FINANCIAL PERFORMANCE ANALYSIS OF KERALA STATE FINANCIAL ENTERPRISES LTD

By
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(2002-05-02)

PROJECT REPORT

Submitted in partial fulfillment of the requirement for the degree of

BACHELOR OF SCIENCE IN CO-OPERATION&BANKING

FACULTY OF AGRICULTURE

COLLEGE OF CO-OPERATION BANKING AND MANAGEMENT
KERALA AGRICULTURAL UNIVERSITY
VELLANIKKARA, THRISSUR.

2007

DECLARATION

DECLARATION

I hereby declare that this project report entitled "FINANCIAL PERFORMANCE ANALYSIS OF KERALA STATE FINANCIAL ENTERPRISES LTD" is a bonafide record of work done by me during the course of project work and that it has not previously formed the basis for the award to me for any degree/diploma, associateship, fellowship, or other similar title, of any other university or society.

Vellanikkara,
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CERTIFICATE

CERTIFICATE

Certified that this project report entitled "FINANCIAL PERFORMANCE ANALYSIS OF KERALA STATE FINANCIAL ENTERPRISES LTD" is a record of project work done independently by Ms.Divya Sasi (2002-05-02), under my guidance and supervision and that it has not previously formed the basis for the award of any degree, fellowship or associateship to him.

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Needless to say, I solely am responsible for any errors, which remain......

Dedicated to
My dearest achan

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DESIGN OF STUDY

1.1 Introduction

As the economy grows and the financial system develops, financial institutions emerge to perform the function of transferring funds from savers to the investors. Non-banking financial intermediaries play a special role in developing countries like India. In such an economy like India the capital market is ever changing. The majority of the people want to invest their savings in gold, jewellery, real estate, speculation, foreign exchange and conspicuous consumption. Under these circumstances, 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. With the increase in the rate of monetization of the economy, the banking habits of the people also grow. In such a situation, the commercial banks alone are not sufficient to mobilize savings and put them into productive channels. So the role of NBFIs like Kerala State Financial Enterprises Ltd become more important in mobilizing money and investing these savings for capital formation and economic development.

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 banks, they pay higher interest rates to the depositors and charge lower interest rates from the borrowers. Thus the KSFE compete with the commercial banks for public savings and as source of loanable funds from the chit company to a big financial institution, the KSFE is a success story. At present the company had a wide network of branches spread through out the state and cater the needs of the people. More interesting is that, it had never faced the problem of loss. The company offers a wide variety of products for the overall development of the economy. So it is necessary to know the financial performance as well as its position in the economy.

1.3Objectives of the study

1) To examine the growth of the Kerala State Financial Enterprises Ltd.
2) To analyze the financial performance of the Kerala State Financial Enterprises Ltd.

1.4 Methodology

The study was conducted based on the secondary data from 1995 to 2005.Major source of were annual reports, balance sheet, and other documents from the head office of the KSFE, Thrissur.From various sources the financial performance was analyzed for the organization as a whole. Ratios and percentages were used for analyzing the data.The ratios used are

1. Borrowed fund to Working Capital Ratio
2. Credit to Deposit Ratio
3. Credit to Working Capital Ratio
4. Interest Expenses to Interest Income Ratio
5. Interest Received to Loans Disbursed Ratio
6. Total Income to Working Capital Ratio
7. Total Expenditure to Total Income Ratio
8. Net Profit to Working Capital Ratio

1.5 Scope and limitations of the study.

Financial performance is a very broad term and it covers various aspects of an institution. The study covers the organizational profile, growth and financial position of the company. The study helped to know how far the company profitable and beneficial to the economy.

Since the study was purely based on the secondary data, only the financial aspects such as profit of the company, asset liability position etc was covered. It covers the financial aspects of 10 years details.

1.6Organization of the study

1) Design of the study that includes Introduction. Statement of the problem, objectives. Methodology scope and limitations of the study, and review of literature
2) The Kerala state financial Enterprises Ltd an organizational profile.
3) Growth of the KSFE Ltd.
4) Financial performance of the KSFE Ltd.
5) Summary of findings and conclusions.

1.7Review of literature

Financial intermediaries, especially Non Banking financial Intermediaries, exert a casual influence on economic growth by affecting the pace of productivity growth and technological change. NBFIs can enhance resource allocation and accelerate growth by reducing the cost of acquiring information, conducting transactions and facilitating savings mobilization.

For any business enterprise profitability is a sign of operational efficiency. Financial performance of an enterprise can be analyzed using financial statements. The study focused on the financial performance of KSFE, their growth etc.

In this chapter, an attempt has been made to review the available literature in the area of performance of financial institutions. The objective is to develop and establish and theoretical framework for the study based on the ideas and concept expressed in the existing literature of both theoretical and empirical nature.

Vasha .S. & Sampat (1981) after evaluating the reasons responsible for the declining trend in the profitability of commercial banks in India inferred that the overall profitability of banks would improve if and only of its operational units, the branches, improve their financial performance.

Kangasabhai (1982) after identifying the factors affecting profitability and identified that an increase in the ratio of short-term loan to total loans, borrowing to owned fund and time deposits to total deposits were the major reasons for the increased profitability.

Narayana Swami (1987) examined the profitability performance of a District Co-operative Bank. He suggested that there was Vast Scope to increase profit and profitability by proper attention on areas like recovery, deposit mobilization branch expansion, reduction in manpower and operating expenses, building up of more owned fund and scientific management of funds.

Ojha (1987) conducted a study on productivity and profitability of public sector banks in India and revealed that despite the growth in bank's productivity, the profitability of these banks were declining. It implied that the growth in productivity had been large enough to offset the declining trend on profitability.

Battacharya and Subha Rao (1988) conducted a study on branch banking and profitability and opined that for a branch to run profitability, managerial effectiveness of a branch manager as well as regional manager played a crucial role. They should possess marketing skill to attract customers, financial skills to attend the various banking transactions and leadership qualities to carry the branch personnel with them as a team to develop job skill in them and ensure that the branch as a unit produced results contributing to the profitability of a branch.

Alagappan and Rengaswami (1989) conducted a study on factors influencing profitability of a State Co-operative Bank and reported that the interest rate, spread, salary and other expenses of the bank accounted for 99% of the variations in the annual net profit.

Gangadharan (1989) stated that variations in the profitability among District Co-operative Banks are on account of differences in the managerial efficiency with which the banks manage internal factors affect their profitability.

Subhash (1991) opined that the interest allowed on deposits and charged on advances were too small to increase the profitability of banks and therefore it was advisable to increase the margin between lending and borrowing to increase profitability.

Shanavas. K. (1991) revealed that the declining profitability of a bank is combined effect increasing interest expense ratio, low increase in interest income ratio, insufficient non-interest income, necessity of maintaining increased amount of reserve due to mounting overdue arising out of banks inability to collect the principal and interest in time etc.

Ramachandran (1992) conducted a study on profit planning of banks and revealed that banks have a conscious, continuous and innovative approach/research for profitable avenue of business. All out efforts have to be taken to arrest declining trend in profitability. The watch word for the banker in the nineties were cut upsurge in costs, control expenditure, augment income and improve operational efficiency.

Noorudeen .M. (1992) in his study on management of spread, burden and profitability of the Kandala Service Co-operative Bank, the management of spread, burden and profitability of the bank were not that much effective owing to the poor earning capacity of non-interest income and higher burden ratio.

Sankar (1993) opined that a bank's performance had to be evaluated on several factors like tangibles and intangibles, to arrive at a realistic view of efficiency of banks. Some of the yardsticks he suggested for establishing standards of performance were 1)deposit growth 2)recovery 3)profitability 4)customer service 5)implementation of government schemes and 6)house keeping and internal control.

Garg I.K. (1996) in his article relating to the profitability in the bank opined the efficiency of management in the use of its resources in the major internal factor, which influences the profitability of banks. Increase in revenue containment of costs and increase in efficiency are the measures suggested for the improvement in profitability of books.

Nanjunda (1997) opined that profitability and capital adequacy were closely linked and higher profitability normally accompanies higher risk weighted assets build up. The extensive high-risk asset build up would bring down the viability also.

Ramachandran.N. (1997) suggested that improvement in labour productivity, costing exercise, proper selection of beneficiaries improve credit deposit ratio, effective cash management, steps to control income leakage will improve the profitability of commercial banks.

Sinha and Singh (1999) in their study explained about the ethics in financial management. They pointed out that two social value system such as Smithion system and the Humanities system. The principal finding of the study is that the perceived value of one's superiors have a profound compact on the way in which subordinate resolves ethical dilemma.

Chitra R.J. (1999) reported that sound financial management is essential at all stages of operation for the efficient running of an undertaking. It determined the operational efficiency and the eventual success or failure of the concern in question. The main factor, which contributes to the financial problems of the public enterprises, had been the inefficient and ineffective management of working capital either make the firm incur losses or does not allow to earn higher rates of return.

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.

THE KERALA STATE FINANCIAL ENTERPRISES LTD-AN ORGANISATION PROFILE

CHAPTER - 2

THE KERALA STATE FINANCIAL ENTERPRISES LTD.

AN ORGANISATIONAL PROFILE

2.1

1.1 Introduction

Non-banking financial intermediaries (NBFIs) are such institutions as savings and loan associations, life insurance companies, mutual savings banks, common trust funds, pension funds and government lending agencies. These intermediaries pool funds from net savers and lend them to finance expenditure of business firms and local bodies. Thus NBFI are financial firms that bye one kind of financial asset and sell another. Gerley and Show define intermediation as "the purchase of primary securities from ultimate borrowers and issue of indirect debt for the portfolio of ultimate lenders". Thus NBFI act as an indirect channel between ultimate lenders and ultimate borrowers.

Financial intermediaries are generally classified into two broad groups.

a) Banks and b) Non-bank financial intermediaries. NBFI is thus a heterogeneous group of financial institutions other than commercial banks. They have made considerable progress after world war-1. Their growth has been much faster than that of commercial banks. The main reason for this is that in comparison to commercial banks, NBFIs pay higher interest rates to the depositors and charge lower interest rates from the borrowers. Thus in a way, the NBFIs compete with the commercial banks for public savings and as source of loanable funds.

The role and importance of non-bank financial intermediaries is clear from the various functions performed by these institutions. Major functions of the NBFIs are as follows:

1. Financial intermediation

It provides funds to small businesses for whom it is difficult to sell stocks and bonds because of high transaction costs. It also benefits to small savers by pooling their funds and diversifying their investments.

2. Economic Basis of financial Intermediation

Handling of funds by financial intermediaries is more economical and more efficient than that by the individual wealth owners.

3. Inducement to save

These institutions provide a wide range of financial assets are store of value and make available expert financial services to the savers. They are easily storable, more liquid, more easily divisible and less risky.

4. Mobilization of savings

Mobilization of savings takes place when the savers hold savings in the form of currency bank deposits, post office savings deposits, life insurance policies, bills, bond's equity shares etc.

5. Investment of funds

The main objective of NBFIs is to earn profits by investing the mobilized savings.

6. Importance to the economy

NBFIs are of great importance to the economy as a whole because they are not only promote economic development in the economy, but also help in the implementation of national monetary policy.

In spite of certain similarities, the commercial banks basically differ from the non-banking financial intermediaries on the following grounds.

1) Bank is a financial institution whose liabilities (deposits) are widely accepted as a means of payment, where as, NBFIs are those institutions whose liabilities are not widely accepted as a means of payment for the settlement of adept.

2) Commercial banks have the ability to generate multiple expansion of credit. NBFIs simply mobilize savings for investment.
3) Credit creation activities of the banks involve lesser time, while the leading activities of NBFIs involve longer time.
4) Banks form a homogeneous group, while NBFIs form a heterogeneous group in the financial structure of the economy.
5) Banks generally deal with short-term loans in the money market, where as NBFIs deals with all types of loans. ie short-term, medium-term and long-term loans.

NBFIs incorporated under the Indian Companies Act, 1956 belong to the species of commonly called as Non-Banking financial intermediaries. They have a different picture regarding their structure, ownership and functions. Life Insurance Corporation of India, Unit Trust of India etc are the various specialized institutions in the NBFIs sector. National Bank for Agricultural &Rural Development, Industrial Development Bank of India, Small Industries Development Corporation, Land Development Banks are also come under NBFIs sector. Technically, all financial institutions other than commercial banks come under the group of NBFIs.

They enjoy certain special advantages in operations, which help them to make a good position in the economy. They advance loans to wholesale and retail traders, small-scale industries and self-employed persons. Bulks of their loans are given to parties which do not either approach commercial banks or which are denied credit facilities by the latter. The finance companies give loans which are generally unsecured and the rote of interest charged by them generally range between 24 to 36 percent per annum. Besides giving advances, the finance companies run chit funds, purchase and discount bandies, and have also taken up merchant banking, mutual funds, hire purchase, leasing etc.

The rapid growth of NBFIs especially in the nineties, has led to a gradual blurring of dividing lines between banks and NBFIs, with the exception of the exclusive privilege that commercial banks exercise in the insurance of cheques. Since NBFIs are not regarded as banking companies, they did not come under the control of RBI, there is no minimum liquidity ratio or cash ratio, no specific ratio between their owned fund and deposits.

The NBFIs are now emerging as a growing segment of the Indian financial system and both the government and Reserve Bank of India appreciate the need for their orderly and healthy development

As an alternative to private chit promoters and with a view to socialize the chit fund business, Government started, The Kerala State Financial Enterprises (KSFF) in the year 1969 as a fully Government owned company. The main objective of this company is to liberate the common man of Kerala from the yoke of unscrupulous fly-by-night operators in the field of chit fund business. The Company, which started in a humble manner with a paid up capital of 2lakhs. 10 branches and 40 employee has now grown into an institution doing business worth over Rs 3500 crore annually employing over 4000 persons directly and 1000 persons indirectly with a network of more than 250 branches. Since its inception the institution has been registering impressive profits every year. KSFE today is synonymous with chit funds and it is presently the biggest chit promoters in India. In the area of business the company has been on a fast track. It has been able to register an average annual growth of 30% over the past many years.

The company conducts chitties of various denominations and duration to suit the needs of different classes of people. The company increases the savings of the people through various deposit schemes. The company provides finance to the needy people for owning houses and household durables, motor vehicles and equipments for self-employment and provides finance for augmenting the working capital needs of small traders. All the schemes of the company enjoy lots of advantages over the similar schemes offered by the commercial banks. Chitty happens to be the main business of the company as it presently does a monthly chit business of over Rs. 140 crore. The deposits offered by the company are fully guaranteed by the Government.

The company has been consistently maintaining a high credit deposit ratio of about more than 100%. It is important that the company has been advancing all the funds mobilized through its deposits inside Kerala itself, where as other Financial institutions have been channelsing deposits collected inside Kerala for advances outside the State.

2.2 Origin of the Organization

During the year 1967, Government of Kerala took a policy decision to the effect that chitties / kuries should be conducted under State auspices. Government wanted to introduce a check on the unbridled growth of financial institutions with a view to safeguard the interest of the general public and also to channelise the savings for productive purposes. With these objectives, Government appointed a committee in the year 1967 with the objective to prepare a comprehensive scheme for starting chitties and kuries under Government control. Report was presented on 7th October 1967. Accordingly Government decided to organize a public sector undertaking with the name "the Kerala State Financial Enterprises Ltd" for the purpose of conduction chitty, hire purchase and insurance business under government control.

2.3 Constitution

The KSFE Ltd is fully owned by the Government of Kerala and is the first public sector company to conduct chit business in the whole of India. It was incorporated on 6th November 1969 with its registered office at Thrissur. It had an authorized capital of Rs.25 Lakhs divided into 25,000 equity shares of Rs.100 each and a paid up capital of Rs. 2 Lakhs as initial contribution from Government of Kerala.

2.4 Objectives

The objectives of the company are listed in the memorandum of association of the company. The important objects are as follows:-

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

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

c) 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 the government state or control or anybody or organization there under or other company.

Besides these objectives, there are many other objects, which are incidental or ancillary to main objects such as to advance, deposit with or lend money, Securities, property or to receive loans or grants or concession of any nature or deposits from banks, government or Governmental organizations or others.

2.5 Management of the KSFE Ltd.

The management of the company is vested in the Board of Directors constituted by the Governor from time to time. The number of directors shall not be less than 2 and shall not be more than 9. The maximum number of Directors 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 managing 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.

2.6 Organizational Set-up

The organizational set up by and large a three-tier system with the Head office as a top controlling and co-coordinating body. The regions constituting the intermediary level co-coordinating and controlling all the activities of the various units under them and the units at the base level as profit generating centers. These units are engaged in chit business, hire purchase financing and accept deposits from public.

In the head office the activities are grouped on functional as well as product basis under the control and supervision of the Managing Director who is the chief Executive.

2.6.1 Product Departments.

2.6.1 (a) Chitty Department

Chitty Department headed by the chitty officer who is directly responsible for the chitty administration of the company subject to the control and guidance of the Business Manager.

2.6.1 (b) Hire purchase Department

The Hire purchase officer who is directly responsible for the hire-purchase administration of the company subject to the control and guidance of the Business Manager heads this.

2.6.2 Functional departments

2.6.2(a) Accounts Departments

The Accounts officers, subject to the control and guidance of the finance Manager, head accounts department. The main functions of this department are planning, budgeting, controlling, accounting and administration of Deposit schemes of the company.

2.6.2(b) Administrative Department

This is headed by the administrative officer to be in charge of personal administration salary, industrial relations, manpower planning etc.

2.6.2(c) Secretarial Department.

The company secretary who is responsible for the functions conferred on him by the companies Act, 1956 heads this department. He is responsible for the general administration including purchase, printing etc.

2.6.2(d) Legal Department

The part time legal advisor assisted by a legal superintendent heads this department. He is responsible for advising the company on routine legal matters and securities

2.6.2(e) Internal Audit Department

The Internal Audit officer assisted by three audit teams to exercise internal checks and control heads this department.

2.6.3 Regions

The Regional Manager is mainly responsible for the proper and healthy functioning of the Branches. They report directly to the Business Manager and the Finance Manager cum-secretary for the respective functions.

2.6.4 Units

At the base level the units are graded into three categories

i) Major Branches having a chitty sala of Rs.9 Lakhs and above or chitty sala of Rs.8 Lakhs and Hire purchase business of Rs.10 Lakhs and unit doing exclusively hire purchase business

ii) Small Branches other than major and medium

A unit Head Manager heads each unit and its activities are grouped under Junior Executives. The unit beads Head report directly to the Regional Managers concerned and to the Departmental Heads of the Head Office.

2.7 Products of the KSFE Ltd.

2.7(a) Chitty Scheme.

Chitty involve regular periodical subscriptions by a group of persons and arrangements under which each member of the fund is entitled for periodic collection. The foreman (KSFE) of the fund collects a specific periodic subscription form each of a certain number of subscribers. All the members have to contribute the periodical subscription till the end of the chitty.

There are more than 7.78 Lakhs subscribers in the chitties with an aggregate monthly sala of more than Rs. 15886 Lakh.

The following additional facilities are also available under the scheme:

i) Pass Book Loan

Pass Book Loan is available to non-prized chitty promoters depending upon the gross installment paid up, the period remaining for the termination of the chitty etc.

ii) New chitty Loan

Under this loan an advance up to 50% of the sala amount is available to non-prized shitty promoters subject to certain terms and conditions.

2.7(b) Consumer Vehicle Loan.

Consumer Vehicle loan was started with the object of providing advance facilities for acquisition of consumer durables, vehicles house hold equipments such as T.V., Fridge, Furniture etc. on diminishing rate of interest and on easy repayment plans.

2.7(c) Gold Loan Scheme.

Under Gold loan scheme, short term advances up to Rs.3,00,000 for a maximum period of 6 months with the facility to renew up to 2 years subject to conditions.

2.7(d) Trade financing scheme.

The scheme provides financial assistance up to Rs.1Lakh to small traders depending upon their requirements and repayment capacity. The amount of loan is to be repaid at reasonable rate of interest within a period of 60 months.

2.7(e) Flexi Trade Loan Scheme.

Under this scheme financial assistance up to Rs.10 lakhs with over draft facility to traders, businessmen subject to conditions.

2.7(f) Reliable Customer Loan.

Under this scheme financial assistance up to Rs. 5Lakh (on the security as per the general norms) is provided to the general public. The amount of loan is to be repaid within a period of 36/48 months, depending on the loan amount at reasonable rate of interest.

2.7(g) Special Car Loan.

This is a scheme introduced to provide loans for purchase of new four wheelers up to a maximum of 85% of the 'on the road cost' to salaried persons having a net monthly pay exceeding Rs.10,000/- and self-employed professionals Business men having on average annual total income exceeding Rs.2,00,000/- for the 3 previous year with a repayment period of 60 months (maximum) at a monthly diminishing rate of 9.5% to 10% depending on the period of repayment opted.

2.7(h) New Housing Finance Scheme.

Under this scheme finance is available up to Rs.4 Lakh for purchase of dwelling sites and up to Rs.10Lakh for purchase or construction of dwelling houses or extension of existing building beyond 300sq. feet. The repayment period id 5 years in the case of purchase of dwelling sites and 15 years in the case of dwelling houses.

2.7(i) Western Union Money Transfer Services.

This is a new venture entered into by the company in the business of money transfer with the network of over 252 branches of KSFE, the company help for quick transfer of money all over the world.

2.7(j) The KSFE has entered into an agreement with life Insurance Company of India to act as its corporate agent and enroll the public to the various schemes of LIC.

2.7(k) General Insurance.

The company has also entered into General Insurance business by entering into with a national insurance agent to propel their insurance schemes.

2.7(l) Chitty Security Deposit in Trust Scheme.

Under this scheme chitty prize money is accepted as security against future liability. It is repayable with interest on termination of the chitty or on furnishing adequate security by the subscriber which ever is earlier. This scheme offers higher rate of interest.

2.7(m) Fixed deposit scheme.

The company provides on attractive opportunity to the public to deposit profitably and safely through its fixed deposit scheme. Government of Kerala guarantees the deposits. Loan up to 75% of the deposit amount on the security of the deposits is a specialty of this scheme.

2.7(n) Sugama Deposit Scheme.

The Scheme envisages maintenance of personal accounts in the name of individuals associations etc. in which deposits and withdrawals are permitted. Government of Kerala thereon guarantees the repayment of deposit and interest.

GROWTH OF KERALA STATE FINANCIAL ENTERPRISES LTD

CHAPTER – 3

GROWTH OF KERALA STATE FINANCIAL ENTERPRISES LTD.

The Pride of God's own country, the Kerala State Financial Enterprises is a success story. In fact government of Kerala started KSFE with an objective to liberate the common man of Kerala from the yoke of unscrupulous fly-by-night operators in the field of chit fund business. The company which started in a humble manner with a paid-up of Rs.2,00,000/- 10 branches and 40 employees has now grown into an institutions doing business worth over Rs.3500/- crore annually employing over 4000 persons directly and 1000 persons indirectly, with a network of 250 branches.

The company has been on a fast track, as the growth of business is concerned. It has been able to register an average annual growth of 30% over the past many years.

The growth of any institution can be analyzed from its capital, human resources, network etc. Similarly the growth of KSFE can be assessed from number of branches, number of employees, capital structure, reserves & Surplus, assets & liabilities, income & expenditure, profit etc.

3.1 Growth of Branches

The growth of any financial institution can be traced from how far its products accessable to the public. In this situation the importance of branches arises. Table 3.1 shows the number of branches during 1995 to 2005.

Table 3.1 Number of branches of KSFE from 1995 to 2005.

Year	No. Of Branches	Growth Index
1995-96	173	100.00
1996-97	180	104.04
1997-98	202	116.76
1998-99	203	117.34
1999-00	204	117.92
2000-01	225	130.06
2001-02	229	132.37
2002-03	230	132.95
2003-04	230	132.95
2004-05	250	144.51

Source :-Annual reports of KSFE For various years

Branches of KSFE shows are increasing trend. During 1995 – 96 the position of network of KSFE was 173 and it increased to 250 in 2004-05.In the year 2000-2001 there was rapid increase in the number of branches. This is because of changes in the business policy. In 2000-01 branches are increased from 204-225.Branches of KSFE are expanding year by year. Branches are increased to nearly 40% in the year 2004-05 compared to 1995-96

3.2 Growth of Employees.

No organization can succeed without a certain level of commitment and effort from its employees. The sheer increase in the number of employees itself has posed a serious challenge before any financial institution to manage the system efficiently.

Table 3.2 shows the number of employees in KSFE during 1995 – 96 to 2004 – 05

Table 3.2 Growth of employees of KSFE from1995 to 2005

Year	Number of Employees	Growth Index
1995-96	2021	100
1996-97	2105	104.16
1997-98	2644	130.83
1998-99	3082	152.50
1999-00	3125	154.63
2000-01	3216	159.13
2001-02	3295	163.03
2002-03	3327	164.62
2003-04	3417	169.07
2004-05	3432	169.82

Source:-Annual reports of KSFE

Table 3.2 reveals that the number of employees of KSFE was in increasing trend. During 1995 – 96 the number of employees of KSFE was 2021 and in 2004 – 05 it reached to 3432.Employees are increased due to increase in number of branches. Employees are increased to more than 60% compared to 1995-96.

3.3Growth of share capital

Efficient management of capital is an essential pre-requisite for the successful operation of a business enterprise. The growth of share capital indicates a growth of the organization.

Table 3.3 Share capital of KSFE from1995 to 2005

(Rs.In Lakhs)

Year	Paid up share capital	Growth Index
1995-96	300	100.00
1996-97	300	100.00
1997-98	300	100.00
1998-99	300	100.00
1999-00	300	100.00
2000-01	300	100.00
2001-02	300	100.00
2002-03	300	100.00
2003-04	300	100.00
2004-05	1000	333.33

Source : -Annual reports of KSFE for various years

Table 3.3 reveals the share capital position and its growth over the years. In the case of Paid up share capital, it was Rs. 300 lakh during 1995-96 and it increased to Rs.1000 lakh in 2004-05. The paid up share capital had increased to more than 3 times in 2004-05 than that of 1995-96. There is a provision that only certain percentage of share capital can be accepted as deposits. So in order to avoid future contingency in accepting deposits the company increases their share capital position. When share capital get increased it shows soundness of the company.

3.3 Growth of Reserves

Reserves constitute the owned fund of an organization. It shows the stability and longitivity of an organization. Reserves are kept to meet the unforeseen contingencies that might occur in the future.

Table 3.4 Reserves of KSFE from 1995 to 2005

(Rs in Lakhs)

Year	Reserves	Growth Index
1995-96	245.75	100
1996-97	296.43	120.62
1997-98	407.77	165.93
1998-99	426.32	173.48
1999-00	458.55	186.60
2000-01	1203.47	489.71
2001-02	2377.03	967.26
2002-03	3651.86	1486.01
2003-04	5154.54	2097.47
2004-05	6871.24	2796.03

Source:- Annual reports of KSFE for various years.

As per the table 3.4, Reserves of KSFE shows an increasing trend. During 1995-96 the Reserves was Rs.245.75 Lakhs and it increased to Rs.6871.24 Lakhs during 2005-06. The reserves had increased to more than 27 times that of the first year. Reserves are made out of profit. When reserves get increased it shows stability of the company and its increase is a good indication of growth of the company. Reserves are increased due to increase in profit.

3.5 Growth of Loans and advances

The position of loans and advances is important in measuring the growth of an organization. Different kinds of loans provided by the company are chitty loan, trade loan, new chitty loan, gold loan, reliable customer loan and new housing finance scheme. Table 3.5 reveals the loans & advances position during 1995 to 2005

Table 3.5 Loans & Advances of KSFE from 1995 to 2005

(Rs in lakhs)

Year	Loans & Advances	Growth Index
1995-96	41790.46	100
1996-97	59815.81	143.20
1997-98	92465.34	221.26
1998-99	126537.86	302.70
1999-00	147439.79	352.81
2000-01	178975.74	428.27
2001-02	201763.13	482.80
2002-03	207244.76	495.92
2003-04	208824.12	499.69
2004-05	210955.44	504.79

Source :- Annual reports of KSFE for various years.

Loans and advances are increasing year by year. In the case of a financing company like KSFE deposits should be invested in various alternatives. This will increase their business volume and ultimately result in profit. So increase in loans andadvances are good for the company. Table 3.5 shows that during 1995-96 the loans and advances was Rs. 41790.46 and during 2004-05 it increased to Rs. 210955.44 lakhs. That means in the year 2004-2005 loans and advances was around 5 times more than that of the year 1995 – 96.This is because of new schemes on loans and advances.

3.6 Growth of Deposits

In a financial institution like KSFE, deposit mobilization constitutes a major role. Deposits are the part of borrowed fund of the company. It also shows the reputation and confidence of the public. So whenever the growth of KSFE is under study, deposits are to be considered. One of the important objectives of KSFE was mobilization of savings from the public. Now KSFE accept a wide variety of deposits like Chitty deposit in trust scheme, Fixed deposit, and Sugama deposit scheme. Growth of deposits shows increase in public acceptance. So it is a good indication of growth of the company. Table 3.6 shows the growth of deposits of KSFE during 1995 to 2005.

Table 3.6 Deposits of KSFE from 1995 to 2005

(Rs in Lakhs)

Year	Deposits	Growth Index
1995-96	16100.00	100
1996-97	24609.99	152.86
1997-98	39840.04	247.45
1998-99	59470.86	369.38
1999-00	67133.32	416.98
2000-01	77998.00	484.46
2001-02	108631.00	674.73
2002-03	116580.00	724.09
2003-04	123834.00	769.16
2004-05	125462.00	779.27

Source :- Annual reports of KSFE for various years.

As per the table 3.6 the deposits were Rs. 16100.00 Lakhs in the year 1995-96 and it had increased to Rs. 125462 Lakhs in the year 2004-05. So deposits showed an increasing trend. So compared to the year 1995-96 deposits are 7 times greater in the year 2004-05.This is because of introduction of new deposit schemes.

3.7 Growth of Income & Expenditure

Components of income of KSFE are foreman's commission which obtained through chitty business, interest from loans and advances, other income means income from sale of asset, agricultural income, rent etc

Components of expenditure are interest and finance charges, staff expenses, administration and other expenses, promotional expenses, depreciation etc

Table 3.7 Income and Expenditure of KSFE from 1995-2005

(Rs. In Lakhs)

Year	Income	Growth Index	Expenditure	Growth Index
1995-96	2530.73	100	2422.96	100
1996-97	3504.05	138.46	3197.66	131.97
1997-98	4679.10	184.90	4254.81	175.60
1998-99	6594.54	260.58	6132.93	253.12
1999-00	9876.49	390.26	9876.49	407.62
2000-01	13810.59	545.72	13810.59	569.99
2001-02	17006.39	671.99	16213.24	669.15
2002-03	20491.21	809.69	18152.94	749.20
2003-04	22482.81	888.39	22482.81	927.90
2004-05	23864.54	942.99	23864.54	984.93

Source : -Annual reports of KSFE for various years.

In the case of income, in the year 1995 – 96 it was Rs. 2530.73 Lakhs and it increased to Rs. 23864.54 lakhs during 2004-05. That means income shows an increasing trend, in the year 2004-05 the income increased to more than 9 times compared to the year 1995-96 because of increase in business turn over.

In the case of expenditure, in the year 1995-96, it was Rs. 2422.96 Lakhs and it increased to Rs. 23864.54 Lakhs in the year 2005-06. The expenditure was increased to more than 9 times than in the year 1995-96 due to increase in staff and administration expenses.

3.8. Growth in payment to State Government

Since KSFE is a fully Government owned company it enjoy lots of benefits from the Government. So in return KSFE provide cash to Government of Kerala in the form of payment to state Government. All deposits are fully guaranteed by the Government So in return KSFE give guarantee commission. Since KSFE is a financing company they pay registration and filing fee. More over the company provide service charges for the benefits enjoyed from the Government officials. All these payments come under benefits to state Government. Table 3.8 shows the benefits to Government of Kerala from KSFE.

Table 3.8 Payment to State government from 1995-2005

(Rs. in Lakhs)

Year	Payment to State Govt.	Growth Index
1995-96	485.64	100
1996-97	704.89	145.15
1997-98	1040.40	214.23
1998-99	1421.00	292.60
1999-00	1695.00	349.02
2000-01	2063.00	424.80
2001-02	2238.00	460.84
2002-03	2532.00	521.37
2003-04	2836.00	583.97
2004-05	3241.00	667.37

Source:-Annual reports of KSFE for various years.

During 1995-96 the benefits enjoyed by State Government from KSFE was Rs 485.64 Lakhs and when the year passed, the amount increased to Rs. 324100 Lakhs in 2004-05. So the amount shows an increasing trend. That means in the year 2004-05 the payment amount is increased to more than 6 times than in the year 1995-96.When the years passed the business volume get increased and it result in more payment to State Government. In the year 2004-05 the increase was more because the company wants to increase their paid up share capital position.

3.9 Growth in the Profit of the Company

The success of every company depends on their profitability. The efficiency of any enterprise including a NBFI can be assessed by way of running it in a profitable manner. Confidence of public depends on company's profit.

Table No 3.9 Profit of KSFE from1995-2006

(Rs in Lakhs)

Year	Profit	Growth Index
1995-96	101.05	100
1996-97	106.63	105.52
1997-98	365.57	361.77
1998-99	409.67	405.41
1999-00	793.15	784.91
2000-01	2338.27	2313.97
2001-02	2846.89	2817.31
2002-03	3831.67	3791.86
2003-04	4209.19	4165.45
2004-05	4370.19	4324.78

Source:-Annual reports of the company for various years.

Table 3.9 shows profit of the company and it shows an increasing trend. In the company the profit was Rs. 101.05 Lakhs and it tremendously increased to Rs.4324.78 Lakhs.This huge increase in profit was due to changes in the business policy and numbers of branches are increased. In the year 2004-05 the profit was increased to more than 43 times compared to the profit in the year 1995-96.

During the last 10 years it is evident that KSFE is showing a rapid growth in the case of branches, employees, share capital, reserves & surplus, loans & advances, deposits, income & expenditure, benefit to State Government and profit of the company during the period from 1995-96 to 2004-05.The noticeable point is that all the parameters under study from 1995-2000 there was a slow growth. But after that here was huge increase, because of changes in the business policy and expansion of branching network. In fact KSFE is on a fast track and in future it may stand its own position in the economy.

FINANCIAL PERFORMANCE OF KERALA STATE FINANCIAL ENTERPRISES LTD

CHAPTER-4

FINANCIAL PERFORMANCE OF

KERALA STATE FINANCIAL ENTERPRISES LTD.

Performance of any institution can be evaluated through financial analysis, which refers to the analytical study of financial statements. Financial statements reflect the state of affairs of an organization at a given point of time as well as its financial performance over a period. In simple words performance means existing condition in financial soundness member satisfaction and productivity on an organization Performance analysis helps to identify the problems and their solutions. Hence it is unavoidable for effective and efficient management.

Financial analysis is the easiest method of performance analysis financial analysis is "the process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account" Here we analyze the financial parameters like efficiency in operation. In financial analysis various methods such as comparative statements, schedule of changes in working capital common size fund analysis, trend analysis and Ratio analysis are used.

Ratio Analysis

Ratio analysis is the most powerful tool used in the financial analysis. Ratio expresses the mathematical relationship between numerical figures Ratio is defined as "a simple arithmetical expression of the relationship of one number to another" or "the indicated quotient of two mathematical expression" Ratio analysis is the process of establishing and interpreting various ratios for helping in decision-making.

But ratio analysis is not free from drawbacks. It is only means of better understanding of financial strengths and weakness of a firm.

While analyzing the financial data of ten years it is not possible to find out all the ratio existing. Hence some ratios are selected. Those are.....

4.1 Efficiency in Mobilization of fund

Mobilization of fund has a leading role in the building of sound financial structure of a company. Different kinds of ratios are used to measure the efficiency in mobilization of funds. The major ratios used to know the efficiency in mobilization are

4.1.a) Borrowed fund to Working Capital ratio

Borrowed fund to working capital ratio reveals the extent of working capital funded through borrowings. That means how far the company's mobilized fund contributes to working capital. This ratio highlights the share of borrowed funds in working capital. A higher ratio is indicative of higher share of borrowed funds in the working capital and a smaller ratio indicates the dominance of owned fund in the working capital. The borrowed fund would affect cost and unless the institution ensures profitable deployment of such funds, the institution may have to suffer losses.

The ratio is calculated with the formula.

$$\text{Borrowed fund to working capital ratio} = \frac{\text{Borrowed fund}}{\text{Working Capital}} \times 100$$

Borrowed Fund = All types of Deposits

Working Capital = Share capital + Reserves + Deposits

Table 4.1 Borrowed fund to Working capital Ratio

(Rs in lakhs)

Year	Borrowed Fund	Working Capital	Ratio
1995-96	16100.00	16645.75	96.72
1996-97	24609.99	25206.41	97.63
1997-98	39840.04	40547.81	98.25
1998-99	59470.86	60197.17	98.79
1999-00	67133.32	67891.87	98.88
2000-01	77998.00	79505.47	98.10
2001-02	108631.00	111308.03	97.59
2002-03	125462.00	130113.86	96.42
2003-04	123834.00	129988.54	95.26
2004-05	116580.00	124451.24	93.67

Source:-Annual reports of the KSFE

Table 4.1 gives the ratio of borrowed fund to working capital of KSFE for a period from 1995-96 to 2004-05. The ratio shows that borrowed fund constitute a major position of the working capital of the institution. The ratio shows a decreasing trend, because when the years passed the company decrease the proportion of borrowed fund in the working capital.

4.2Efficiency in deployment

Fund deployment is an important function as far as financing institutions are concerned. Because they have to face tough competition each other and they have to perform all their duties. Efficiency in deployment is also equally important as efficiency in mobilization. To analyze the efficiency in Deployment following ratios are used.

4.2.1 Credit to Deposit Ratio

4.2.2 Credit to Working Capital Ratio

4.2.1 Credit to Deposit Ratio

Credit to Deposit ratio shows the efficiency of the company in converting deposits into credit. Money gets its value only when it uses, hence conversion of deposits into credit is much significant. Credit deposit ratio is calculated by the formula

$$\text{Credit to Deposit Ratio} = \frac{\text{Credit}}{\text{Deposit}} \times 100$$

Credit = Loans and advances   Deposits = All types of deposits.

Table 4.2 Credit to Deposit Ratio

(Rs in lakhs)

Year	Credit	Deposit	Ratio
1995-96	41790.46	16100.00	259.56
1996-97	59815.81	24609.99	243.05
1997-98	92465.34	39840.04	232.09
1998-99	126537.86	59470.86	212.77
1999-00	147439.79	67133.32	219.62
2000-01	178974.84	77998.00	229.46
2001-02	201763.13	108631.00	185.73
2002-03	207244.76	125462.00	165.18
2003-04	208824.12	123834.00	168.63
2004-05	210955.44	116580.00	180.95

In the table 4.2 the ratio changes from 165.18 to 259.56, and it shows a decreasing trend. This is because even though both credit and deposits are increased, increase in deposits is more than that of increase in credit. In the year 2004-05,CD ratio gets increased because deposits get decreased and credit increased. The ratio reveals the quantum of credit given from every hundred rupees available.

Table 4.2 reveals that the KSFE was able to convert more than 100 percent of its deposit into credit. In general it may be stated that the performance of this enterprise with respect to conversion of deposits into credit is satisfactory.

4.2.1 Credit to working capital ratio

Credit to working capital ratio helps to study the efficiency of the enterprise in fund deployment. This ratio shows the relationship between the deployment in loans and advances and the available fund. This ratio shows the extent of credit out of its working capital. It shows the credit creation capacity of the company. The ratio is calculated with the formula.

$$\text{Credit to working capital ratio} = \frac{\text{Credit}}{\text{Working Capital}} \times 100$$

Credit = Loans & advances

Working Capital = Share capital + Reserves + Deposits

Table 4.3 Credit to working capital ratio

(Rs in lakhs)

Year	Credit	Working Capital	Ratio
1995-96	41790.46	16645.75	251.05
1996-97	59815.81	25206.41	237.30
1997-98	92465.34	40547.81	228.04
1998-99	126537.86	60197.17	210.20
1999-00	147439.79	67891.87	217.16
2000-01	178974.84	79505.47	225.11
2001-02	201763.13	111308.03	181.26
2002-03	207244.76	130113.86	159.27
2003-04	208824.12	129988.54	160.64
2004-05	210955.44	124451.24	169.50

Source :- Annual reports of KSFE

Table 4.3 shows higher efficiency in fund deployment. That means working capital is mainly used for credit creation. From the table it is clear that the ratio shows a decreasing trend. Because the utilization of working capital for credit purposes get decreased and it is used for some other productive purposes .So that the risk involved in the utilization of working capital decreases and this is a good indication of the performance of the company. In 2004-05,the ratio decreased because working capital position gets decreased. More over loans disbursed by the company shows an increasing trend. This also proves a good performance

4.3 Efficiency in operation

Profit is much needed to enterprises for their existence and growth. The enterprise has to reap profit for their survival in the competing economy. For this operational efficiency is much needed. So for knowing the financial position of the company efficiency in operation has to be calculated. For this the following ratios are used

4.3.1 Interest Expenses to Interest Income ratio

4.3.2 Net Profit to Working capital Ratio

4.3.3 Interest Received to Loans Disbursed Ratio

4.3.4 Total Income to Working capital ratio

4.3.5 Total Expenditure to Total Income Ratio

4.3.1 Interest Expenses to Interest Income ratio

This ratio shows the extent of operational income from the operations of the enterprise. Besides the banking activities the company undertake chitty and hire purchase business. From these non-banking activities the company earns its major income. Interest expense means interest paid on deposits and interest income means interest received from loans and advances. The interest paid to interest-received ratio is computed using the formula.

Interest expense to Interest received Ratio

$$= \frac{\text{Interest Expense}}{\text{Interest Income}} \quad X\ 100$$

Interest Expense = Interest paid (and payable) on deposits

Interest Income = Interest received (and receivable) on deposits and advances.

Table 4.4 Interest expense to Interest income ratio

(Rs. In lakhs)

Year	Interest expense	Interest income	Ratio
1995-96	1698.95	1950.29	87.11
1996-97	3037.16	3124.06	97.21
1997-98	5232.82	5419.02	96.56
1998-99	8232.65	8256.83	99.70
1999-00	9216.31	10442.61	88.25
2000-01	9647.41	12789.83	75.43
2001-02	12287.98	15875.47	77.40
2002-03	13617.19	17735.31	76.78
2003-04	11923.05	18292.27	65.18
2004-05	10634.39	16761.37	63.44

Source :- Annual reports of the KSFE for various years.

From the table 4.4,t is understood that the enterprise was able to collect more interest than what is paid and the difference between these two is not extensive. The ratio shows a decreasing trend because loans and advances are more than that of deposits so naturally interest income will be more than that of interest expense. When the years passed both deposits and loans increased and ratio decreased. A decreased trend over the years indicates increase in profitability and it shows good performance of the company.

4.3.2 Net Profit to Working capital Ratio

Any analysis with respect to any managerial function will be incomplete if an attempt is not done to know the trends in the profitability, because it is the final figure which projects the financial feasibility of its operations. This ratio shows how far the company uses its working capital for profit making. Net profit to Working capital Ratio can be calculated using the formula

Net profit to Working capital Ratio

$$= \frac{\text{Net Profit}}{\text{Working Capital}} \times 100$$

Net Profit = Net profit as per P&L account

Working Capital = Share capital + Reserves + Deposits

Table 4.5 Net profit to Working capital ratio

(Rs in lakhs)

Year	Net profit	Working capital	Ratio
1995-96	12.34	16645.75	0.07
1996-97	50.67	25206.41	0.20
1997-98	111.35	40547.81	0.27
1998-99	91.74	60197.17	0.15
1999-00	105.44	67891.87	0.15
2000-01	811.04	79505.47	1.02
2001-02	1233.56	111308.03	1.10
2002-03	1342.52	130113.86	1.03
2003-04	1728.81	129988.54	1.32
2004-05	1946.66	124451.24	1.56

Source :- Annual reports of the KSFE

Table 4.5 shows percentage of net profit to working capital, which reveals an increasing trend. From the table it is clear that from 1995-2000 the ratio is less than one. This is because of the inefficiency of the company in its operation. But after 2000 the company expands its area of operations and business volume. So the ratio increases and reaches above one and increased in the later years. This is a good indication of the performance of the company.

4.3.3 Interest Received to Loan Disbursed Ratio

This ratio reflects the average interest received by the company from its loaning operations. Higher the ratio, lower will be the profitability and it is not favourable. The formula for Interest received to loan-disbursed ratio is

Interest Received to Loan Disbursed Ratio

$$= \frac{\text{Interest received}}{\text{Loan Disbursed}} \times 100$$

Interest Received = Interest received (receivable) on loans and advances

Loans Disbursed = Loans and advances

Table 4.6 Interest Received to Loans Disbursed Ratio

(Rs in lakhs)

Year	Interest Received	Loans Disbursed	Ratio
1995-96	1950.29	41790.46	4.66
1996-97	3124.06	59815.81	5.22
1997-98	5419.02	92465.34	5.86
1998-99	8256.83	126537.86	6.53
1999-00	10442.61	147439.79	7.08
2000-01	12789.83	178974.84	7.15
2001-02	15875.47	201763.13	7.87
2002-03	16761.37	207244.76	8.08
2003-04	17735.31	208824.12	8.49
2004-05	18292.27	210955.44	8.67

Source :- Annual reports of the KSFE for various years

From the table 4.6 it is known the ratio is in increasing trend and it is due to increase in loans and advances. When the years passed the company introduce new loan scheme and increase the interest charged on loans. So the ratio increases.

4.3.4 Total Income to Working Capital Ratio

The total income to working capital ratio measures the income earning capacity of the company with regard to its working capital. This ratio shows how far the company uses its working capital. The ratio is calculated with the formula

$$\text{Total income to Working Capital ratio} = \frac{\text{Total Income}}{\text{Working Capital}} \times 100$$

Total income = Interest income +Foreman's commission +Agricultural income etc

Working capital = Share capital + Deposits + Reserves

Table 4.7 Total Income to Working capital Ratio

(Rs in lakhs)

Year	Total Income	Working capital	Ratio
1995-96	4679.10	16645.75	28.11
1996-97	6594.54	25206.41	26.16
1997-98	9876.49	40547.81	24.36
1998-99	13810.59	60197.17	22.94
1999-00	17005.39	67891.87	25.05
2000-01	20491.21	79505.47	25.77
2001-02	25329.70	111308.03	22.76
2002-03	27696.22	130113.86	21.29
2003-04	28292.15	129988.54	21.76
2004-05	26587.12	124451.24	21.36

Source :-Annual reports of KSFE Ltd.

The Table 4.7shows the ratios are in the decreasing trend. This is because income from working capital gets decreased and the company's income from other businesses like chitty, hire purchase etc gets increased. So the company's dependency on working capital gets reduced and it is a good indication of the performance of the company

4.3.5 Total Expenditure to Total Income Ratio

Total income to total expenditure ratio shows the proportion of total income to total income. This is a good indicator of the position of income and expenditure of the company. Higher percentage means expenditure is more than income and it is not good for a company. The ratio is calculated with the formula

Total Expenditure to Total Income Ratio

$$= \frac{\text{Total Expenditure}}{\text{Total Income}} \times 100$$

Table 4.8 Total Expenditure to Total Income Ratio

(Rs in Lakhs)

Year	Total Expenditure	Total Income	Ratio
1995-96	4254.81	4679.10	90.93
1996-97	6132.93	6594.54	93.00
1997-98	9510.92	9876.49	96.29
1998-99	13400.91	13810.59	97.03
1999-00	16213.24	17006.39	95.33
2000-01	18152.94	20491.21	88.58
2001-02	22482.81	25329.70	88.76
2002-03	23864.54	27696.22	86.16
2003-04	24082.65	28292.15	85.12
2004-05	22216.93	26587.12	83.56

Source:-Annual reports of KSFE Ltd

When the ratio is greater than 100 it means that expenditure is more than income and the company runs in losses. But here it is less than 100%and the company is in profit. In the table 4.8it is clear that the company runs in profit. Higher ratio is not good for the company. During the initial years the ratio is more but it does not mean that the company runs in loss, but the amount of profit is low. But later because of efficient management and functioning the company reduces the ratio. Now the company tries to reduce its cost and earns more income from business activities.

The financial performance analysis is done with the help of 8 different ratios. The ratios are calculated to check the efficiency in mobilization, efficiency in deployment and efficiency in operation. The analysis revealed that the enterprise is in a favourable position with all the above aspects. From the analysis it is clear that the first 5 years the company's performance was comparatively poor. But after 2000 the company introduce new business policy and after that the company's performance become better.

SUMMARY OF FINDINGS AND CONCLUSIONS

CHAPTER – 5

SUMMARY OF FINDINGS AND CONCLUSION

As the economy grows the financial system develops and financial institutions like Kerala State Financial Enterprises Ltd. emerge and develop to perform the functions of transferring funds from savers to the investors and perform for the development of the Kerala economy. From the chit company to big financial institution, the KSFE is a success story. The company attained much progress and it had made strategical tie-ups with many big institutions.

The parameters used for analyzing the growth of the company are

1. Branches
2. Employees
3. Share Capital
4. Reserves
5. Loans & Advances
6. Deposits
7. Income & Expenditure
8. Pay to State Government
9. Profit

The analysis of financial Statements was done with the help of the following ratios.

1. Borrowed fund to Working Capital Ratio
2. Credit to Deposit Ratio

3. Credit to Working Capital Ratio
4. Interest Expenses to Interest Income Ratio
5. Interest Received to Loans Disbursed Ratio
6. Total Income to Working Capital Ratio
7. Total Expenditure to Total Income Ratio
8. Net Profit to Working Capital Ratio

5.1 Finding of the Study

1. Within ten years of history the branch network of KSFE had increased from 173 to 250.
2. The employees of KSFE had increased from 2041 to 3432
3. The paid up share capital had increased from Rs. 300 lakhs to Rs. 1000 lakhs in 2004 – 05
4. Reserves had increased from Rs. 245.75 lakhs and reached to Rs 6871.24 lakhs in the year 2005-06.This is because of increase in profit.
5. Loans and advances were increased from Rs. 417.90 crore to Rs. 2109.55 crore in the year 2005-06.This is because of introduction of new business policy.
6. The deposits of the company had increased around 7 times in the year 2004-05 compared to 1995-96.This is because the company introduce different deposit schemes.
7. Income in the year 1995-96 was Rs 2530.73 lakhs and it increased to Rs. 23864.54 lakhs during 2005-06.This is because of increase in business turnover. Expenditure in the year 1995-96 was 2422.66 lakhs and it increased to 23864.54 lakhs in the year 2004-05.This is mainly because of increase in salary and administration expenses.
8. Payment to State Government was Rs. 485.64 lakhs in the year 1995-96 and it increased to Rs. 3241 lakhs in the year 2004-05.Since deposits and business turnover increased the amount increased.

9. Profit of the company, was in tremendous growth. It increased from Rs. 101.05 lakhs and reached to Rs. 4324.78 lakhs. This is because of increase in business turnover.

10. In the case of borrowed fund to working capital ratio, borrowed fund constitute a major position of the working capital of the company The ratio shows a decreasing trend, because when the years passed the company decrease the proportion of borrowed fund in the working capital.

11. Credit to Working capital ratio shows the extent of credit out of its working capital. The ratio shows a decreasing trend. Because the utilization of working capital for credit purposes get decreased and it is used for some other productive purposes.

12. Credit to Deposit Ratio is favourable for the company. It shows greater efficiency in converting deposits into credit. The ratio changes show a decreasing trend. The ratio reveals the quantum of credit given from every hundred rupees available. Since it is greater than100 percent the company is efficient in the deployment of funds.

13. Interest Expenses to Interest Income Ratio shows the extent of operational income from the operations of the enterprise. The ratio shows a decreasing trend, because loans and advances are more than that of deposits so naturally interest income will be more than that of interest expense. This shows increase in profitability and it shows good performance of the company.

14. Net profit to Working capital ratio reveals the percentage of net profit to working capital, which is in increasing trend. That means the company use more of its working capital for profit making.

15. Interest received to Loan disbursed ratio reveals the average interest received by the company from its loaning operations. Higher the ratio shows higher profitability of the company and it is favourable for the company. The ratio shows an increasing trend because the company increases their loan mix and increases the interest on loans.

16. Total Income to Working capital ratio measures the income earning capacity of the company with regard to its working capital and ratios are in the

decreasing trend. This is because income from working capital gets decreased and the company's income from other businesses like chitty, hire purchase etc gets increased. So the company's dependency on working capital gets reduced and it is a good indication of the performance of the company.

17. Total Expenditure to Total Income ratio measures the proportion of the total expenditure to total income. Since the ratio is less than 100 percent it indicates profit. But the thing is that the difference is comparatively low. But after 2000 the company improve its position

As per the financial analysis done it can be concluded that The Kerala State Financial Enterprises Ltd is one of the ever-growing Non-banking financial company. From the 10 years data it can be known that the company is in a fast track and within a few years it can build up its own position in the Kerala economy and can fulfill all the objectives effectively.

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FINANCIAL PERFORMANCE ANALYSIS OF THE KERAL STATE FINANCIAL ENTERPRISES LTD

By
DIVYA SASI
(2002-05-02)

ABSTRACT OF THE PROJECT REPORT

Submitted in the partial fulfillment of the requirement for the degree of

BACHELOR OF SCIENCE IN CO-OPERATION & BANKING
FACULTY OF AGRICULTURE

COLLEGE OF CO-OPERATION BANKING AND MANAGEMENT
KERALA AGRICULTURAL UNIVERSITY
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ABSTRACT

The study entitled "The financial performance evaluation of The Kerala State Financial Enterprises LTD" was conducted to assess the performance of KSFE in terms of growth of business and financial strength.

The study was completely based on the secondary data. Major sources of data are annual reports and other documents from the head office of the KSFE. The study was concentrated on growth and financial performance of the KSFE for a period of 10 years. Analytical tools used in the analysis are ratios and indices.

The study revealed that the company is efficient in mobilization of savings deployment of funds and efficient in operation. More over the company is in a fast tract and reaping huge profit and expanding year after year. It had never faced the problem of loss for the last 3 decades. Now it is grown up in to one of the biggest Non-banking financing company in Kerala.