1.16

(Source: Annual Report of KSFE Ltd 2011 to 2017)

INTERPRETATION:

Table 6.24 depicts interest expense to interest income ratio of KSFE Ltd. from 2011 to 2017. The lower interest expense is favorable to a firm. Over the year 2011 to 2017 the ratio shows an increasing trend because of high interest income over the interest expense of KSFE Ltd. The higher growth of interest income over interest expense is favorable to a healthy organization. The data reveals that KSFE Ltd. is efficient enough in managing the interest expense.

6.4.3 TOTAL EXPENDITURE TO TOTAL INCOME RATIO

This ratio shows the relationship between total expenditure and total income. It is yet another type of efficiency ratio which is used to determine the overall efficiency on KSFE Ltd. in managing the total expenditure and income. This ratio shows the relationship between total expenses and total income. Higher income to expense ratio would be more preferable for a financial institution. Higher ratio increases the overall profitability of the company.

The ratio is calculated as total expenditure/ total income.

The components of total expenditure of KSFE Ltd. consist of employee benefit expense, finance cost and other expenses. Whereas the total income of KSFE Ltd. Consist of foremans commission, finance charges, interest income and other income.

TABLE 6.25 TOTAL EXPENSE TO TOTAL INCOME RATIO

YEAR	TOTAL EXPENDITURE	TOTAL INCOME	RATIO
2011	6 594 581 779	7 167 414 590	0.92
2012	7 876 222 963	8 472 974 925	0.93
2013	9 178 357 047	10 538 101 124	0.87
2014	11 255 623 908	13 055 082 523	0.86
2015	13 293 064 092	15 462 803 360	0.85
2016	14 888 596 820	17 504 754 256	0.85
2017	18 064 588 618	19 658 222 955	0.91

(Source: Annual Report of KSFE Ltd 2011 to 2017)

INTERPRETATION:

Table 6.25 depict total expense to total income ratio of KSFE Ltd. from 2011 to 2017. The KSFE Ltd. had high expense to income ratio in the year 2012 and lowest ratio in the year 2016. Again it increased to 0.91

percent in the year 2017. Both the income and expenditure of KSFE is increasing year by year. From the table it is clear that the KSFE Ltd. runs in profit, since the total Income is more than that of total expenditure. It also states that KSFE Ltd. is efficient enough in managing its expenses.

6.4.4 SPREAD RATIO

It can be expressed as the relationship between the spread and total fund of the KSFE Ltd. spread is the difference between the total interests paid and total interest received. Interest received can be defined as the income earned on owned fund and it represents the return on financial activities of KSFE Ltd. major source of interest income are interest earned on loans and advances, and on other investments. Interest paid is the expense paid by KSFE Ltd. on deposits and borrowings. It is actually the cost of fund. Total fund of KSFE Ltd. consist of owned fund and borrowed fund. The formula for calculating this ratio is;

SPREAD RATIO = {INTEREST RECEIVED - INTEREST PAID}/ TOTAL FUND x 100

This ratio is an excellent mark of KSFE Ltd. efficiency in operational activity. Higher ratio is preferable and it will be possible only if Interest received on Loans and Advances is more than Interest paid on Deposits and Borrowings.

TABLE 6.26 SPREAD RATIO

YEAR	INTEREST RECEIVED	INTEREST PAID	SPREAD	TOTAL FUND	RATIO
2011	3 645 242 835	2 450 297 963	1 194 944 872	33 267 306 529	3.59
2012	4 133 805 443	2 866 792 919	1 267 012 524	39 569 481 079	3.20
2013	5 079 258 841	3 921 972 906	1 157 285 935	51 017 790 512	2.26
2014	6 307 010 650	5 205 631 359	1 101 379 291	65 328 486 762	1.68
2015	7 524 980 559	6 305 192 469	1 219 788 090	79 638 178 337	1.53
2016	8 364 706 078	7 329 380 042	1 035 326 036	94 151 499 388	1.09
2017	9 532 286 936	8 164 612 401	1 367 674 535	112 508 607 455	1.21

(Source: Annual Report of KSFE Ltd 2011 to 2017)

INTERPRETATION:

Table 6.26 exhibit the spread ratio of KSFE Ltd. for a period of seven years from 2011 to 2017. The ratio shows a decreasing trend from the ratio 3.59 in the year 2011 to ratio 1.09 in the year 2016. There was a high in the ratio to 1.21 in the year 2017. During the year the interest received exceeds over interest paid. It is obvious that during the whole study period the ratio is positive and it is good sign.

6.4.5 BURDEN RATIO

Burden ratio is the proportion of burden to total fund of financial institution. Although financial institution constantly tries to increase their non – interest income and reduce non – interest expense, the latter usually exceeds the former such that the difference is labelled as the burden. The ratio can be computed as:

BURDEN RATIO = {NON – INTEREST EXPENSES – NON – INTEREST INCOME}/ TOTAL FUND x 100

Reducing the burden increase the profitability of financial institution.

FIGURE 6.27 BURDEN RATIO

YEAR	NON INTEREST INCOME	NON INTEREST EXPENSE	BURDEN	TOTAL FUND	RATIO
2011	3 522 171 755	4 144 283 816	622 112 061	33 267 306 529	1.87
2012	4 339 169 482	5 009 430 044	670 260 562	39 569 481 079	1.69
2013	5 458 842 283	5 256 384 141	-202 458 142	51 017 790 512	-0.39
2014	6 748 071 873	6 049 992 549	-698 079 324	65 328 486 762	-1.06
2015	7 940 957 272	6 987 871 623	-953 085 649	79 638 178 337	-1.19
2016	9 140 048 178	7 559 216 778	-1 580 831 400	94 151 499 388	-1.67
2017	10 125 936 019	9 899 976 217	-225 959 802	112 508 607 455	-0.20

(Source: Annual Report of KSFE Ltd 2011 to 2017)

INTERPRETATION:

Table 6.27 depicts the burden ratio of the KSFE Ltd. for six years from 2011 to 2017. Ratio shows a fluctuating trend over the years. In the year 2011 the ratio marked the highest score of 1.87. The table shows that the non – interest income exceeds non – interest expense from the year 2013 to 2017. The decreasing trend of burden ratio is good for KSFE Ltd. So maintaining a lower burden by KSFE Ltd. is good for increasing the efficiency in its operation.

6.4.6 PROFITABILITY RATIO

Profitability ratio expressed in absolute terms indicates whether the financial institution operation are satisfactory or not. It is the final figure of analysis. The ratio can be expressed in following formula:

RATIO = (SPREAD – BURDEN) / TOTAL FUND X 100

121

TABLE 6.28 PROFITABILITY RATIO

YEAR	SPREAD	BURDEN	TOTAL FUND	RATIO
2011	1 194 944 872	622 112 061	33 267 306 529	1.72
2012	1 267 012 524	670 260 562	39 569 481 079	1.50
2013	1 157 285 935	-202 458 142	51 017 790 512	2.66
2014	1 101 379 291	-698 079 324	65 328 486 762	2.75
2015	1 219 788 090	-953 085 649	79 638 178 337	2.72
2016	1 035 326 036	-1 580 831 400	94 151 499 388	2.77
2017	1 367 674 535	-225 959 802	112 508 607 455	1.41

(Source: Annual Report of KSFE Ltd 2011 to 2017)

INTERPRETATION:

Table 6.28 shows profitability ratio of KSFE Ltd. from 2011 to 2016. From the figure it is clear that the ratio exhibits a fluctuating trend over reference period. The highest ratio is in the year 2016 which is around 6.48 percent. The profitability ratio is favorable for the KSFE Ltd. in this competitive era the KSFE Ltd. should put some effort to maintain the spread margin and improve the profitability of KSFE Ltd.

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KERALA AGRICULTURAL UNIVERSITY CENTRAL LIBRARY K.A.U. (P.O.), THRISSUR

Summary of findings suggestions and conclusion

CHAPTER – 7

SUMMARY OF FINDINGS SUGGESTIONS AND CONCLUSION

7.1 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 financial performance of KSFE Ltd. has been undertaken with an objective of analyzing the financial performance of the KSFE Ltd. the study was conducted for a period of 7 years from 2011 to 2017 so as to analyze the financial performance of KSFE Ltd. The study was purely based on secondary data. The tools for financial analysis such as trend analysis, comparative income statement, and ratio analysis were used for analyzing the data.

7.2 FINDINGS

7.2.1 TREND ANALYSIS

The findings of trend analysis and its effect on the financial performance of KSFE Ltd. are summarized as follows:

- The trend in total income of KSFE Ltd. for the period 2011 to 2017 has been analyzed by taking 2011 as the base year, the total income, total expenditure and net profit has been analyzed over years. It shows that the total income and total expenditure has increased year by year and so the operating profit also shows an increasing trend. In the year 2016 the total income percentage is 244 percentage and that of total expense is 225 percent. The Net Profit during the year 2015 was 253 percent and it decreased to 128 percent in the year 2016 since the prior period expenses which include salaries and allowances and other prior period expenses were much higher than that of prior period income in the year 2016. And later in the year 2017 Net Profit increased to 305 percent since the total income was much higher than that of total expense. The income statement reveals that the KSFE Ltd. is profitable enough and the financial performance of KSFE Ltd. is much better than before.
- The trend in total source of fund of KSFE Ltd. for the period 2011 to 2017 has been analyzed by taking 2011 as the base year, the total fund has been analyzed over years. The total fund of KSFE.

Ltd has been mobilized through owned and borrowed fund. The total fund has increased year by year and in the year 2017 the total fund trend percentage has increased from 283 percent in the year 2016 to 338 percent, and it reveals the efficiency of KSFE Ltd. in mobilizing fund from various sources.

- Total owned fund which consist of reserve and surplus shows an increase in trend to 301 percent in the year 2017. Additional reserve helps to strengthen the financial position of an enterprise, it also helps to meet additional requirements of working capital.
- Borrowed fund which consist of deposits and borrowings shows an increasing trend to 340 percentage in the year 2017. It shows an increase of operating liquidity of KSFE Ltd. The reason behind the increasing trend of total fund was due to an increase of total short term borrowings such as the fixed deposit under government guarantee and the Sugama deposit and chitty deposits also rose than the previous level.
- Trend in total deposits of KSFE Ltd. for the period 2011 to 2017 has been analyzed by taking 2011 as the base year, the government deposit, matured deposit, chitty deposit and interest accrued have has been analyzed over years. The study reveals that the fixed deposit under government increased to 357 percent in the year 2017 from the base year. The interest accrued which consist of public deposit and short term deposit rose to 285 percent and chitty deposits rose to 322 percent in the year 2017 as a result of chitty campaigns during the year 2016-2017. The deposit trend shows an increasing trend over years which denotes that the KSFE Ltd. is highly efficient in mobilizing fund from various sources.
- The trend in total turnover of KSFE Ltd. for the period 2011 to 2017 has been analyzed by taking 2011 as the base year, the total turnover has been analyzed over years. Turnover includes total auctioned sala and loans outstanding. The total sala of chitties conducted from all branches rose to 267 percent in the year 2017 as against base year. The increased turnover increase the profitability of business, and there by it reveals that the financial performance of KSFE Ltd. is much better than before.
- The trend in total loans and advances of KSFE Ltd. for the period 2011 to 2017 has been analyzed by taking 2011 as the base year, the trend of total loans and advances has been analyzed over years. It shows an increasing trend to 279 percent in the year 2017 as against the base year. It could be noticed from the above analysis that the company gives more importance to loans and advances. It shows the efficiency of deployment of KSFE Ltd. moreover it proves that the KSFE Ltd. is efficient enough and the overall performance of it is satisfactory.

- The trend in total Subscribers of KSFE Ltd. for the period 2011 to 2017 gas been analyzed by taking 2011 as the base year, the trend of total subscribers has been analyzed over years. The subscriber base shows an increasing trend to 122 percent in the year 2015. And later in the following years it decreased to 119 percent in the year 2017. Since low key campaigns were conducted in many places of the state without much attractive offers. Acquiring new customers is something which is very important for the growth of a business. But then chit business faced with cash crunch due to demonetization. Customers faced inconvenience and found it difficult to pay monthly installment. And even KSFE Ltd. found it difficult to honor the payout commitments to subscribers because their cash flow got affected.

7.2.2 COMPARITIVE INCOME STATEMENT

Findings of comparative income statement were summarized as follows:

- Findings derived from comparative income statement of 2011 – 2012 is that the Total revenue of KSFE has increased to 18.21% in 2012, since the revenue from operation and income from other sources has increased to 16.08% and 56.01%. KSFE Ltd. has been constantly seeking to increase revenue in an effort to boost profitability. Total expense of KSFE has increased to 19 % in 2012, it was due to an increase of 10.44% in employee benefit expense. 16.99% in finance cost. 50.17% increase in depreciation and amortization expense. And 45.17% increase in other expense. Thereby the operating profit created out of deducting total expense from total revenue of KSFE has also decreased to 0.28% in 2012 since the growth rate of total expense was greater than total revenue. After deducting tax and prior period item from operating profit there was an increase in Net Profit of the company in 2012. It indicate that the company is efficient and the financial position of the KSFE Ltd. is fairly good enough.
- Findings derived from comparative income statement of 2012 – 2013 is that the Total revenue of KSFE has increased to 24.37% in 2013, since the revenue from operation (which consist of Forman's commission, interest charge) and other income has increased to 24.30% and 25.32%. It proves that strong performers do not settle simply for revenue growth, but strive for profitable and sustainable revenue growth. Total expense of KSFE has increased to 16.31 % in 2013, it was due to an increase of 6.6% in employee benefit expense. 36.80% in finance cost. And 1.93% increase in other expense. Whereas there was 5.7% decrease in depreciation and amortization expense. There was an increase in total revenue than that of total expense. Thereby the operating profit of KSFE has also increased in 2013. After deducting tax and prior

period item from operating profit there was a decrease in Net Profit of the company to 3.9% in 2013. It indicate that the profitability of company is not better like before and financial position is not that satisfactory as compared to that of the previous years 2011 and 2012.

- Findings derived from comparative income statement of 2013 – 2014 is that the Total revenue of KSFE has increased to 23.88% in 2014, since the revenue from operation (which consist of Forman's commission, interest charge) and other income has increased to 24.19% and 19.76%. The increased revenue proves that KSFE Ltd. was efficient enough in rendering better services to customers. Total expense of KSFE has increased to 22.65 % in 2014, it was due to an increase of 6.6% in employee benefit expense. 32.72% in finance cost. 31.877% increase in other expense. And 24.97% increase in depreciation and amortization expense. There was an increase in total revenue than that of total expense. Thereby the operating profit of KSFE has also increased in 2014 to 32.74%. After deducting tax and prior period item from operating profit there was a decrease in Net Profit of the company to 14.31% in 2014. It indicate that the company financial position is not that satisfactory as compared to that of the previous years.
- Findings derived from comparative income statement of 2014 – 2015 is that the Total revenue of KSFE has increased to 18.44% in 2015, since the revenue from operation (which consist of Forman's commission, interest charge) and other income has increased to 18.13% and 22.68%. Though there is an increase in revenue the growth rate is not better than before. Total expense of KSFE has increased to 18.38% in 2015, it was due to an increase of 8.64% in employee benefit expense. 21.12% in finance cost. 25.8% increase in other expense. And 54.04% increase in depreciation and amortization expense. There was an increase in total revenue than that of total expense. Thereby the operating profit of KSFE has also increased in 2015 to 18.82%. After deducting tax and prior period item from operating profit there was an increase in Net Profit of the company to 18.08% in 2015. It indicate that the company financial position is satisfactory as compared to that of the previous years.
- Findings derived from comparative income statement of 2015 – 2016 is that the Total revenue of KSFE has increased to 13.02% in 2016, since the revenue from operation (which consist of Forman's commission, interest charge) and other income has increased to 10.13% and 53.41%. Though growth rate is lesser than before KSFE Ltd. is still efficient in managing revenue. Total expense of KSFE has increased to 11.53% in 2016, it was due to an increase of 31.05% in employee benefit expense. 16.24% in finance cost. Whereas the other expense and the depreciation and amortization expense has decreased to 21.51% and 33.50%. There was an

increase in total revenue than that of total expense. Thereby the operating profit of KSFE has also increased in 2016 to 24.22%. After deducting tax and prior period item from operating profit the overall profit of the KSFE Ltd. has decreased to 49.27% in 2016. It indicate that the company financial position is not satisfactory as compared to that of the previous years. But still it is efficient enough in managing the profit and promote better growth of business.

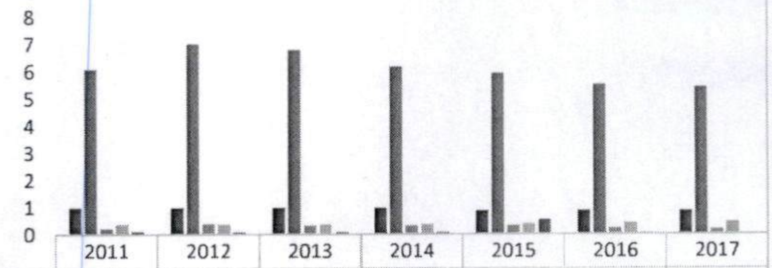
- Findings derived from comparative income statement of 2016 – 2017 is that the Total revenue of Total revenue of KSFE has increased to 12.3% in 2017, since the revenue from operation (which consist of Forman's commission, interest charge) and other income has increased to 10.3% and 31.0%. Total expense of KSFE has increased to 21.1% in 2017, it was due to an increase of 12.6% in employee benefit expense. 11.3% in finance cost, and the other expense to 70.5%, whereas the depreciation and amortization expense has decreased to 0.5%. There was an increase in total expense than that of total revenue. Thereby the operating profit of KSFE has also decreased in 2017 to 40.3%. After deducting tax and prior period item from operating profit the overall profit of the KSFE Ltd. has a sudden hike to 137.7% in 2017. It indicate that the company financial position fairly good enough. It is performing much better than that of the previous years. Increased net profit reveals the efficiency of company in managing the expense and revenue.

7.2.3 RATIO ANALYSIS

The findings derived from the ratio analysis are as follows:

7.2.3.1 SOLVENCY RATIO

FIGURE 7.1 Solvency ratio



	2011	2012	2013	2014	2015	2016	2017
PROPRIETORY RATIO	1	1	1	0.99	0.88	0.88	0.86
OWNED TO BORROWED FUND RATIO	6.09	7.01	6.79	6.16	5.91	5.49	5.39
INTEREST COVERAGE RATIO	0.21	0.4	0.32	0.33	0.32	0.21	0.18
DEBT RATIO	0.37	0.36	0.37	0.39	0.4	0.42	0.45
FIXED ASSET TO NET WORTH RATIO	0.11	0.09	0.09	0.07	0.55	0.05	0.03

(Source: Annual Report of KSFE Ltd 2011 to 2017)

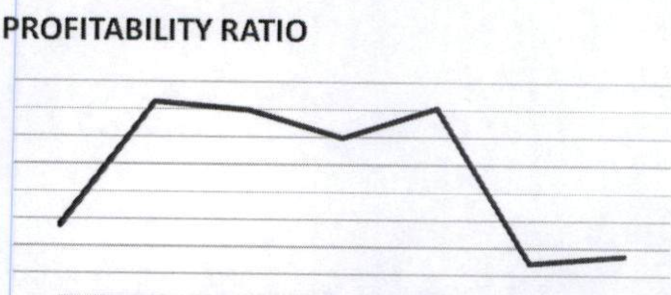
- Proprietor's ratio highlights the proportion of shareholders fund in Net assets. Shareholders have contributed 100% of the total asset over the years from 2011 to 2013. And then there was a slight decrease in the ratio for the next four years from 2011 to 2017. The ratio shows a slight decline from 1 in the year 2013 to 0.86 in the year 2017. This shows that the contribution of shareholders fund in the total asset has slightly decreased over the years. The proprietary ratio from 2011 to 2017 indicate a secured position to creditors. And the company has sufficient amount of equity to support functioning of their business.
- Owned fund to borrowed fund ratio has decreased from 6.05 percent in 2011 to 5.39 percent in 2017. Both the owned and borrowed fund were increasing every year and the growth rate of owned fund was less than borrowed fund. Ratio shows a dominance of borrowed fund than owned fund in total funds. The major portion of borrowed fund was covered by deposits of different types. The ratio shows efficiency in mobilizing deposit from 2011 to 2017.
- The interest coverage ratio measures capacity of the firm to pay the interest charges. The lower the ratio, the more the company is burdened by debt expense. The data indicates that the interest coverage ratio of KSFE is slightly decreasing over years from 0.4 percentage in 2012 to 0.18

percentage in 2017. The interest expense has increased over years while the EBIT has increased from 2011 to 2015 while it declined in the year 2016 and 2017.

- The debt ratio has increased from 0.37 percent in 2011 to 0.45 percent in 2017. Ratio shows a dominance of fixed asset than debt. The major portion of total asset was covered by borrowed fund. The ratio shows that the KSFE has lowest risk level and strong equity position from 2011 to 2017. It also reveals the efficiency of company in mobilizing fund from various sources.
- Fixed asset to net worth ratio has increased from 0.11 percent in 2011 to 0.55 percent in 2016, and then it decreased to 0.03 percent in the year 2017. Both the net worth and total assets were increasing every year and the growth rate of fixed asset was less than Net worth. The ratio shows that the KSFE has lowest risk level and strong solvency position from 2011 to 2016.

7.2.3.2PROFITABILITY RATIO

FIGURE 7.2 PROFITABILITY RATIO



	2011	2012	2013	2014	2015	2016	2017
EARNINGS PER SHARE	139.7	363.7	349.4	299.4	353.6	71.7	85.27
PROFIT MARGIN RATIO	0.038	0.085	0.066	0.045	0.046	0.02	0.043
FOREMANS COMMISSION RATIO	0.438	0.441	0.447	0.448	0.442	0.425	0.402
INTEREST INCOME RATIO	0.508	0.487	0.447	0.483	0.486	0.477	0.484
RETURN ON EQUITY	137.2	363.7	349.4	299.4	353.6	71.7	85.2

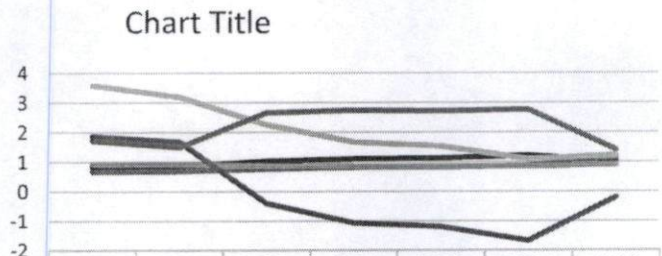
(Source: Annual Report of KSFE Ltd 2011 to 2017)

- Earnings per share ratio has increased from 139.708 percent in 2011 to 363.766 percent in 2012 and this was due to increase in the net profit. Later the ratio has decreased from 363.766 percent in the year 2012 to 299.445 in the year 2014 and it was due to decrease in the net profit. In the year 2015 the ratio again increased to 353.611 percent and that was due to hike in the net profit. There was a sudden fall in profitability per share in the year 2016 and that was due to decrease in net profit and also due to the increase in number of shareholders from 2000000 to 5000000. Later in the year 2017 the ratio increased to 85.27 percent.

- Profit margin ratio shows profitability of the firm. The ratio shows the high profitability in 2012. But over the years 2012 to 2014, the ratio is decreasing because the total income is more than net profit. In 2015, the net profit has again increased and thereby it increased the profitability of the firm to 0.0457. In 2016, the profitability of the firm decreases to 0.0204. Later in the year 2017 the ratio increased to 0.043 percent. It reveals that the profitability of KSFE better than the previous year.
- Foreman's commission is the main source of income to the KSFE. From 2011 to 2014 the ratio shows an increasing trend from 0.438 to 0.488 percentage. It started decreasing over the year 2015 to 2017.
- Interest income ratio tries to reflect the relation between interest income and total income. Ratio shows a decreasing trend over the years 2011 from 0.508 to 0.477 in the year 2013 it was due to decrease in the contribution of interest income to the net income. Whereas the net income has been increasing over the years from 2011 to 2017. Later in the year 2014 to 2015 the ratio has increased to 0.483 percentage to 0.486 percentage and again it declined in the year 2016 to 0.477 percentage and then it increased to 0.484 percent in the year 2017. Even though there are slight variation, it is a good indication.
- The return on equity shows a sudden increase in the ratio to 363.76 in the year 2012 from 137.20 in 2011. It shows that the return on equity is high since the net profit has increased. But then over year's ratio shows a slight decline from 363.76 percent in the year 2012 to 71.74 percent in the year 2016. Ratio indicates that the return on equity of KSFE has decreased due to decrease in the Net profit. Later in the year 2017 the net profit increased and so the equity ratio also increased.

7.2.3.3 EFFICIENCY RATIO

FIGURE 7.3 EFFICIENCY RATIO



	2011	2012	2013	2014	2015	2016	2017
OVERHEAD RATIO	0.84	0.86	1.03	1.11	1.13	1.21	1.02
INTEREST EXPENSE TO INTEREST INCOME RATIO	0.67	0.69	0.77	0.82	0.83	0.87	1.16
TOTAL EXPENDITURE TO TOTAL INCOME	0.92	0.93	0.87	0.86	0.85	0.85	0.91
SPREAD RATIO	3.59	3.2	2.26	1.68	1.53	1.09	1.21
BURDEN RATIO	1.87	1.69	-0.39	-1.06	-1.19	-1.67	-0.2
PROFITABILITY RATIO	1.72	1.5	2.66	2.75	2.72	2.77	1.41

(Source: Annual Report of KSFE Ltd 2011 to 2017)

- Overhead efficiency ratio shows the efficiency of managing indirect cost. Operating expenses shows an increasing trend. Over the year 2011 to 2016 the ratio shows an increasing trend because of high non-interest income over the non-interest expense of KSFE Ltd. The higher growth of non-interest income over non – interest expense is favorable to a healthy organization. The data reveals that KSFE Ltd. is efficient enough in managing the overheads.
- The lower interest expense is favorable to a firm. Over the year 2011 to 2017 the ratio shows an increasing trend because of high interest income over the interest expense of KSFE Ltd. The higher growth of interest income over interest expense is favorable to a healthy organization. The data reveals that KSFE Ltd. is efficient enough in managing the interest expense.
- The KSFE Ltd. had high expense to income ratio in the year 2012 and lowest ratio in the year 2016. Again it increased to 0.91 percent in the year 2017. Both the income and expenditure of KSFE is increasing year by year. From the table it is clear that the KSFE Ltd. runs in profit, since the total

Income is more than that of total expenditure. It also states that KSFE Ltd. is efficient enough in managing its expenses.

- Spread ratio shows a decreasing trend from the ratio 3.59 in the year 2011 to ratio 1.09 in the year 2016. There was a high in the ratio to 1.21 in the year 2017. During the year the interest received exceeds over interest paid. It is obvious that during the whole study period the ratio is positive and it is good sign.
- Burden ratio shows a fluctuating trend over the years. In the year 2011 the ratio marked the highest score of 1.87. The table shows that the non – interest income exceeds non – interest expense from the year 2013 to 2017. The decreasing trend of burden ratio is good for KSFE Ltd. So maintaining a lower burden by KSFE Ltd. is good for increasing the efficiency in its operation.
- The profitability ratio exhibits a fluctuating trend over reference period. The highest ratio is in the year 2016 which is around 6.48 percent. The profitability ratio is favorable for the KSFE Ltd. in this competitive era the KSFE Ltd. should put some effort to maintain the spread margin and improve the profitability of KSFE Ltd.

7.3 SUGGESTIONS

- KSFE Ltd. should mobilize the borrowed fund in a cost effective manner.
- They should ensure that no funds lie idle and they are deployed in a most effective manner.
- KSFE Ltd. should sustain their operative activities in profitable manner.
- KSFE Ltd. should promote chitty campaigns so as accelerate the growth of business since chitty is the main contributor of revenue to the company.
- Take adequate measures so as to reduce inconvenience to customers.
- Chits suited for students like educational chits, festival chits, calamity loan chits should also be introduced.
- The analysis of various financial statements over fifteen years shows that the overall liquidity, solvency, profitability and efficiency of KSFE are good.
- KSFE should be innovative and introduce attractive newer schemes and packages.
- They should modify and redesign the existing schemes so as to attract new customers.
- High default low revenue business units need to be closely scrutinized and redesigned so as to make them viable.
- A specific department should be established which basically focus on planning, evaluation and promotion of business. This would help to identify the strength, weakness, opportunities and threats of business.
- Various developmental and recreational programmes like family meet, picnics, training programmes should also be encourages which would boost the loyalty, efficiency of the employees in the organization at the same time it would also enhance the quality of the personal.
- Company should take measures to increase their owned fund. More of share capital should be raised from government itself.
- Carry our appropriate promotional strategies so as to attract new customers.
- It is advisable that KSFE must concentrate more in chitty business so as to save the public from the clutches of unscrupulous fly-by-night chit fund operators.
- Redressal agencies should be established so as to settle customer disputes and grievances.
- Core banking system in all branches of KSFE Ltd. should be encouraged so as to make easy payment and speed-up collection and thus by increase the management efficiency of KSFE.

7.4 CONCLUSION

KSFE is one among those public sector undertaking in India who has got affected due to liberalization, privatization, globalization and demonetization. The present project attempted to discuss factors contributing to profitability of the institution. For the purpose of study, secondary data from the KSFE for seven years were analyzed using appropriate tools and techniques. The analysis of various financial statements over years using various financial tools witnessed the overall financial strength of KSFE in a remarkable position.

A country like India, which is most predominantly agricultural country, and is being industrializing itself, the trade, communications and transport needs of the country are increasing on a massive scale. This situation increased the credit needs of the country. The organized banking sector being limiting its credit to certain types of business and under severe restrictions and conditions to extend credit, the credit needs of various sectors is being met on a large scale by the non-banking sector of the economy like chit companies.

Chit funds are designed as support structure for needy people who cannot get loans from banks or some money lender in the situations when they are unsure of their cash flows or some big expenses coming on the way. The concept of Chit funds works very well when all the participants in the group are well known to each other and have high level of thrust between them. These social networks would help people with the availability of immediate funds in the time of urgent need. As some of the subscribers in the survey shared their good experiences with chit funds told that they met all their life obligations like sister's marriage, daughter's marriage, father's medical expenses, buying new house, children's education expenses were met solely through this type of monthly chit fund investment.

KSFE has always been trying to bring the best of these services and help the subscribers to make best of this beautiful system which has mobilized the savings of millions of people. In KSFE, finance is raised through a group of like-minded individuals who would pool their resources periodically, say monthly, to meet requirements of members of the group. When there is more than one claimant, the eligibility to claim the pooled sum used to be decided through chit (lot). They has always been a major source of microfinance in rural/semi urban areas.

Majority of the current and non-current chit fund members belong to low-income households. The institutional arrangements which govern the functioning of the KSFE chit scheme that have emerged seem to serve the interest of all participants irrespective of their socio-economic status. Perhaps, this could explain why this industry has survived for such a long period of time. The study reveals that the chit funds are an important source of finance for small businesses and low-income households in Kerala. We could even find that the chit fund industry addresses the savings needs of people, is considered very safe and also offers loans at lower interest rates than moneylenders.

Though KSFE is the dominant foreman in the chit business in Kerala, its weakness results in the non-attainment of certain objective. KSFE need to be innovative and competitive. Though performance of KSFE is satisfactory, several problem prevent its healthy growth. One among the serious problem was the demonetization. The centres decision negatively affected KSFE. They were forced to postpone their auction sale. Many new customers hesitated to invest fear of losing their money. And there by the number of subscribers decreased and thereby it affected the chit business and there by the overall profit also declined. But then the managing team members however chose to look at it optimistically. Their efficiency helped the company to overcome their difficulties. They protected the interest of both the subscribers and the foreman which was the basic reason behind the success of KSFE Ltd.

To conclude let me point out the words of a guru "money in the hands of good people will do enormous good to the society"

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CHAPTER – 7

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ABSTRACT

The study entitled the financial performance of KERALA STATE FINANCIAL ENTREPRISE Ltd. Has undertaken with an objective of examining the financial performance of KSFE. THE PERIOD OF STUDY WAS SEVEN years from 2011-2012 to 2016-2017. The study was purely based on secondary data. The performance were measured from three dimensions; solvency, profitability and efficiency. The tools of financial analysis such as trend analysis, comparative income statement and ratio analysis were used for analyzing the data. The study concluded that KSFE financial position is satisfactory. Spread ratio reveals that the KSFE should take care to control its interest expense and take steps to increase its income from interest items. Profitability ratio reveals that the overall profitability of KSFE is fairly good enough.

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