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**A POST- SANCTION ANALYSIS OF TERM LOAN FUNDING AT
SOUTH INDIAN BANK LTD, COIMBATORE**

By

DIVYA.M

Reg. No: 71205631014

Of

Department of Management Studies
Kumaraguru College of Technology
Coimbatore

A PROJECT REPORT

Submitted to the

FACULTY OF MANAGEMENT SCIENCES

In partial fulfillment of the requirements
for the award of the degree

Of

MASTER OF BUSINESS ADMINISTRATION

June 2007

BONAFIDE CERTIFICATE



**DEPARTMENT OF MANAGEMENT STUDIES
KUMARAGURU COLLEGE OF TECHNOLOGY
COIMBATORE**

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Certified that this project titled "A POST- SANCTION ANALYSIS OF TERM
LOAN FUNDING AT SOUTH INDIAN BANK LIMITED, COIMBATORE"
is a bonafide work of DIVYA.M (71205631014) who carried out this research
under my supervision. Certified further that to the best of my knowledge the work
reported herein does not form part of any other project report or dissertation on the
basis of which a degree or award was conferred on a earlier occasion on this or any
other candidate.

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Evaluated and Viva-voce conducted on 03.07.2007

EXAMINER I

EXAMINER II

DECLARATION



**DEPARTMENT OF MANAGEMENT STUDIES
KUMARAGURU COLLEGE OF TECHNOLOGY
COIMBATORE**

DECLARATION

I hereby declare that the project work entitled “A POST-SANCTION ANALYSIS OF TERM LOAN FUNDING BY SOUTH INDIAN BANK” with special reference to South Indian Bank, Coimbatore, submitted to Anna University in the partial fulfillment of the award of the degree of the Master of Business Administration, is a record of original research submitted by me under the guidance of Mr. A. Senthil Kumar during the period of study in KCT business school, Coimbatore.

I also declare that this project is the report of my own effort and has not been submitted to any other university or institution for the award of any degree or diploma.

DIVYA. M

Place : Coimbatore

Date : 03.07.2007

(Reg No: 71205631014)

CERTIFICATE

Administrative Office : "SIB House", Mission Quarters, P. B. No. 28, Thrissur - 680 001, Kerala, India.
Telephone : 2420020 (7 lines), 2424101 (4 lines). Telex : 0887-203, Fax : 0487-2442021
website : <http://www.southindianbank.com>

PERSONNEL

PER:DS:G: 49 :2007-08

30.04.2007

TO WHOMSOEVER IT MAY CONCERN

Certified that Ms. Divya M., MBA student of KCT Business School, Coimbatore has undergone the project work on the topic "**A Post Sanctioned Analysis of Term Loan Funding at South Indian Bank**" at the Coimbatore Saibaba Colony Branch of the Bank for the period from 18.01.2007 to 20.04.2007.

Ms. Divya M., has evinced keen interest in her assignment and the exposure she had in the Project Work shall stand her in good stead in her future career.


SENIOR MANAGER
PERSONNEL/



EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Uncertainty is the only certainty in today's business world. It is just like sports. 'Yesterday' remains only in records. You are judged by your today's performance. In this marathon race towards more and more profit, many gigantic companies are perishing on a daily basis. Many smaller companies are making unexpected gains.

Cash is the lifeblood of any business and most businesses need some financial help to get started, grow and develop. Finance for business comes in three different forms, which are equity, grants and bank finance. Before approaching the bank, first investigate the other forms of finance i.e. grants and financial supports that are available to you. Once we have organized either a grant and/or equity, we are more likely to be successful with any application made to our bank.

As with securing funding from other sources, getting bank finance is essentially a selling exercise that we need to sell the business idea to the bank. Banks will assess the levels of risk of our proposal and need to satisfy themselves that the potential rewards match the risk ultimately, does the proposed business venture have the capacity to repay the debt.

Hence a study was conducted to appraise the term loan funding practices of South Indian Bank Ltd, Saibaba Colony Branch Coimbatore. A detailed study was carried to understand the banking industry scenario. The internal functioning of the organization was also studied to understand the funding mechanism. The study adopted the case- study type of research, where eight of the already sanctioned term loan proposals representing different industries were taken as cases for study. The objective was to ensure whether the loan funding process of South Indian Bank is in line with the RBI guidelines or not. In addition, the projected financials of the eight proposals for a duration of 5 years enabled the researcher to deploy the tools like Ratio analysis, Maximum permissible bank finance and Du Pont control chart to understand the financial viability of the loan proposals. The solvency position of the proposals as a test for withstanding the future uncertainty is analyzed through the Multi-Discriminant Model called the Zeta Score Model.

The study provided insights for the researcher to interpret from the above said analyses. It was found that the South Indian Bank is duly adhering to the banking regulation norms in funding of the term loans. Seven out of eight proposals were found to be financially sound and were viable enough to be funded. Only one proposal was found in the grey area owing to their assets composition and suggestions were made for the same to make good of the grey area.

In the holistic perspective, the study helped the researcher to understand the rationale with which a banking organization tends to fund the term loan proposals. It also helped to locate the grey area in their rationale, where the bank has to put caution on.

ACKNOWLEDGEMENT

ACKNOWLEDGEMENT

“The foundation of every state is the education of the youth”. Learning is a continuous process. The deeper it is dug the better the request of knowledge would be! Excellence and fluency in any subject is the result of hard work and sincerity. Successful completion of any project involves dedication, determination and selfless support of many good souls.

It has been said that gratitude is the memory of the heart. Hence I take this opportunity to express my gratitude to all those, whose contributions in this project work, can never be forgotten. I am greatly indebted to many scholars for their valuable guidance and meticulous planning in bringing this project creditably.

I have big list of people who deserve to be thanked. First let me thank my family members and friends, it is their blessings and motivation that prompted me to undertake this venture.

I express my heartfelt thanks to our **Management and The Principal** for providing opportunity for me to take up my educational career in this premier institution.

I express my heartfelt thanks to **Prof. S. Ganesan**, our director who has been a bastion of moral strength and soul of incessant encouragement to us.

Mr. A. Senthil Kumar, my Faculty guide needs to be thanked in a very special way. His wholehearted support and guidance stood with me thick and thin right through in my endeavor. I also thank other staffs of our department.

I am greatly indebted to offer my thanks to **Mr. A.P. Varghese**, Senior Manager- South Indian Bank Ltd. (Saibaba Colony branch) for being magnanimous to grant me permission to carry out my project work in this esteemed concern.

I am indeed thankful to all the staffs at South Indian Bank Ltd. (Saibaba Colony branch) for spending their valuable time and helping me a lot and providing me valuable information.

Above all I thank the **Almighty** for giving me good strength and power to complete this project successfully. I affirm my renewed thanks to everyone who in one way or the other helped me to complete this project. I deeply acknowledge every service with gratitude.

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INTRODUCTION

CHAPTER –1

INTRODUCTION

Cash is the lifeblood of any business and most businesses need some financial help to get started, grow and develop. Finance for business comes in three different forms equity, grants and bank finance. Before approaching the bank, first investigate the other forms of finance grants and financial supports available to you. Once you have organized either a grant and/or equity, you are more likely to be successful with any application to your bank.

As with securing funding from other sources, getting bank finance is essentially a selling exercise you need to sell the concept of your business idea to the bank. Banks will assess the levels of risk of your proposal and need to satisfy themselves that the potential rewards match the risk ultimately, does your proposed business venture have the capacity to repay the debt.

Different types of bank finance

1. Working capital finance - short term

a. Overdraft:

- Supported by all features of a business current account
- A flexible source of short term working capital finance
- No fixed repayment schedule

b. Invoice Discounting:

- Confidential debt-financing facility
- Helps businesses overcome cash flow problems caused by overdue invoices, giving immediate access to up to 80% of invoiced debt.
- Repaid as debts are received

2. Capital finance - short to medium term

a. Term Loans:

- Fixed or variable interest rates
- Monthly repayments over a period of one to seven years

b. Bridging Finance:

- Finance to fund businesses awaiting grant cheque or draw down of approved commercial mortgages or loan agreements.

c. Finance & Leasing Options:

- Finance to spread the cost of insurance, corporation tax or other annual payments.
- Equipment or Transport finance-allow repayments against your taxable profits.
- Hire Purchase-for the use of asset purchase
- Repayment over five years or life of time asset

3. Capital finance - long term

a. Commercial Mort-gage :

- Long term finance for the purchase of a business premises, refinancing an existing property or the purchase of investment property.
- Three types - straightforward repayment, commercial endowment or a pension mortgage.
- Repayment over 15 years

b. Fixed Asset Loan:

- 10 year fixed loan for fixed assets such as property, plant or machinery and pay for them over the period of their useful life.
- Option to postpone capital repayments for up to two years, where appropriate.

c. Specialist:

- Banks will provide a range of specialist products & services to fund expansion or merger / acquisition plans.

Types of loan proposals

1. Term loans

These loans are sanctioned for acquisition of fixed assets like land, building, plant and machinery, office equipment, furniture and fixtures, electrification, power installation, erection and installation of machinery, to meet the cost incurred on the insurance, transportation, octroi, packaging of machinery, technical know-how and engineering consultancy, preliminary and pre operative expenses, etc. such loans are normally repayable in a fixed period of time say 5 to 10 years, depending on the profit generation capacity of the unit.

Purpose:

The term loans are required for

1. Setting up a new unit
2. Expansion, modernization and diversification of balancing equipment and renovation of machines incase of existing unit.
3. In the later case, to improve profitability by increasing productivity, improving quality and reducing cost.

2. Working capital loan

These loans are sanctioned to finance current assets like raw material, stores/spares, stock-in-process, finished goods, credit sales and for meeting day to day expenses. Such loans are basically self liquidating in nature, and are not repayable like term loans.

1.1 BACKGROUND:

In terms of financial stability, monitoring banks funding structure and dynamics is vital from the aspect of banks' liquidity risk assessment. Data on banks' primary funding sources enable to assess access to funding and thus liquidity risk as well. On the other hand, in order to assess related risks it is necessary to know which assets are financed using the funds attracted. As branches of the south Indian bank are ever more active on markets, the funds attracted by banks are not only used to raise domestic loan burden but also to finance branches operating in other places. Thus the situation of SIB banking sector depends not only in one economic environment but also on banks' position in other markets.

The current background information takes a closer look at the banks' funding structure and dynamics and assesses the volume of funding to their clients. Client deposits tend to be the most stable and favorable form of funding for banks and therefore deposits usually have the largest share in banks' liabilities. Growth of financing has been exceeding that of deposits since early 2002 and therefore institutional borrowing (deposits and loans, issued securities and subordinated liabilities included from other banks) plays a more important role.

On assessing the various purposes for which the term loan proposals are considered, it's worthwhile to discuss the basic approach that is adopted by the banker while sanctioning such loans. A banker always insists on a detailed project report to study whether the project is technically feasible and economically viable. It emphasizes that the promoter is not the one who repays the term loans, but it is the project which should generate enough surplus to repay the loans in the reasonable period of time of 5 to 7 years. The approach is based on the assumption that the

repayment of the loan is not to be judged from the value of the fixed assets to be charged but from the flow of anticipated income which is dependent, in turn on the hard work and honesty of the promoters.

1.2 REVIEW OF LITERATURE

An evaluation made by a banker or any other lender as to the ability of someone who wishes to receive credit to meet his obligations and to return the desired credit in due time. Creditworthiness is assessed both in terms of outside and that the person seeking credit can obtain such guarantors, collateral, property he owns etc, and the person's character that is his record regarding loans in the past, the way he enters into transactions his ongoing income and anticipation income his standard of living etc. An estimate of credit worthiness must also take into account the general conditions in the economy and the forecasts for the period of loan. With retail credit the way forward, the credit score of a borrower will assign a value to his credit worthiness. Banks will soon be relying on credit scores to assess customers

Under RBI regulations, banks and financial institutions have been instructed to facilitate submission of all borrowal accounts to bureau of compilation of credit information. This data will soon be accessible to member banks to improve the quality of credit appraisals and decisions. Parameters like previous record of loan repayments, default rates, payment delays and outstanding loans, among others. Punctuality of past payments, amount of debt expressed as ratio of current revolving debt to total credit limit, length of credit history, types of credit used, amount of credit obtained recently are some of the parameters used globally. Lenders can evaluate potential risk and mitigate chances of accruing bad debt. For borrowers, a good credit score will guarantee qualification for a loan, cheaper interest rates and enhancing credit limits on their own terms. So each customer will have credit risk attached to the credit score.

- In the paper “When Character Trumps a Score in Loan Underwriting”¹ Bill Stone man² explains how a small-business owners' character can affect how lenders at community banks see their credit-worthiness. According to the author, when a small-business owner looking for a loan doesn't have the kind of financial records lenders would like to see, they rely on character. Large banks, however, rely on automated analytical tools from third-party data sources. The author goes on to present banks that feel character is an efficient way to judge and some that don't.
- Moshe Kim³, Eirik Gaard Kristiansen⁴ and Bent Vale⁵ in their article “Endogenous product differentiation in credit markets: What do borrowers pay for”⁶ studies strategies pursued by banks in order to differentiate their services and soften competition. More specifically they analyze whether bank's ability to avoid losses, its capital ratio, or bank size can be used as strategic variables to make banks different and increase the interest rates banks can charge their borrowers in equilibrium. Using a panel of data covering Norwegian banks between 1993 and 1998 we find empirical support that the ability to avoid losses, measured by the ratio of loss provisions, may act as such a strategic variable. A likely interpretation is that borrowers use high-quality low-loss banks to signal their credit-worthiness to other stakeholders. This supports the hypothesis that high-quality banks serve as certifiers for their borrowers. Furthermore, this suggests that not only lenders and supervisors but also borrowers may discipline banks to avoid losses.
- Sebastian Edwards from Department of Economics, University of California, Los Angeles in his paper “LDC Foreign Borrowing and Default Risk: An Empirical Investigation, 1976-80”⁷ investigates to what extent the international financial community has taken into account the risk characteristics of less developed

¹ Title: When Character Trumps a Score in Loan Underwriting. Author: Stone man, Bill. Source: American Banker; 4/3/2007, Vol. 172 Issue 64, special section p10-12, 3p

² Mr. Stone man is a freelance writer in Albany, N.Y.

³ Department of Economics, University of Haifa, Mount Carmel, Haifa 31905, Israel.

⁴ Norwegian School of Economics and Business Administration, Helleveien 30, N-5045 Bergen, Norway.

⁵ Norges Bank (The Central Bank of Norway), C51, Box 1179, Sentrum, N-0107 Oslo, Norway.

⁶ Source: Journal of Banking & Finance; Mar2005, Vol. 29 Issue 3, p681-699, 19p

⁷ S

countries (LDCs) when granting loans. Specifically, this study analyzes the determinants of the spread between the interest rate charged to a particular country and the London Inter-bank Borrowing Rate. The recent foreign debt crisis faced by some LDCs has generated concern among economists, bankers and politicians. In particular, the ability of the international banks to distinguish between "good" and "bad" risks has been questioned. It has even been suggested that the inability to restrict credit to countries with low "credit worthiness" has resulted in the overextension of some major banks and that, as a consequence, this has increased the probability of a global international financial collapse. The empirical analysis of the determinants of the default risk premium is important for several reasons. An understanding of the factors that influence lending behavior is useful for borrowing countries.

- In the article "The Credit Effects of Monetary Policy: Evidence Using Loan Commitments"⁸, Donald.P.Morgan⁹ tests for these credit effects using a contractual difference across commercial bank loans. Author finds that bank loans not made under a commitment slow after tight policy, while loans under commitment accelerate or are unchanged. This divergence coincides with reports of tighter credit by lenders, and by small firms, suggesting the divergence reflects a reduction in the supply of credit to the firms without commitments, rather than a reduction in their demand for loans. In addition to the usual channels, monetary policy may affect spending by changing the supply of bank loans and the credit worthiness of borrowers.
- In the paper "The Truth behind the Magic: The Secrets of Using Consumer and Commercial Credit Information in Targeting Small Business Risk"¹⁰ the author Dan Meder¹¹ focuses on the secrets of using consumer and commercial credit information. Accurately determining the credit worthiness of a small business can be difficult, and in years past some systems purporting to do so seem about as reliable as a Magic 8 ball. The best view on judging the creditworthiness of a

⁸ Source: Journal of Money, Credit & Banking; Feb98, Vol. 30 Issue 1, p102-118, 17p, 2 charts, 10 graphs

⁹ Author affiliation: Economist, research department, Federal Reserve Bank of New York.

¹⁰ Source: Business Credit; Jun2005, Vol. 107 Issue 6, p44-45, 2p

small business comes from a sophisticated melding of personal credit information of business owners along with credit information on the business itself. A small business credit score is more difficult to obtain and more dynamic than a consumer risk score, but it has proven value.

- “Politics and Perceived Country Creditworthiness in International Banking”¹² by Thomas Brewer and Rivoli Pietra ¹³presents an analysis of the role of political instability on country creditworthiness in the international banking. It also presents the effects of creditworthiness perception on the supply and cost of capital flows and quantitative indicators of the three types of political instability. The purpose of this article is to test for the effects of political instability on perceived country credit worthiness. The determinants of credit worthiness perceptions are of central importance because these perceptions affect both the supply and cost of capital flows to developing countries. Empirical analyses of the role of political instability in country creditworthiness have been retarded partly because of a failure to recognize that different types of country instability can be quantified. A large negative trade balance means that either more borrowing or the sale of assets will be required for debt service to be sustained. Political scientists have long known that political institutions and political conditions strongly influence economic growth and development, and that political instability in particular is associated with lower rates of economic growth.
- “Knowing the score” by James. C. Lawson¹⁴, Focuses on the use of credit scoring in evaluating the credit worthiness and businesses and their principals. Hibernia Corp.'s employment of a fully automated credit evaluation program through a partnership with Appro Systems Inc. and Fair, Isaac & Co.; Enabling of banks to process loans faster; On Bancorp Inc.'s use of the Fair Isaac model and design of a loan application package.

¹² Source Journal of Money, Credit & Banking; Aug90, Vol. 22 Issue 3, p357-369, 13p, 3 charts

¹³ Associate Professors, Georgetown University School of Business Administration.

¹⁴ Source: U.S. Banker; Nov95, Vol. 105 Issue 11, p61, 3p, 1c

1.3 OBJECTIVES

The main objective of this study is to make the post – sanction analysis of the term loan funding by the SIB and the sub objectives are

- i.To analyze the financial projections of the applicants.
- ii.To identify the solvency position of the applicants by applying Edward Altman’s Zeta Score Model.
- iii.To Asses the rationality of the funding mechanism of SIB.

1.4 STATEMENT OF THE PROBLEM

Loan funding is a routine part of any bank’s product portfolio. Though the bank may adhere to the Banking Regulations in funding the proposals, still there lies a question of the financial viability all through the stages. Hence the rationality with which a bank sanction the loan proposals and the financial ramifications that sets across the applicants financial projections is chosen as a research problem to be studied up on.

1.5 SCOPE OF THE STUDY

- ✓ The study is set to the boundaries of the statement of the south Indian bank and the proposals provided by the applicants on requisition for funds which also provides reference to the people who are in need of the particular proposal.
- ✓ The appraisal of the term loan is done on four categories like financial feasibility, technical feasibility, economic feasibility, and managerial competence.
- ✓ Debt service gross coverage ratio is calculated to ensure that the firm would at least pay the back interest on term loan even in the event of cash losses.

1.6 METHODOLOGY

1.6.1 Type of study:

The type of study followed is the case study research approach. 8 cases of term loan proposals are being analyzed.

1.6.2 Method of Data collection

The data collection is mainly from the secondary sources such as proposals, newspapers, journals, articles and various references books and published manuals of the company, which are usually in the shape of finished products. Collection of secondary data has the advantage of being less expensive and less time consuming. Research bulletins and journals will also be used to collect data, which are helpful to get an idea about the extra ordinary changes which are helpful to get an idea about the extra ordinary changes, which have crept upon the business world. Discussion with the managerial personnel's and officials in an unstructured manner will also be conducted to clarify the collected data.

1.6.3 Tools and techniques:

Tools and techniques involved various accounting techniques and statistical tools like percentage and ratios, which is used as a device to analyze and interpret the solvency of the firm, as it is one of the most powerful tool of financial analysis, and graphs and bar diagrams as it helps in presenting qualitative facts in simple, clear and effective pictures and are also attractive and create lasting impression. Z score model is also used to assess the chances of a business of becoming insolvent by the use of a weighted sum of financial ratios.

"Z" score analysis has been established by Edward I. Altman (1968) to evaluate the general trend in the financial health of an enterprise over a period. Many of the individual accounting ratios used frequently to predict the financial performance of an enterprise might only provide warnings when it is too late to take a corrective action. Further single ratio does not convey much of the

sense. There is no internationally accepted standard for financial ratios against which the results can be compared. Therefore, Edwin I Altman combined a number of accounting ratios (liquidity, leverage, activity and profitability) to form an index of the probability, which was effective indicator of corporate performance in predicting bankruptcy. In this direction a variety of studies have been conducted, over the period by applying Multiple Discriminant Analysis (MDA) to predict the corporate failure, by financial analysts like Altman.

Return on equity (ROE) is one of the most important indicators of a firm's profitability and potential growth. Companies that boast a high return on equity with little or no debt are able to grow without large capital expenditures, allowing the owners of the business to withdrawal cash and reinvest it elsewhere. Many investors fail to realize, however, that two companies can have the same return on equity, yet one can be a much better business. For that reason, according to CFO Magazine, a finance executive at E.I. Du Pont de Nemours and Co., of Wilmington, Delaware, created the DuPont system of financial analysis in 1919.

1.7 LIMITATIONS

1. The main source of data is the financial proposal, which itself suffers the following limitations:
 - a. Ignoring qualitative aspects of business.
 - b. Subject to the policies and practices followed by the concern
 - c. Possibility of window dressing
 - d. Ignorance of price level changes
2. The analysis is mainly through ratio analysis. Since there are no standard norms for all ratios, there are certain assumption modes.
3. As the study is mainly based on the secondary data, the limitations of the secondary data have an impact on the study result.
4. Another constraint is that all the financial proposals are influenced by the personal judgments; the reliability of the judgment depends upon the competence and integrity of the persons who makes these statements.
5. Cases are selected at random.

1.8 CHAPTER SCHEME

1. The first chapter deals with introduction about the bank finance, funding by the banks, scope and objectives of the study, methodology, tools and techniques used and the limitations of the study.
2. Second chapter deals with the organizational profile of SOUTH INDIAN BANK.
3. The prevailing economic scenario with respect to the banking industry is projected in the third chapter.
4. The most important chapter is the fourth chapter, which deals with the analysis and interpretations.
5. Fifth chapter consists of findings, suggestions and conclusion. It also deals with the recommendations to the concerned authorities.

ORGANIZATIONAL PROFILE

CHAPTER – 2

ORGANISATIONAL PROFILE

2.1 HISTORY OF THE ORGANISATION

The Bank was incorporated on January 25, 1929, under the Companies Act 1913 by a group of prominent enterprising citizens of Thrissur Town in Kerala, and became a scheduled bank in 1946. Over the years, SIB has steadily grown and now has a network of 432 branches, including 5 satellite branches, 59 Extension Counters spanning 17 states and 2 Union Territories. SIB currently has 137 ATMs with a card base of 198,622. All these ATMs both on-site and off-site, connected to the centralized Data Centre, provide 24 hours on-line facility to customers.

SIB has been following a policy of upgrading technologies, expanding and modernizing its network of branches to meet the growing demands of customer service and reach. SIB has implemented the “Finacle”, a centralized Core Banking Solution (CBS) of Infosys Technologies Limited in 276 branches and 21 Extension counters, spread all over the country. All the major centers in India have already been covered under this project. SIB has already made available Internet Banking Facility to its valued customers. It has a network of 13 NRI branches to cater to the needs of Non-resident Indians. The Foreign Exchange Department and two specialized overseas branches of SIB have ventured successfully in financing of imports, exports and also providing foreign currency loans.

SIB is the first amongst all the private sector banks in Kerala to open a Currency Chest on behalf of Reserve Bank of India. SIB now has 3 currency chests at Coimbatore, Kozhikode and Thrissur. A team of dedicated and qualified staff is managing the day-to-day affairs of SIB. In order to keep its employees abreast of the changes in banking and trade scenario, SIB regularly conducts staff Training programmes through its own staff training college. In addition SIB deputes its officers for training at Banker’s Training College, Mumbai, National Institute of Bank Management, Pune etc.

SIB successfully completed its initial public issue in October 1998, which led to increase in paid up capital to Rs. 350million and in October 2004, a rights issue of shares was completed to augment its paid up capital to Rs. 476.8 million.

The South Indian Bank, which has a tradition of over 78 years of public trust, stepped into the financial terrain of our country when the Swadeshi movement was gathering momentum. Translating the vision of the founding fathers as its corporate mission, the bank has during its 78 year long sojourn been able to present itself as a vibrant, fast growing, service oriented and trend setting financial intermediary.

1. The FIRST among the private sector banks in Kerela to become a scheduled bank in 1946 under the RBI Act.
2. The FIRST bank in the private sector in India to open a Currency Chest on behalf of the RBI in April 1992.
3. The FIRST private sector bank to open a NRI branch in November 1992.
4. The FIRST bank in the private sector to start an Industrial Finance Branch in March 1993.
5. The FIRST among the private sector banks in Kerela to open an "Overseas Branch" to cater exclusively to the export and import business in June 1993.
6. Second largest network of branches amongst the old private sector banks - 462 branches and 40 Extension Counters spread over 21 States/UT.
7. The FIRST bank in Kerela to develop in-house, fully integrated branch automation software in addition to the in-house partial automation solution operational since 1992.
8. The bank has set up the SIB Students Economic Forum designed to enkindle interest in economic affairs in the minds of our younger generation. The forum highlights one theme every month to be discussed in their monthly meeting. These theme papers have been receiving acclaim from economists, bankers, teachers and students.

2.1.1 ACHIEVEMENTS

SIB has won a special award for excellence in Banking Technology from IDRBT (Institute for Development and Research in Banking Technology) – the technical arm of the Reserve Bank of India. This award is presented to SIB as a national level recognition to the excellent contribution made in the area of Information Systems Security Policies and Procedures. SIB have bagged this award by tightly competing with all categories of banks in India such as Public Sector Banks, Private Sector Banks, Foreign Banks and Co-operative Banks.

2.1.2 SCHEMES OF SIB

Sibertech

SIB Privilege card

SIB Premium

Sibernet Retail

Sibernet Corporate

SIB Card

SIB Flexi Loan

SIB Mobile Service

Mutual Fund

Insurance

SIB Fast Money

DEMAT service

2.2 MANAGEMENT

2.2.1 BOARD OF DIRECTORS

1. *Dr. V. A. JOSEPH (CHAIRMAN)* was the Executive Director of the Bank, and took charge as Chairman and CEO of the Bank, with effect from June 5, 2005.
2. *Shri. MOHAN ALAPATT* is the co-opted Director to the Board of the Bank on April 30, 1999.
3. *Shri. G. A. SHENAI* is the co- opted Director of the bank.
4. *Dr. JOHN JOSEPH* is the co-opted Director of the bank
5. *Shri. JOHN P. CHAKOLA* is the co- opted Director of the bank
6. *Shri. A.S. NARAYANAMOORTHY* is the co- opted Director of the bank
7. *Shri. DAVY K. MANAVALAN* is the additional Director of the bank
8. *Dr. C.J. JOSE* is the additional Director of the bank
9. *Shri. JOSE ALAPATT* is the additional Director of the bank

2.2.2 COMMITTEES OF THE BOARD

- a) C.R.I.A. - Committee to Review Irregular Advances
- b) R.M.C.B. - Risk Management Committee of Board
- c) C.R.L.V.F. - Committee to Review Large Value Frauds
- d) C.S.C.B. - Customer Service Committee of Board
- e) S.I.G.C. - Share holders/Investors Grievance Committee
- f) A.C.B. - Audit Committee of Board
- g) N.C.B. - Nomination Committee of Board

2.2.3 SHARE HOLDINGS OF THE DIRECTORS

S.no	Name of the Director	No. of Shares held
1	Dr. V. A. Joseph (Chairman)	6,000
2	Sri. Mohan Alapatt	2,000
3	Sri. G. A. Shenai	33
4	Dr. John Joseph	17,433
5	Sri. John. P. Chakola	10,000
6	Sri. A. S. Narayanamoorthy	893
7	Sri. Davy. K. Manavalan	430
8	Dr. C. J. Jose	250
9	Sri. Jose Alapatt	6,100

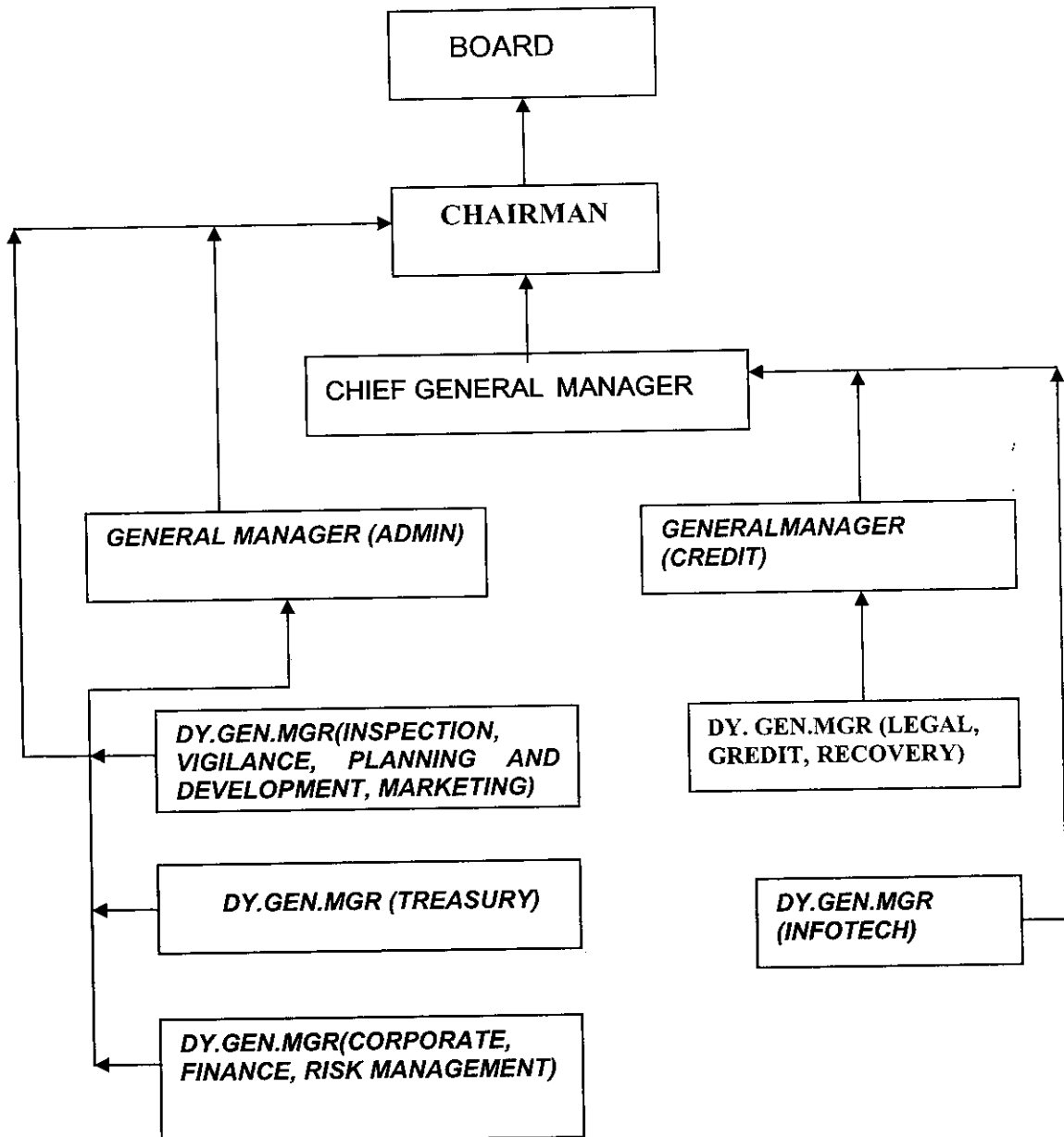
2.2.4 PROMOTERS

There are no identifiable promoters for the Bank.

2.2.5 ASSOCIATES

SIB does not have any associate companies or entities.

2.3 ORGANISATION STRUCTURE OF SOUTH INDIAN BANK LTD



2.4 PRODUCT PROFILE AND MARKET POTENTIAL

SIB is one of the leading scheduled commercial banks in India having its Head Office at Thrissur, Kerala with a strong focus on technology and service culture. SIB has a Pan India presence with 432 branches as on September 30, 2005, spreading across 17 states and 2 Union territories. SIB has strong presence in Southern India.

SIB made a net profit of Rs. 139.4 million for the half year ended September 30, 2005. SIB had assets of Rs. 92,321.7 million and net worth of Rs. 4,506.9 million during the same period. Our deposits and net advances recorded a Compound Annual Growth rate of (CAGR) of 13.12 % and 20.44% respectively, during the period from March 31, 2001 to September 30, 2005.

SIB delivers their products and services through a variety of channels ranging from their extensive branch network, extension counters, ATM centers, Internet banking and Mobile banking. SIB has 432 branches of which 92 are in rural, 195 in semi-urban, 81 in urban, and 64 in metropolitan centers. Out of 432 branches, 276 branches are networked.

SIB provides a range of retail banking and commercial banking products to their customers. SIB's retail-banking portfolio includes housing loans, gold loans, auto loans, educational loans, and other personal loans. SIB offer deposit services like savings, demand and time deposit to their customers. SIB have technological products like Global Debit card, Credit card, anywhere banking facility, mobile banking and internet banking to serve their customers. SIB has arrangements to distribute third party products such as life and non life insurance products.

SIB also offer various commercial banking products to our commercial and corporate customers like term loans, short term loans, cash credit, working capital finance, export credit, bill discounting, letters of credit and guarantees.

In addition, SIB have specialized products to satisfy the needs of the agricultural sector like SIB Planters choice, which offers loan to agriculturists to purchase land

services and is depository participant for CDSL. As on September 30, 2005 we have over 2,734 active depository accounts spread over 46 centers across India.

PRODUCTS AND SERVICES

2.4.1 FOR CORPORATE CUSTOMERS

1. Term loan
2. Cash Credit and Other Working Capital Facilities
3. Bill Discounting
4. Export Credits
5. Letters of Credit
6. Guarantees
7. Small Scale Industries

2.4.2 FOR RETAIL CUSTOMERS

1. Housing Finance (SIB – Home Loan)
2. Mortgage finance (SIB Mortgage Loan)
3. Trade finance (SIB – Mercantile Credit)
4. Vehicle Finance (SIB- Mobi Loan)
5. Personal Loans (SIB – Personal Loan)
6. Consumer Loans (SIB- Consumer Delight)
7. Education Loans (SIB- Vitjan Pradhan Scheme)
8. Loans against Rent Receivables (SIB – Rental Scheme)

2.4.3 FOR GOI / PSU EMPLOYEES

1. Loan for multiple purpose (SIB – Flexi Loan Scheme)
2. Loans to Nurses
3. Loans to employed women (SIB - Sthree Sakthi)
4. Loans for purchase of computer (SIBER LOAN)
5. Loans for treatment of physical disorders (SIB Lifeline)
6. Loan for subscription to share issues (SIB – Fortune)
7. Loans to meet expenses of auspicious events (SIB – Utsav)
8. Gold Loans
9. Loans for purchase / development of plantation (SIB – Planter’s Choice)
10. Loans for agricultural and allied activities (SIB- Agriflex)

2.4.4 OTHER RETAIL PRODUCTS & SERVICES

1. Credit Card
2. Debit Card
3. SIB – Cash Passport
4. SIB –Collect
5. SIB – Premium
6. SIB – Privilege
7. Agricultural Lending
 - a. SIB Kissan Credit Card
 - b. Indirect Financing
 - c. Community Support
 - d. Directed lending

2.5 COMPETITIVE STRENGTH

SIB had embarked upon a massive technology up gradation drive by introduction of a Centralized Core banking solution. For this a modern Data Center has been set up at Kochi, connecting more than 457 key branches with all the Departments at Head Office, all Regional Offices, the Treasury Dept at Mumbai and the Foreign Exchange Dept at Kochi. This robust network facilitates anywhere banking, Networked ATMs, Internet Banking, Mobile Banking, Global debit cum ATM card operations etc.

The Sibertech project was launched with a target of connecting 200 branches in two phases by March 2004. Towards this endeavor, the bank has concluded a technology partnership with M/s Infosys Technologies Ltd for Finacle, the Core Banking Solution, M/s HCL Infosystems Ltd. for Network Integration and M/s WIPRO for Data Centre set up and Maintenance. The Sibertech Project was formally launched on January 17,2001 by Sri.N.R.Narayana Murthy, Chief Mentor, Infosys Technologies Ltd in a colorful function at cochin.

The state of the art Data Center of international standards at Kochi, is the only one of its kind in the banking industry in Kerala. A number of dignitaries have visited this Data Center, including Sri.Azim.H.Premji, Chairman & Managing Director, Wipro Ltd. SIB bank has migrated more than 457 branches and 40 Extension counters to CBS covering 108 centers in 21 states, well ahead of the Schedule. In terms of business coverage, it translates into about 80 to 85 %. Leveraging on this CBS infrastructure, Bank has opened 163 on line ATMs. Further to strengthen the ATM reach and global acceptability Bank has introduced Master Card Global Debit- cum- ATM card, which can be used at ATMs and merchandise all over the world. Bank has also launched Internet Banking facility, primarily focusing the NRI customers as well as corporate clients.

The Bank has also introduced Mobile banking for customers as a value addition. The aim of the Bank is to offer the latest technology driven value added services to the customers.

2.5.1 SIB STUDENTS ECONOMIC FORUM

A well-informed customer will make the policy makers as well as organizations, which produce goods and services more responsive to the customer needs. This will also result in healthy competition among organizations and improve the quality of goods and services produced. The "SIB Students Economic Forum" is designed to kindle interest in economic affairs in the minds of our younger generation. We highlight one theme in every monthly meeting of the "SIB Students' Economic Forum"

2.5.2 CORE BANKING SYSTEM

Core Banking system is the sum total of all the information technology components that enable a bank to manage its core business activities in a centralised model. The core banking activities include round the clock processing of all the products, services and information of a bank.

2.5.3 RTGS FOR CUSTOMER TRANSACTION

RTGS is an electronic payment system, which provides online settlement of payments between financial institutions. In this system, payment instructions between banks are processed and settled individually and continuously throughout the day. Through RTGS, the customers of SIB can make payments to the beneficiary's a/c in another bank and vice-a-versa. Payee banks and their customers receive funds with finality, during the day, enabling them to use the funds immediately without exposing themselves to risk. It is a highly secured system using PKI and includes signing and encryption.

2.6 FUTURE PLANS OF SOUTH INDIAN BANK

The bank is expanding its reach by opening more branches in the North & Western part of the country, out of which branches in Bhopal, Indore Lucknow and Bhubaneswar are likely to be opened this fiscal. These initiatives are likely to help the bank in achieving its objective of 25000 crore of business by March 2008. Also, the bank is taking steps such as re-pricing of high cost deposits from the expatriate Indian community in the Middle East (34% of total deposits) in order to lower its current cost of deposit, which is significantly higher at 5.2%. The SIB have 450 branches as of now and are planning to open 25 new branches in different parts of India, with this SIB's representation will go up from 19 states to 25 states within India.

And outside India, SIB has applied for a representative office in Sharjah (UAE) and waiting for the approval from the central bank. Thirty percent of SIB's businesses are from NRI's and out of it 60% is from the gulf. So SIB feels that the Sharjah office can cater the requirements of NRI's residing in the six gulf countries. And with the tie-up with HADI exchange, the agreement for which was signed recently, the SIB have become the first ever private sector bank from kerela to have secondment arrangement with an exchange house.

2.7 VARIOUS DEPARTMENTS

2.7.1 ACCOUNTS DEPARTMENT

Accounts department of South Indian Bank deals with all the accounting activities relating to the inter-bank transactions. This department mainly takes care of the transaction that takes place within the various branches of South Indian Bank or between various other banks.

2.7.2 CREDIT DEPARTMENT

Credit is the granting of a loan and the creation of debt. Any movement of financial capital is normally quite dependent on credit, which in turn is dependent on the reputation or creditworthiness of the entity, which takes responsibility for the funds. The credit department of SIB takes care of all the activities relating to the credit given to the customers by them.

2.7.2.1 Credit Sanctions

The credit sanctions department takes care in the sanction of loans for the proposals given by the customers. Based on the customer's proposals they are assessed and if found to be satisfactory the credit will be sanctioned for the particular customer. This department involves in all activities related to the credit sanction.

2.7.2.2 Credit Monitoring

The credit-monitoring department monitors all the activities relating to the provision of credit to the customers. This department involves mainly in monitoring activities and sees if there are any problems with the customer in repayment.

2.7.2.3 Credit Recovery

The credit recovery department functions when the credit-monitoring department identifies any problem relating to the credit sanction or repayment from the customers. This department functions in the recovery of the credit given to the customers.

2.7.3. CORPORATE FINANCIAL MANAGEMENT (CFM)

Corporate financial management department deals with the activities relating to the bank's shares and securities. This department takes care of all the activities relating to the south Indian bank's shares and securities like public issue etc. This department also takes care of the accounting statements of the bank and processes the balance sheet of the bank and involves in the auditing activities.

2.7.4 INFOTECH DEPARTMENT

Information technology (IT), also known as Information and Communication(s) Technology (ICT) and Infocomm in Asia, is concerned with the use of technology in managing and processing information, especially in large organizations.

In particular, IT deals with the use of electronic computers and computer software to convert, store, protect, process, transmit, and retrieve information. For that reason, computer professionals are often called IT specialists/consultants or Business Process Consultants, and the division of a company or university that deals with software technology is often called the IT department. The IT department of SIB is called as the INFOTECH department. This department takes care of the core banking system and all other telephone, computer architecture and telecommunication systems.

2.7.5 INTERGRATED RISK MANAGEMENT DEPARTMENT

The integrated risk management department deals with the activities relating to the matching of deposit and the advance and fixing up the interest rate accordingly in such a way that the risk is being compensated. This department takes the activity of advance rating. If the bank wants to approve the advance of any amount more than Rs.2 crores should get approval from this department. This department will also have to oversee the implementation of the Asset Liability Management system in the Bank and also to review its functions periodically and to take an integrated view of the overall risks faced by the Bank.

2.7.6 INSPECTION AND VIGILANCE DEPARTMENT

The inspection and vigilance department is at its Corporate Office deals with all complaints having vigilance angle. The department is headed by Chief Vigilance Officer in the rank of General Manager, ably aided by Vigilance Officers at all Circles, International Division and most of the Bank's subsidiaries. The department addresses vigilance matters in terms of their preventive, detective, surveillance and punitive aspects. Besides, the department monitors implementation of various guidelines issued by the Central Vigilance Commission on vigilance management in Public Sector Banks and maintains close liaison with Central Bureau of Investigation and Central Vigilance Commission. Further, apart from observing 'Vigilance Awareness Week', informative series were brought out during the year for the benefit and information of staff at all levels.

2.7.7 MARKETING DEPARTMENT

The marketing department deals will the marketing of the products and services to the customers. The department deals with the activities like

- a. **can-card**: this is the department which deals with all the activities related to the credit card and its proceedings.

- b. **Sibernet:** is the Internet Banking Service of South Indian Bank Ltd, which allows its customers to avail the bank's services through Internet.
- c. **Debit card:** IB's Global ATM-Cum-Debit Cards are now acceptable in the Master Card International Network System as well as in the domestic National Financial Switch (NFS) Network System. SIB's Debit Cards are supported in more than 8,30,000 ATMs together within India and worldwide and also in around 7 million Point-Of-Sale (POS) terminals across the globe. Our Bank joined the NFS Network System on 4th May 2005. The NFS Network is owned and managed by the Institute for Development and Research in Banking Technology (IDRBT) which is the technical arm of the Reserve Bank Of India. The introduction of this facility will help SIB customers to do ATM transactions from other Bank ATMs at reduced charge rates.
- d. **Demat centre:** A Demat Account is an account which holds the Beneficial Owner's (BO's) securities in electronic form. There are many advantages in opening a Demat account and keeping the securities in dematerialised form. The department takes care of the demat activities.

2.7.8 ORGANISATION AND METHODS:

The organization and methods department takes care of all the activities related to the changes that are to be made in the forms. The forms to be filled in by the customers or the clients are being prepared by this department. If any changes to be made in this department will make the changes in those forms.

2.7.9 NRI CELL

This department takes care of all the activities related to the NRI schemes, products and services. Only this department will deal any activities or deals related to NRI.

2.7.10 PERSONNEL DEPARTMENT

The personnel department takes care of all the staff matters like selection, recruitment, compensation, benefits, transfers, promotions etc. all the problems of the staffs will be dealt in this department.

2.7.11 PLANNING AND DEVELOPMENT DEPARTMENT

The planning and development department takes care of all the activities relating to the budgeting of banks, target allotment for the branches, interest fluctuations etc. this department also takes care of all the stationery items required by each department and branches throughout.

MACRO- MICRO ANALYSIS

CHAPTER – 3

MACRO – MICRO ANALYSIS

3.1 FINANCIAL SECTOR

The Indian financial sector is in for an overhaul. Financial sector reforms have long been regarded as an integral part of the overall policy reforms in India. India has recognized that these reforms are imperative for increasing the efficiency of resource mobilization and allocation in the real economy and for the overall macroeconomic stability. The reforms have been driven by a thrust towards liberalization and several initiatives such as liberalization in the interest rate and reserve requirements have been taken on this front. At the same time, the government has emphasized on stronger regulation aimed at strengthening prudential norms, transparency and supervision to mitigate the prospects of systemic risks. Today the Indian financial structure is inherently strong, functionally diverse, efficient and globally competitive. During the last fifteen years, the Indian financial system has been incrementally deregulated and exposed to international financial markets along with the introduction of new instruments and products.

3.1.1 Banking Sector

The banking sector is the most dominant sector of the financial system in India. Significant progress has been made with respect to the banking sector in the post liberalization period. The financial health of the commercial banks has improved manifold with respect to capital adequacy, profitability, and asset quality and risk management. Further, deregulation has opened new opportunities for banks to increase revenue by diversifying into investment banking, insurance, credit cards, depository services, mortgage, securitization, etc. Liberalization has created a more competitive environment in the banking sector. The aggregate foreign investment (FDI plus FII) limit for the private sector banking has been raised to 74 percent in the recent country budget. The competition has increased within the banking sector (with the emergence of new private banks and foreign banks) as well as from other

segments of the financial sector such as mutual funds, Non Banking Finance Companies, post offices and capital markets.

3.1.2 Capital Market

India has a long tradition of functioning capital markets. The Bombay stock exchange is over a hundred years old and the volume of activity has increased in the recent years. The process of reform of capital markets started in 1992 and aimed at removing direct government control and replacing it by a regulatory framework based on transparency and disclosure. The first step was taken in 1992 when SEBI was elevated to a full-fledged capital market regulator.

An important policy initiative in 1993 was the opening of capital markets for foreign institutional investors and allowing Indian companies to raise capital abroad. FII registrations in the country have gone up significantly over the years. The number of registered FIIs has gone up from 823 in December 2005 to 972 in October 2006. FIIs had made \$10.7 billion worth of investment (Rs 47,181 crore) in calendar 2005. The FIIs have been rewarded well by attractive valuations and increasing returns. The depository and share dematerialization systems have been introduced to enhance the efficiency of the transaction cycle.

A number of significant reforms have been implemented in the spot equity and related exchange traded derivatives markets since the early 1990s. For instance, spot prices are mostly market-determined, trading volumes in the derivatives market exceed those in spot markets and market practices such as speed of settlement and dematerialization are close to international best practices.

3.1.3 Insurance Sector

There exists huge scope of investment in the insurance sector in India. India has an enormous middle-class that can afford to buy life, health and disability and pension plan products. Further, insurance is one of the most important tax saving instrument in the country.

Insurance sector has been opened up for competition from Indian private insurance companies with the enactment of Insurance Regulatory and Development Authority Act, 1999 (IRDA Act). As per the provisions of IRDA Act, 1999, Insurance Regulatory and Development Authority (IRDA) was established on 19th April 2000 to protect the interests of holder of insurance policy and to regulate, promote and ensure orderly growth of the insurance industry. IRDA Act 1999 paved the way for the entry of private players into the insurance market, which was hitherto the exclusive privilege of public sector insurance companies/ corporations. Under the new dispensation Indian insurance companies in private sector were permitted to operate in India on the fulfillment of certain prerequisites. A large number of public and private players are competing today in both life and general insurance segments. The FDI cap/ Equity in the insurance sector is 26 percent under the automatic route subject to licensing by the insurance regulatory and development authority.

Some of the major private players in the sector are:

In Life insurance Sector:

- Bajaj Allianz Life Insurance Corporation
- Birla Sun Life Insurance Co. Ltd. (BSLI)
- HDFC Standard Life Insurance Co. Ltd. (HDFC STD LIFE)
- ICICI Prudential Life Insurance Co. Ltd. (ICICI PRU)
- ING Vysya Life Insurance Co. Pvt. Ltd. (ING VYSYA)

- Max New York Life Insurance Co. Ltd. (MNYL)
- MetLife India Insurance Co. Pvt. Ltd. (METLIFE)
- Kotak Mahindra Old Mutual Life Insurance Co. Ltd. SBI Life Insurance Co. Ltd. (SBI LIFE)
- TATA AIG Life Insurance Co. Ltd. (TATA AIG)
- AMP Sanmar Assurance Co. Ltd. (AMP SANMAR)
- Aviva Life Insurance Co. Pvt. Ltd. (AVIVA)
- Sahara India Life Insurance Co. Ltd. (SAHARA LIFE)
- Shriram Life Insurance Co. Ltd

In General Insurance sector:

- Bajaj Allianz General Insurance Co. Ltd. (BAJAJ ALLIANZ)
- ICICI Lombard General Insurance Co. Ltd. (ICICI LOMBARD)
- IFFCO Tokyo General Insurance Co. Ltd. (IFFCO TOKIO)
- Reliance General Insurance Co. Ltd. (RELIANCE)
- Royal Sundaram Alliance Insurance Co. Ltd.
- TATA AIG General Insurance Co. Ltd. (TATA AIG)
- Cholamandalam MS General Insurance Co. Ltd.
- HDFC Chubb General Insurance Co. Ltd. (HDFC CHUBB)

3.1.4 Venture Capital

India is prime target for venture capital and private equity today, owing to various factors such as fast growing knowledge based industries, favourable investment opportunities, cost competitive workforce, booming stock markets and supportive regulatory environment among others. The sectors where the country attracts venture capital are IT and ITES, software products, banking, PSU disinvestments, entertainment and media, biotechnology, pharmaceuticals, contract manufacturing and retail. An offshore venture capital company may contribute upto 100 percent of the capital of a domestic venture capital fund and may also set up a domestic asset management company to manage the fund. Venture capital funds (VCFs) and venture capital companies (VCC) are permitted upto 40 percent of the paid up corpus of the domestic unlisted companies. This ceiling would be subject to relevant equity investment limit in force in relation to areas reserved for SSI. Investment in a single company by a VCF/VCC shall not exceed 5 percent of the paid up corpus of a domestic VCF/VCC. The automatic route is not available.

3.2 HISTORY OF INDIAN BANKING SECTOR

The evolution of the modern commercial banking industry in India can be traced to 1786 with the establishment of the Bank of Bengal in Calcutta. Three presidency banks were set up in Calcutta, Bombay and Madras. In 1860, the limited liability concept was introduced in banking, resulting in the establishment of joint stock banks.

In 1921, the three presidency banks were amalgamated to form the Imperial Bank of India, which took on the role of a commercial bank, a bankers' bank and a banker to the Government. The establishment of RBI as the central bank of the country in 1935 ended the quasi-central banking role of the Imperial Bank of India. In order to serve the economy in general and the rural sector in particular, the All India Rural Credit Survey Committee recommended the creation of a state-partnered and state sponsored bank taking over the Imperial Bank of India and integrating with it, the former state owned and state associate banks.

Accordingly, the State Bank of India (“SBI”) was constituted in 1955. Subsequently in 1959, the State Bank of India (Subsidiary Bank) Act was passed, enabling the SBI to take over eight former state-associate banks as its subsidiaries. In 1969, 14 private banks were nationalized followed by six private banks in 1980. Since 1991, many financial reforms have been introduced substantially transforming the banking industry in India.

TECHNOLOGICAL INFRASTRUCTURE OF INDIAN BANKS

In recent years, the Reserve Bank has endeavored to improve the efficiency of the financial system by ensuring the presence of a safe, secure and effective payment and settlement system. In the process, apart from performing regulatory and oversight functions the Reserve Bank has also played an important role in promoting the system’s functionality and modernization on an ongoing basis. The consolidation of the existing payment systems revolves around strengthening computerized cheque clearing, and expanding the reach of Electronic Clearing Services (ECS) and Electronic Funds Transfer (EFT). The critical elements of the developmental strategy are the opening of new clearinghouses, interconnection of clearinghouses through the Indian Financial Network (INFINET) and the development of a Real-Time Gross Settlement (RTGS) System, a Centralized Funds Management System (CFMS), a Negotiated Dealing System (NDS) and the Structured Financial Messaging System (SFMS). Similarly, integration of the various payment products with the systems of individual banks has been another thrust area.

3.3 MAJOR INTERNATIONAL PLAYERS

3.3.1. Citi group inc :

- Citi Group is a major American financial services company based in New York City. According to Forbes Global 2000, it is the world's largest company and the most profitable financial services firm.
- Citicorp was the descendant of First National City Bank, founded in New York. It was one of the oldest banks in the United States (founded in 1812), and had the largest international branch presence of any United States headquartered bank.
- It specialized in large corporate banking, and was one of the largest banks in the United States at the time.
- The CEO at the time of the merger, John Reed, was instrumental in pushing for the acceptance and use of ATMs, and had seen the company through a financially bleak period when it had many problems with international loans defaulting.

3.3. 2. HSBC Holdings:

- HSBC is one of the largest banking groups in the world, ranked the fifth-largest company
- Third-largest banking company in the world in Forbes Global 2000.
- Its head office is located in the HSBC Tower in London's Canary Wharf.
- The group is named after its founding member, The Hong Kong and Shanghai Banking Corporation, a bank established by Thomas Sutherland, a Scot, to finance British trade in the Far East in 1865.

The bank is the largest corporation in the world in terms of assets (As of Jun 30, \$1.74 trillion while Citigroup reported \$1.63 trillion). It reports its results in

United States dollars since 80% of its earnings originate from outside the United Kingdom. Nearly 22% of its earnings are from operations in Hong Kong, where it was headquartered until 1991. It is the largest bank in Hong Kong, and at the end of 2005 was the largest banking group in the world by Tier 1 capital.

3.3.3. American Express:

American Express sometimes known as "Amex" is a diversified global financial services company, headquartered in New York City. The company is best known for its credit card, charge card and traveler's cheque businesses.

The company's common stock trades on the New York Stock Exchange under the ticker symbol AXP. It is one of the 30 stocks that comprise the Dow Jones Industrial Average and is ranked as the 74th largest company by Fortune. In 2006, Business Week & Interbrand ranked American Express as the 14th most valuable brand in the world, estimating the brand to be worth US\$19.64 billion.

The current CEO is Kenneth Chenault, who took over in 2001 from Harvey Golub, CEO from 1993 to 2001. Prior to that it was headed by James D Robinson III from 1977 to 1993.

3.4 MAJOR ASIAN PLAYERS:

3.4.1 China construction bank corporation:

China Construction Bank Corporation (formerly known as the China Construction Bank) was incorporated in China in 1954. CCB Corporation is a state owned bank operating in a commercial capacity. As one of the leading banks in the domestic banking sector, CCB Corporation retains leadership roles in key market segments in the areas of corporate banking, personal banking and treasury operations. The Bank continues to pursue innovative banking services such as online banking to stay in a competitive edge.

3.4.2 Industrial and commercial bank of china:

Industrial and Commercial Bank of China Limited (hereafter refers to ICBC) is a leading financial player in China with an outstanding customer base and multi-dimension business structure. It boasts core competence in innovation, market competitiveness and premier brand value. Through financial restructuring, issuance of long-term subordinated bonds and asset portfolio optimization, ICBC has substantially improved its capital management and, in turn, its capital adequacy. By the end of 2005, ICBL had seen distinctively higher quality in its assets.

ICBC also enjoys a multi-dimension shareholding structure. On January 27, 2006, ICBC entered into strategic investment and cooperation agreement with Goldman Sachs Group, Allianz Group and American Express Limited and acquired an investment of USD 3.782 billion. On June 19, 2006, ICBC signed the strategic investment and cooperation agreement with the Governing Board of All-China Social Security Fund who would inject RMB 18.028 billion through buying in ICBC's new shares.

3.4.3 Bank of china :

Established on 1 October 2001, Bank of China (Hong Kong) Limited (referred to as Bank of China (Hong Kong) or BOCHK) is a locally incorporated licensed bank. It has combined the businesses of ten* of the twelve banks in Hong Kong originally belonging to the Bank of China Group. In addition, it holds shares in Nanyang Commercial Bank Limited and Chiyu Banking Corporation Limited, both of which are incorporated in Hong Kong, as well as BOC Credit Card (International) Limited. Bank of China (Hong Kong) is a leading commercial banking group in Hong Kong in terms of assets and customer deposits.

3.5 MAJOR INDIAN PLAYERS

3.5.1 State bank of India:

State Bank of India (SBI) (LSE: SBID) is the largest bank in India. It is also, measured by the number of branch offices and employees, the largest bank in the world. Established in 1806 as Bank of Bengal, it remains the oldest commercial bank in the Indian Subcontinent and also the most successful one providing various domestic, international and NRI products and services, through its vast network in India and overseas. With an asset base of \$126 billion and its reach, it is a regional banking behemoth. The bank was nationalized in 1955 with the Reserve Bank of India having a 60% stake. It has laid emphasis on reducing the huge manpower through Golden handshake schemes and computerizing its operations. SBI debuted in the Fortune Global 500 at 498 in 2006.

3.5.2 ICICI bank:

ICICI Bank is India's second-largest bank with total assets of about Rs. 2,513.89 bn (US\$ 56.3 bn) at March 31, 2006 and profit after tax of Rs. 25.40 bn (US\$ 569 mn) for the year ended March 31, 2006 (Rs. 20.05 bn (US\$ 449 mn) for the year ended March 31, 2005). ICICI Bank has a network of about 614 branches

banking products and financial services to corporate and retail customers through a variety of delivery channels and through its specialised subsidiaries and affiliates in the areas of investment banking, life and non-life insurance, venture capital and asset management. ICICI Bank set up its international banking group in fiscal 2002 to cater to the cross border needs of clients and leverage on its domestic banking strengths to offer products internationally. ICICI Bank currently has subsidiaries in the United Kingdom, Russia and Canada, branches in Singapore, Bahrain, Hong Kong, Sri Lanka and Dubai International Finance Centre and representative offices in the United States, United Arab Emirates, China, South Africa and Bangladesh. Our UK subsidiary has established a branch in Belgium. ICICI Bank is the most valuable bank in India in terms of market capitalisation.

3.5.3 Punjab National Bank

Punjab National Bank with 4497 offices and the largest nationalised bank is serving its 3.5 crore customers with the following wide variety of banking services:

- Corporate banking
- Personal banking
- Industrial finance
- Agricultural finance
- Financing of trade
- International banking

Punjab National Bank has been ranked 38th amongst top 500 companies by The Economic Times. PNB has earned 9th position among top 50 trusted brands in India. Punjab National Bank India maintains relationship with more than 200 leading international banks world wide. PNB India has Rupee Drawing Arrangements with 15 exchange companies in UAE and 1 in Singapore.

EXHIBIT: 1 TOP 5 BANKS IN THE WORLD**(RS IN \$BN)**

RANK	BANK	TIER ONE CAPITAL	SIZE OF ASSETS	PROFITS	RETURN ON ASSETS
1	CITIGROUP	79	1,494	29	1.97
2	HSBC HOLDINGS	74	1,502	21	1.4
3	BANK OF AMERICA	74	1,292	25	1.95
4	JP MORGAN CHASE	73	1,199	12	1.02
5	MITSUBUSHI UFJ FINANCIAL GROUP	64	1,509	13	0.85

Source: The journal of banking studies, dec 2006

EXHIBIT: 2 TOP 5 BANKS IN ASIA**(RS IN \$BN)**

RANK	BANK	TIER ONE CAPITAL	SIZE OF ASSETS	PROFITS	RETURN ON ASSETS
1	CHINA CONSTRUCTION BANK CORPORATION	36	568	7	1.21
2	INDUSTRIAL AND COMMERCIAL BANK OF CHINA	32	800	7	0.92
3	BANK OF CHINA	31	587	7	1.14
4	NATIONAL AUSTRALIA BANK	17	299	5	1.67
5	KOOKMIN BANK	12	181	3	1.78

Source: The journal of banking studies, dec 2006

EXHIBIT: 3 TOP 5 BANKS IN INDIA**(RS IN \$BN)**

RANK	BANK	TIER ONE CAPITAL	SIZE OF ASSETS	PROFITS	RETURN ON ASSETS
1	STATE BANK OF INDIA	8	155	1.9	0.89
2	ICICI BANK	4	56	0.7	1.23
3	PUNJAB NATIONAL BANK	2	33	0.5	1.09
4	BANK OF BARODA	2	26	0.3	0.79
5	CANARA BANK	2	30	0.3	1.16

Source: The journal of banking studies, dec 2006

EXHIBIT: 4 TOP 5 MOST PRODUCTIVE BANKS**(RS IN CRORES)**

RANK	BANK	OPERATING PROFIT/ EMPLOYEE
1	CITIBANK NA	0.49
2	STANDARD CHARTERED BANK	0.32
3	HSBC	0.26
4	ABN AMRO	0.19
5	ICICI BANK	0.18

Source: Business today Feb 25, 2007

EXHIBIT: 5 TOP 5 MOST BEST ASSET QUALITY BANKS

RANK	BANK	NET NPA TO ADVANCES (%)
1	ABN AMRO	0.11
2	ANDHRA BANK	0.24
3	PUNJAB NATIONAL BANK	0.28
4	STANDARD CHARTERED BANK	0.36
5	HDFC BANK	0.44

Source: Business today Feb. 25, 2007

EXHIBIT: 6 TOP 5 MOST EFFICIENT USERS OF CAPITAL

RANK	BANK	RETURN OF CAPITAL EMPLOYED(%)
1	INDIAN OVERSEAS BANK	27.23
2	ALLAHABAD BANK	23.67
3	STANDARD CHARTERED BANK	23.21
4	FEDERAL BANK	22.83
5	STATE BANK OF HYDERABAD	22.01

Source: Business today Feb. 25, 2007

EXHIBIT: 7 TOP 5 BEST CAPITALIZED BANKS

RANK	BANK	CAPITAL ADEQUACY RATIO(%)
1	IDBI BANK	14.8
2	ANDHRA BANK	14
3	CORPORATION BANK	13.92
4	FEDERAL BANK	13.75
5	STATE BANK OF PATALIA	13.67

Source: Business today Feb. 25, 2007

EXHIBIT: 8 TOP 5 BEST DEPOSIT MOBILISERS

RANK	BANK	2-YR CAGR OF TOTAL DEPOSITS(%)
1	IDBI BANK	60.86
2	ICICI BANK	55.69
3	ABN AMRO	42.33
4	UTI BANK	38.36
5	HDFC BANK	35.46

Source: Business today Feb. 25, 2007

SEGMENT WISE TOP PERFORMERS

EXHIBIT: 9 PUBLIC SECTOR BANKS:

(RS IN CR)

S.NO	BANK	TOTAL INCOME	INTEREST INCOME	PAT	OPERATING PROFIT	DEPOSITS	ADVANCES	TOTAL ASSETS
1	STATE BANK OF INDIA	40164.11	20178.94	4406.67	22675.17	380046.1	236787.8	493516.9
2	PUNJAB NATIONAL BANK	10958.41	5553.82	1439.31	6582.94	119684.9	70886.92	144356.7
3	CANARA BANK	9469.51	5856.19	1343.22	5719.42	74499.67	74499.67	131975.2

Source: Chartered financial analyst

EXHIBIT: 10 PRIVATE SECTOR BANKS:

(RS IN CR)

S.NO	BANK	TOTAL INCOME	INTEREST INCOME	PAT	OPERATING PROFIT	DEPOSITS	ADVANCES	TOTAL ASSETS
1	ICICI BANK LTD	18307.99	10051.76	2540.07	9360.66	165083.2	136723.3	249148.1
2	HDFC BANK LTD	5676.54	2843.68	870.78	3260.53	55796.82	33684.49	73237.37
3	UTI BANK LTD	3599.26	1603.11	485.08	2522.42	40113.53	21730.42	49695.29

Source: Chartered financial analyst

EXHIBIT: 11 FOREIGN BANKS:**(RS IN CR)**

S.NO	BANK	TOTAL INCOME	INTEREST INCOME	PAT	OPERATING PROFIT	DEPOSITS	ADVANCES	TOTAL ASSETS
1	STANDARD CHARTERED BANK	3711.02	2185.39	904.85	2265.69	28459.8	22381.48	46932.53
2	HSBC LTD	3076.7	1370.17	514.92	1450.96	24955.12	15032.81	36971.59
3	AMERICAN EXPRESS BANK LTD	562.76	214.97	52.94	168.29	2259.91	1998.95	3592.27

Source: Chartered financial analyst

**DATA ANALYSIS
AND
INTERPRETATION**

CHAPTER – 4

ANALYSIS AND INTERPRETATION

4.1 PROPOSAL –I JEWELLERY

RATIO ANALYSIS:

Ratio analysis is a very powerful analytical tool for measuring the performance of the organization. The ratio analysis concentrates on the interrelationship among the figures appearing in the financial statements. Thus the ratio analysis helps the management to analyze the past performance of the firm and to make proper projections.

The ratio analysis can be used by the management as a means of checking upon efficiency with which capital is being used in the enterprise. Ratios normally pin point the strength's and weakness of a business in two ways.

1. Ratios provide an easy way to compare today's performance with past.
2. Ratios depict the areas in which a particular business is competitively advantaged or disadvantaged through comparing ratios to those of other business of the same size with the same industry.

4.1.1 Current Ratio :

Current ratio expressed the relationship between the current assets and the current liabilities. It indicates whether the current assets are sufficient to meet the current liabilities. It indicates whether the current assets are sufficient to meet the current liabilities.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

As a conventional rule, current ratio of 2:1 is ideal. The higher the current ratio the more the firm's ability to meet its current.

Table 4.1.1 Current Ratio

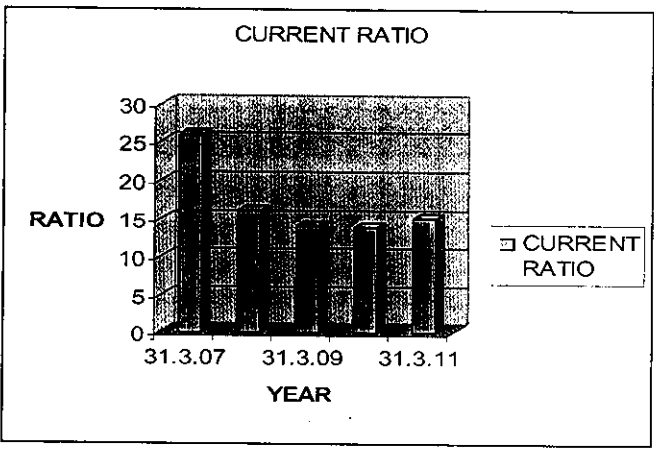
(Rs in lakhs)

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO(%)
31.3.07	103.60	4	25.90
31.3.08	112.85	7	16.12
31.3.09	126.15	9	14.02
31.3.10	138.55	10	13.86
31.3.11	151.05	10	15.11
Average			17.00

Source: Financial Projections

Interpretation: As per the table 4.1.1, current ratio of Jewellery proposal shows fluctuating trend. During the year 2007, the current ratio is 25.90. In the year 2008, the current ratio declined to 16.12 and there is a decrease in the current ratio in the year 2009 i.e. 14.02. In the year 2010 the current ratio declined to 13.86 and in the year 2011 it shows an increase to 15.11, which is above the standard. The short term solvency position of Jewellery is very much sound. The following graph shows the current ratio of Jewellery

Chart 4.1.1 Current Ratio



Inference: The average current ratio of Jewellery is 17.00 :1, which is above the banking standard of 1.25:1. It means that, for every Re.1 of current liability, there is a current asset of Rs.17. therefore the short term insolvency position of the Jewellery is found to be very much satisfactory.

4.1.2. Quick Ratio :

This ratio establishes the relationship between quick or liquid assets and quick liabilities. Through this ratio, meaningful analysis of the liquidity position is possible as liquid assets exclude illiquid assets like inventories and prepaid expenses. Liquid assets include cash and bank balances, short term marketable securities, debtors/ receivables etc. an acid test or quick ratio of 1:1 is considered satisfactory as a firm can easily meet all current claims. A high quick ratio is an indication that the firm is liquid and shows the ability to meet the current liabilities in fine and low quick ratio represents that firms liquidity position is not good.

$$\text{Quick ratio} = \frac{\text{Quick assets}}{\text{Quick liabilities}}$$

$$\text{Quick assets} = \text{current assets} - \text{inventories}$$

$$\text{Quick liabilities} = \text{current liabilities} - \text{bank over draft}$$

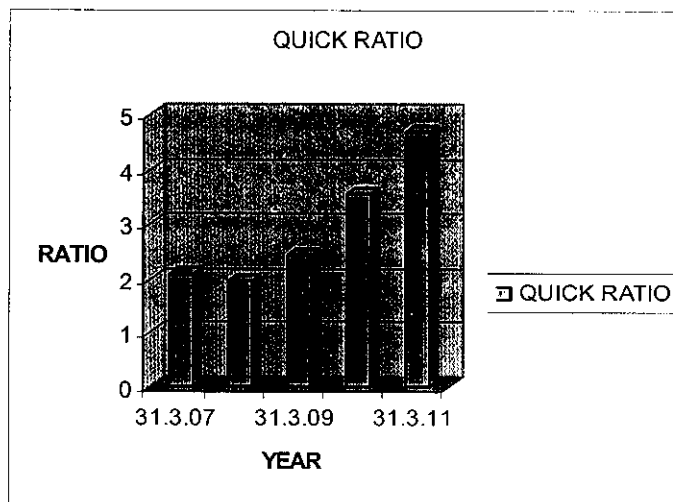
The following table shows the quick ratio of Jewellery

Table 4.1.2 Quick Ratio**(Rs in lakhs)**

YEAR	QUICK ASSETS	QUICK LIABILITIES	QUICK RATIO(%)
31.3.07	8.6	4	2.1
31.3.08	13.85	7	1.98
31.3.09	22.15	9	2.46
31.3.10	34.55	10	3.56
31.3.11	47.05	10	4.71
Average			2.96

Source: Financial Projections

Interpretation: It can be seen from the table 4.1.2, that during the year 2007, the quick ratio is 2.1:1. Quick ratio is then declines to 1.98:1 during the next year, i.e. in 2008. In the year 2009, the quick ratio increased to 2.46:1. During the next two years i.e. 2010, 2011, the quick ratio shows an increasing trend from 3.56:1 to 4.71:1 respectively. A high quick ratio shows that the firm is liquid and shows the ability to meet the current liabilities.

Chart 4.1.2 Quick Ratio

Inference: The average quick ratio of Jewellery is 2.96:1, which is above the banking standard of 1:1. It means that, for every Re.1 of quick liability, there is a quick asset of Rs.2.96. Therefore the short term liquidity position of the Jewellery is found to be very satisfactory.

4.1.3 Debt Equity Ratio:

Debt equity ratio is calculated to measure the relative proportions of the outsider's funds and share holder's funds invested in the company. This ratio is determined to ascertain the soundness of the long term financial policies of that company and is known as external internal equity ratio. It is calculated as

$$\text{Debt equity ratio} = \frac{\text{Total Liabilities}}{\text{Share holders funds}}$$

Share holder's funds consists of preference capital, equity, profit and loss account (cr. Balance), capital reserves, revenue reserves and reserves representing marked surplus, like reserves for contingencies, sinking funds for renewal of fixed assets. Whether a given debt to equity ratio shows a favorable or unfavorable position of the concern depends on the industry and the pattern of earning. A low ratio is generally viewed as favorable from long term creditor's point of view, because a large margin of protection provides safety for the creditors.



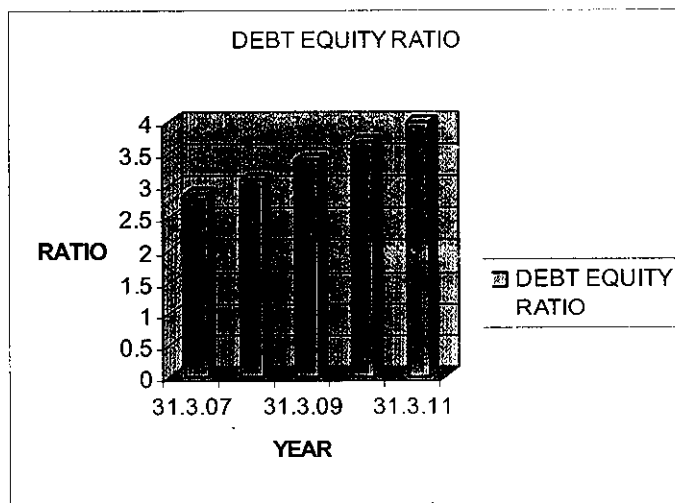
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Table 4.1.3 Debt Equity Ratio**(Rs in lakhs)**

YEAR	TOTAL LIABILITIES	SHARE HOLDERS EQUITY	DEBT EQUITY RATIO
31.3.07	120.60	42.00	2.87
31.3.08	129.85	42.00	3.09
31.3.09	143.15	42.00	3.41
31.3.10	155.55	42.00	3.70
31.3.11	168.05	42.00	4.00
Average			3.41

Source: Financial Projections

Interpretation: From the table 4.1.3, during the year 2007, the debt equity ratio is 2.87:1. Debt equity ratio is then increases to 3.09:1 during the next year, i.e. in 2008. In the year 2009, the Debt equity ratio increased to 3.41:1. During the next two years i.e. 2010, 2011, the Debt equity ratio shows an increasing trend from 3.70:1 to 4:1 respectively.

Chart 4.1.3 Debt Equity Ratio

Inference: The debt equity ratio indicates that the firm has a great amount of debt in its capital structure. The average debt equity ratio of the Jewellery is 3.41 is above

4.1.4 Net working Capital

The term networking capital can be defined as the difference between the current assets and the current liabilities.

As long as the current assets exceed the current liabilities, the excess must be financed with long term fund. Thus, networking capital is a qualitative concept, which indicates the liquidity position of the firm and suggests the extent to which working capital needs may be financed by permanent or long term sources of funds.

Networking capital = current assets – current liabilities

The following table shows the working capital of Jewellery from 2007 to 2011

Table 4.1.4 Net working Capital

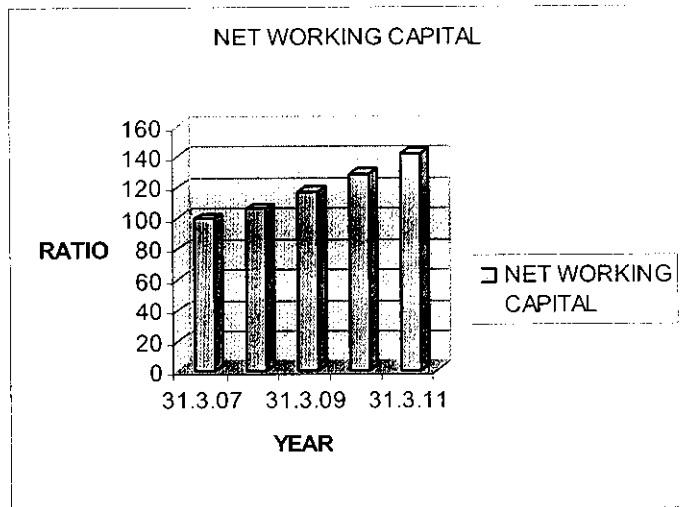
(Rs in lakhs)

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	NET WORKING CAPITAL
31.3.07	103.60	4	99.6
31.3.08	112.85	7	105.85
31.3.09	126.15	9	117.15
31.3.10	138.55	10	128.55
31.3.11	151.05	10	141.05
Average			118.44

Source: Financial Projections

Interpretation: The above table 4.1.4 shows the networking capital of Jewellery for the five years, i.e. from 2007 to 2011 shows a fluctuating trend. It is also evident that the current assets of the company are sufficient to meet its current liabilities. The amount of net working capital in the first year amounts to 99.6 lakhs which increased to 105.85 lakhs in the second year and increased to 117.15 lakhs, 128.55 lakhs, 1.41.05 lakhs in the 3rd, 4th and the 5th year respectively

The following graph shows the networking capital of the Jewellery.

Chart 4.1.4 Net working Capital

Inference: The average net working capital of the Jewellery is 118.44 which is found to be satisfactory

4.1.5 Tangible Net worth :

Tangible Net Worth means the consolidated net worth of the Company and its Subsidiaries after subtracting there from the aggregate amount of any intangible assets of the Company and its Subsidiaries, including goodwill, franchises, licenses, patents, trademarks, trade names, copyrights, service marks and brand.

The Tangible net-worth ratio establishes the relationship between the total outside liabilities and tangible net worth. Through this ratio, meaningful analysis of the total liabilities and the tangible net worth is being carried out. The standard for the tangible ratio within 3:1 is considered satisfactory as a firm can easily meet all current claims.

The tangible net worth ratio is calculated as

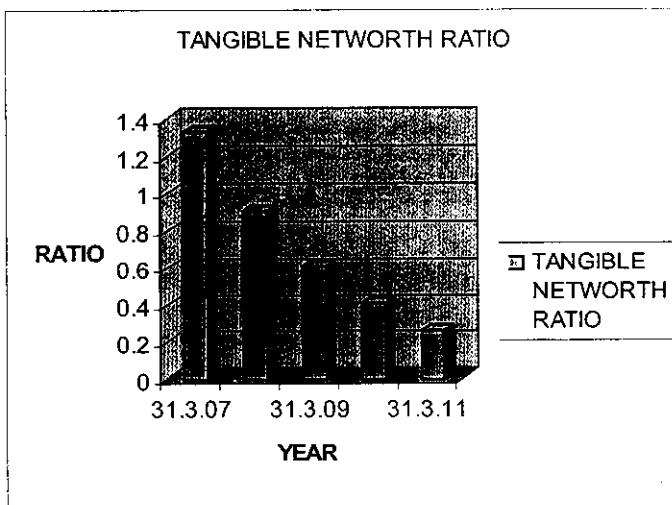
$$\text{Tangible Net worth ratio} = \frac{\text{Total outsiders liabilities}}{\text{Tangible net worth}}$$

Table 4.1.5 Tangible net worth**(Rs in lakhs)**

YEAR	TOTAL OUTSIDERS LIABILITIES	TANGIBLE NET WORTH	TANGIBLE NETWORTH RATIO
31.3.07	69	51.60	1.33
31.3.08	62	67.85	0.91
31.3.09	54	89.15	0.61
31.3.10	45	110.55	0.41
31.3.11	35	133.05	0.26
Average			0.70

Source : Financial Projections

Interpretation: From the above table 4.1.5 the tangible net worth ratio for the year 2007 is 1.33 declines to 0.91 in the year 2008 and again declines to 0.61 in the year 2009. The tangible net worth for the year 2010 and 2011 are 0.41 and 0.26 respectively. The tangible net-worth ratio is found to be very much satisfactory.

Chart 4.1.5 Tangible Net worth Ratio

Inference: The average tangible net worth ratio is 0.70. It satisfies the standard of banking norms of 3:1. This means that for every one rupee of tangible net worth the company has Rs.0.70 worth total outsider's liability which is showing a positive sign.

4.1.6 Debt Service Coverage Ratio:

Debt service coverage ratio is calculated to ensure that the firm would at least pay the back interest on term loan even in the event of cash losses. To calculate the DSCR

$$\text{DSCR} = \frac{\text{Net profit after taxes} + \text{Depreciation} + \text{interest on term loans}}{\text{Installment} + \text{interest on term loans}}$$

$$\text{Installment} + \text{interest on term loans}$$

Higher the DSCR the more net operating income is available to service the debt. From a lenders view point it should be clear that they want a high a DSCR as possible. Loans generally only require a 1.20 DSCR and sometimes accept DSCR as low as 1.10. A DSCR of 1.0 is called the break even cash flow. A DSCR of less than 1.0 would be a situation where there would actually be a negative cash flow. A DSCR of say 0.95 would mean that there is only enough net operating income to cover 95% of the mortgage payment.

Table 4.1.6 Debt Service Coverage ratio

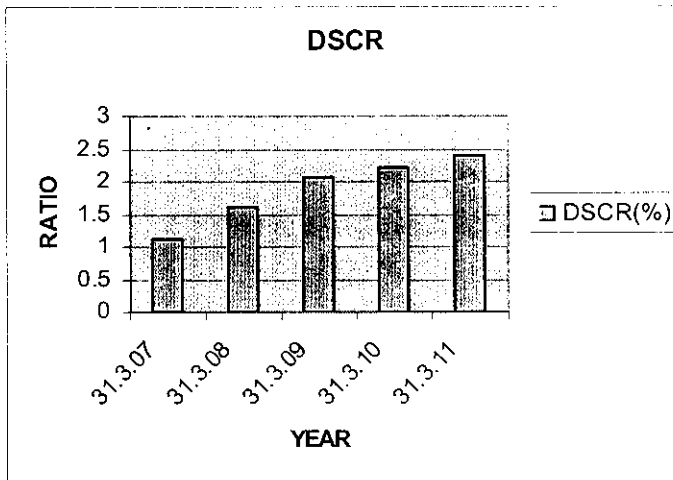
(Rs in lakhs)

YEAR	NET PROFIT + DEPRECIATION+ INTEREST	TERM LOAN REPAYMENT	DSCR(%)
31.3.07	15.60	14.00	1.11
31.3.08	27.00	16.75	1.61
31.3.09	31.80	15.50	2.05
31.3.10	31.80	14.40	2.21
31.3.11	31.80	13.30	2.39
Average			1.87

Source: Financial Projections

Interpretation: The above table 4.1.6 shows the DSCR of Jewellery proposals for the five years, i.e. from 2007 to 2011, shows an increasing trend. It is also evident that the repayment of the term loan for 5 years is found to be satisfactory. In the year 2007 the DSCR is found to be 1.11 then increases to 1.61 in the year 2008. in the year 2009 it again increases to 2.05 and then increases to 2.21 and 2.39 in the year 2010 and 2011 respectively.

Chart 4.1.6 Debt Service Coverage ratio



Inference: The average DSCR is 1.87. It satisfies the standard of banking norms of 1.20:1. It shows a positive sign of repayment of the term loan interest and the principal even at the times of cash losses and ensures that it would pay at least the interest even at the event of cash losses.

4.1.7 Maximum Permissible Bank Finance

Historically two methods have been used to calculate the maximum permissible finance of the firm, the working capital approach and turnover approach. The working capital approach is being used for our calculation. The working capital approach is based on the presumption that firm's current assets are illiquid and firms should finance 25% of the gap from equity and 75% from bank credit.

Maximum permissible bank finance = (current assets – other current
Liabilities) * 75%

Table 4.1.7 Maximum Permissible Bank Finance

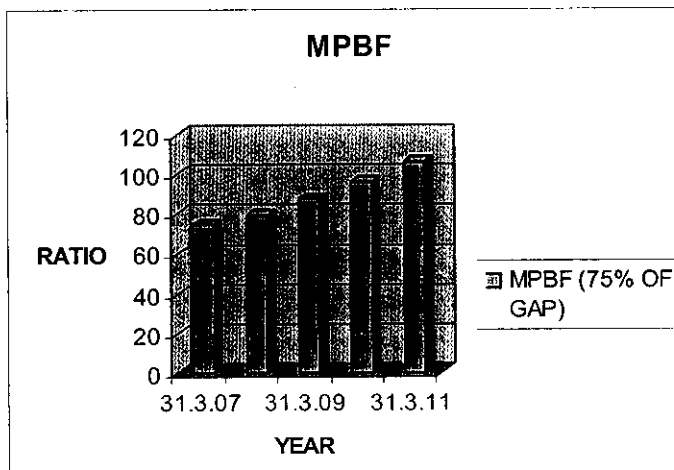
(Rs in lakhs)

YEAR	TOTAL CURRENT ASSETS	OTHER CURRENT LIABILITIES	WORKING GAP	MPBF (75% OF GAP)
31.3.07	130.60	4	99.6	74.7
31.3.08	112.85	7	105.85	79.39
31.3.09	126.15	9	117.15	87.76
31.3.10	138.55	10	128.85	96.41
31.3.11	151.05	10	141.05	105.75

Source: Financial Projections

Interpretation: From the table 4.1.7 the maximum permissible finance by the bank for the client is calculated. In the year 2007 the MPBF is 74.7 lakhs increases to 79.39 in the year 2008, again increases to 87.76 in the year 2009, and again increases to 96.41 and then again increases to 105.75 in the year 2011.

Chart 4.1.7 Maximum Permissible Bank Finance



Inference: The MPBS shows the maximum permissible bank finance as working capital loan as per the given financial projections. As per the jewellery proposal the MPBS increases every year which shows a positive sign.

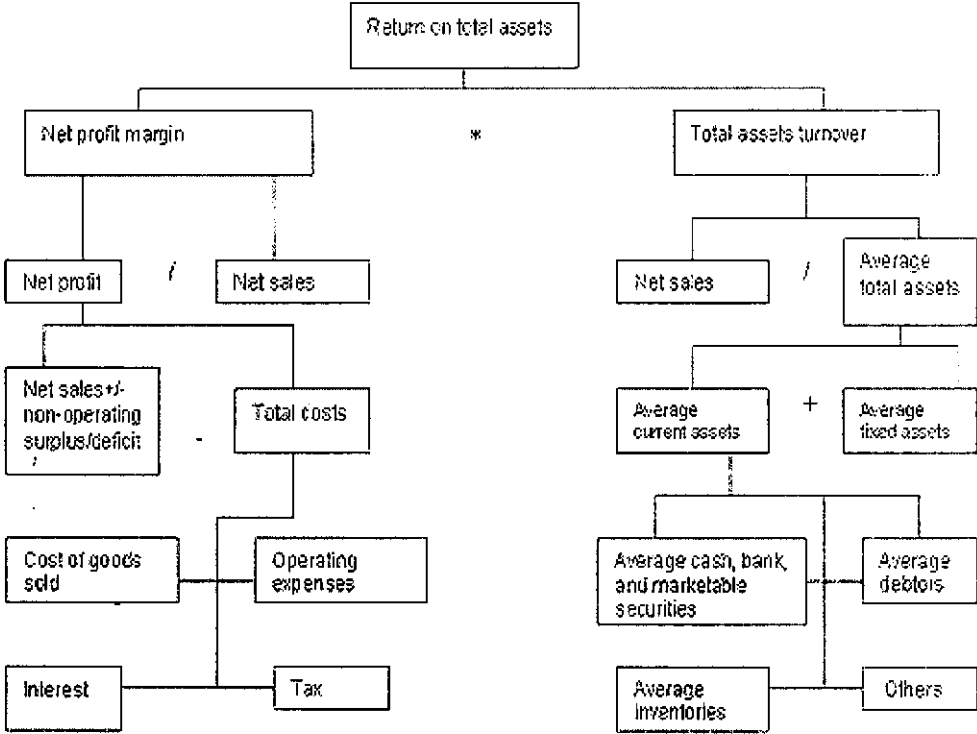
4.1.8 DUPONT Control chart

Return on equity (ROE) is one of the most important indicators of a firm's profitability and potential growth. Companies that boast a high return on equity with little or no debt are able to grow without large capital expenditures, allowing the owners of the business to withdrawal cash and reinvest it elsewhere. Many investors fail to realize, however, that two companies can have the same return on equity, yet one can be a much better business. For that reason, according to CFO Magazine, a finance executive at E.I. Du Pont de Nemours and Co., of Wilmington, Delaware, created the DuPont system of financial analysis in 1919. That system is used around the world today and will serve as the basis of our examination of components that make up return on equity. A return on equity is one measure of how efficiently a company uses its assets to produce earnings. A healthy company may produce an ROE in 13% to 15% range.

$$\begin{aligned} \text{Return on equity} &= [\text{Net Profit margin} * \text{Asset Turnover} * \text{Equity Multiplier}] \\ &= [(\text{Net Income} \div \text{Revenue}) * (\text{Revenue} \div \text{Assets}) * (\text{Assets} \div \\ &\quad \text{Shareholders' Equity})] \end{aligned}$$

$$\text{Return on equity} = \frac{\text{Net profit after taxes}}{\text{Share holder's equity}}$$

EXHIBIT NO: 12 DUPONT CONTROL CHART



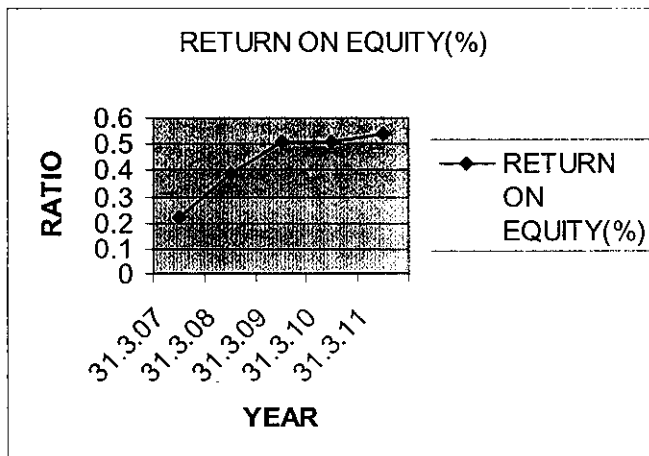
<u>Du Pont Chart</u>				
$\frac{\text{Net margin}}{\text{Net income}} \div \text{Sales}$	x	$\frac{\text{Asset turnover}}{\text{Sales}} \div \text{Total assets}$	=	$\frac{\text{Return on assets}}{\text{Net income}} \div \text{Total assets}$
6,7 %	x	0,38 %	=	2,5 %
$\frac{\text{Return on assets}}{\text{Net income}} \div \text{Total assets}$	x	$\frac{\text{Financial leverage}}{\text{Total liabilities + owners equity}} \div \text{Owners equity}$	=	$\frac{\text{Return on equity}}{\text{Net income}} \div \text{Owners equity}$
2,5 %	x	2,2 %	=	5,5 %

TABLE 4.1.8 DUPONT Control chart**(Rs in lakhs)**

YEAR	NET PROFIT AFTER TAXES	SHARE HOLDERS EQUITY	RETURN ON EQUITY(%)
31.3.07	9.60	42	0.22
31.3.08	16.25	42	0.39
31.3.09	21.30	42	0.51
31.3.10	21.40	42	0.51
31.3.11	22.50	42	0.54
Average			0.43

SOURCE: FINANCIAL PROJECTIONS

Interpretation: From the table 4.1.8 it shows that the return of equity has an increasing trend. The return of equity is 22% in the year 2007 then increases to 39% in the year 2008 and again increases to 51% in the year 2009 and stays constant for the next year at the same 51% and again increases to 54% in the year 2011. It shows a positive trend.

CHART 4.1.8 DUPONT Control chart

Inference: A 43.10% return on equity is good in any industry. A minimum of 13 % return of equity shows the firms profitability and potential growth. The average of 43.10% shows that the firm is very much healthy.

4.1.9 ZETA SCORE MODEL:

The Z-Score formula for Predicting Bankruptcy of Edward Altman is a multivariate formula for a measurement of the financial health of a company and a powerful diagnostic tool that forecasts the probability of a company entering bankruptcy within a 2 year period. Studies measuring the effectiveness of the Z-Score have shown the model is often accurate in predicting bankruptcy (72%-80% reliability). The Z-Score was developed in 1968 by Dr. Edward I. Altman, Ph.D., a financial economist and professor at New York University's Stern School of Business. The Z-Score bankruptcy predictor combines five common business ratios, using a weighting system calculated by Altman to determine the likelihood of a company going bankrupt. It was derived based on data from manufacturing firms, but has since proven to be effective as well (with some modifications) in determining the risk a service firm will go bankrupt.

$$\text{Z Score} = [\text{EBIT} / \text{Total assets} * 3.3] + [\text{Net sales} / \text{Total assets} * 0.999] + [\text{M.V of equity} / \text{total liabilities} * 0.6] + [\text{Working cap} / \text{total assets} * 1.2] + [\text{Retained earnings} / \text{total assets} * 1.4]$$

The Interpretation of Z score model:

Z-SCORE ABOVE 3.0 - The Company is safe based on these financial figures only.

Z-SCORE BETWEEN 2.7 and 2.99 - On Alert. This zone is an area where one should exercise caution.

Z-SCORE BETWEEN 1.8 and 2.7 - Good chances of the company going bankrupt within 2 years of operations from the date of financial figures given.

Z-SCORE BELOW 1.80- Probability of Financial embarrassment is very high.

EXHIBIT NO.13 ZETA SCORE MODEL

The Z Score Versions

Variable	Z Public Mfg	Z1 Private Mfg	Z2 General Use	Mean Ratio Values	
				Bnrprt	Not Bnrprt
X1 = $\frac{\text{Working Capital}}{\text{Total Assets}}$	1.200	0.717	0.590	10.031	0.414
X2 = $\frac{\text{Retained Earnings}}{\text{Total Assets}}$	1.400	0.547	0.230	10.523	0.255
X3 = $\frac{\text{EBIT}}{\text{Total Assets}}$	3.200	3.107	3.720	10.312	0.154
X4 = $\frac{\text{Mkt Value of Equity}}{\text{Total Liabilities}}$	0.500			0.401	2.477
X4A = $\frac{\text{Net Worth}}{\text{Total Liabilities}}$		0.400	1.050	0.494	2.334
X5 = $\frac{\text{Sales}}{\text{Total Assets}}$	1.000	0.998		1.502	1.929
Cutoff Values					
Safe if greater than:	2.99	2.90	2.50		
Bankrupt if less than:	1.81	1.23	1.10		
Mean Scores					
Nonbankrupt	5.02	4.14	7.70		
Bankrupt	(0.29)	0.15	(4.08)		

Table 4.1.9 ZETA SCORE MODEL

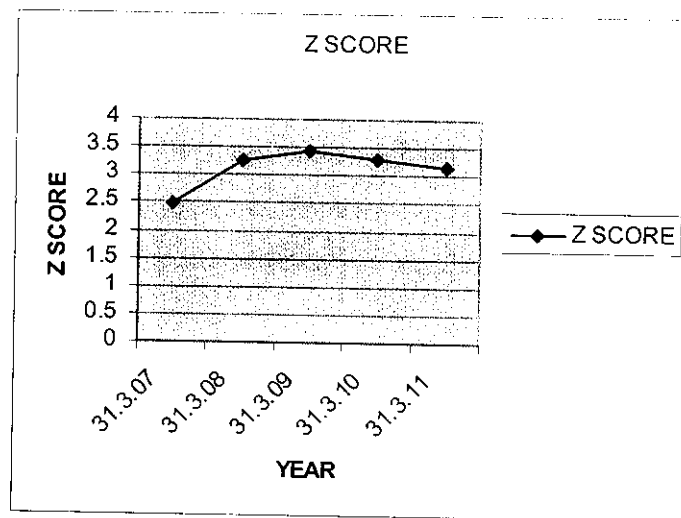
(Rs in Lakhs)

RATIO * WEIGHTAGE	31.3.07	31.3.08	31.3.09	31.3.10	31.3.11
EBIT / Total assets * 3.3	0.317	0.515	0.607	0.581	0.561
Net sales / Total assets * 0.999	0.861	1.385	1.480	1.362	1.261
M.V of equity / total liab * 0.6	0.209	0.194	0.176	0.162	0.150
Working cap / total assets * 1.2	0.991	0.978	0.982	0.991	1.003
Retained earnings / total assets * 1.4	0.112	0.175	0.209	0.193	0.188
Z SCORE	2.49	3.25	3.45	3.29	3.16

Source: Financial Projections

Interpretation: From the table 4.1.9, the z score values for the year 2007 is 2.49 which means that there are possibility of bankruptcy within two years of operations from the date of financial figures given, where as the year 2008, 2009 it seems to be increasing and is above 3 which explains that the company is in a comfortable position and in the year 2010 and 2011 it again reduces by 0.16 and 0.13 respectively even then it is very much in the comfortable position.

Chart 4.1.9 ZETA SCORE MODEL



Inference: First year being the initial period of the concern the chances of bankruptcy is very much high where as from the next year onwards it shows a positive sign of moving above the standard position and is very much comfortable till 2011 as per the analysis, which means the chances of bankruptcy for the jewellery is very low.

4.2 PROPOSAL – II HOSPITAL

Table 4.2.1

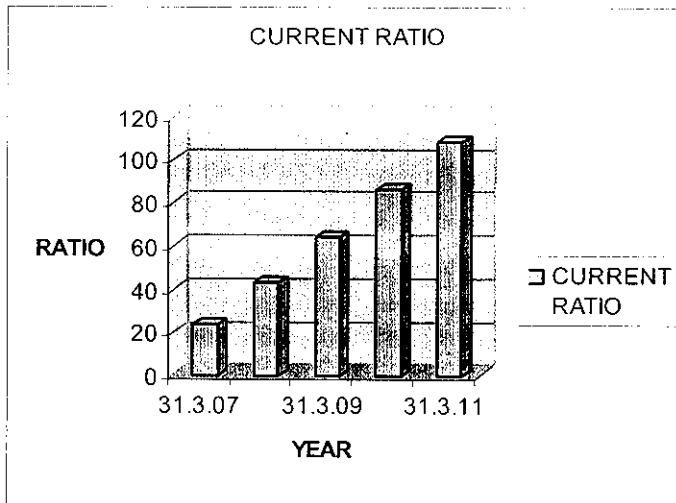
Current Ratio:

(Rs in lakhs)

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO
31.3.07	82.9	3.55	23.35
31.3.08	151.94	3.55	42.8
31.3.09	226.64	3.55	63.84
31.3.10	304.80	3.55	85.86
31.3.11	383.80	3.55	108.11
Average			64.79

Source: Financial Projections

Interpretation: As per the table 4.2.1, current ratio of hospital proposal shows fluctuating trend. During the year 2007, the current ratio is 23.35. In the year 2008, the current ratio increased to 42.8 and there is still an increase in the current ratio in the year 2009 i.e. 63.84. In the year 2010 the current ratio increased to 85.86 and in the year 2011 it shows an increase to 108.11, which is above the standard. The short term solvency position of hospital is very much sound. The following graph shows the current ratio of hospital.

Chart 4.2.1 Current Ratio:

Inference: The average current ratio of hospital is 64.79:1, which is above the banking standard of 1.25:1. It means that, for every Re.1 of current liability, there is a current asset of Rs.323.60. Therefore the short term insolvency position of the hospital is found to be very much satisfactory.

4.2.2 Quick Ratio :

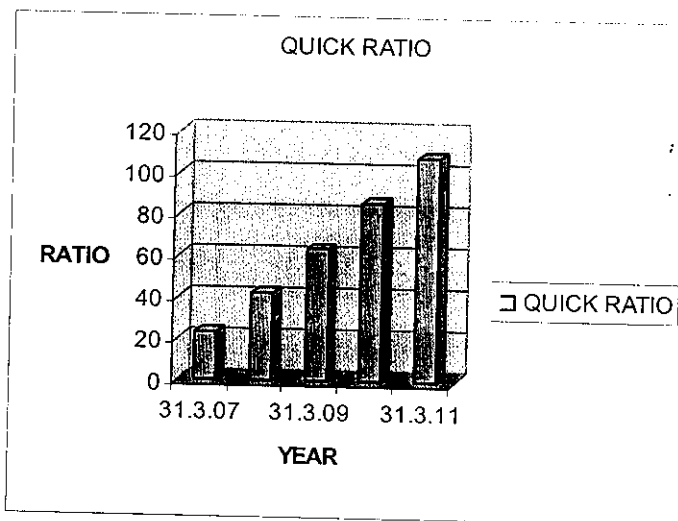
Table 4.2.2**(Rs in lakhs)**

YEAR	QUICK ASSETS	CURRENT LIABILITIES	QUICK RATIO
31.3.07	82.9	3.55	23.35
31.3.08	151.94	3.55	42.8
31.3.09	226.64	3.55	63.84
31.3.10	304.80	3.55	85.86
31.3.11	383.80	3.55	108.11
Average			64.79

Source: Financial Projections

Interpretation: It can be seen from the table 4.2.2, that during the year 2007, the quick ratio is 23.35:1. Quick ratio is then increases to 42.8:1 during the next year, i.e. in 2008. In the year 2009, the quick ratio increased to 63.84:1. During the next two years i.e. 2010, 2011, the quick ratio shows a increasing trend from 85.86:1 to 108.11:1 respectively. A high quick ratio shows that the firm is liquid and shows the ability to meet the current liabilities.

Chart 4.2.2 Quick Ratio



Inference: The average quick ratio of hospital is 64.79:1, which is above the banking standard of 1:1. It means that, for every Re.1 of quick liability, there is a quick asset of Rs.2.96. Therefore the short term liquidity position of the Hospital is found to be very satisfactory.

4.2.3. Debt Equity Ratio:

Table 4.2.3

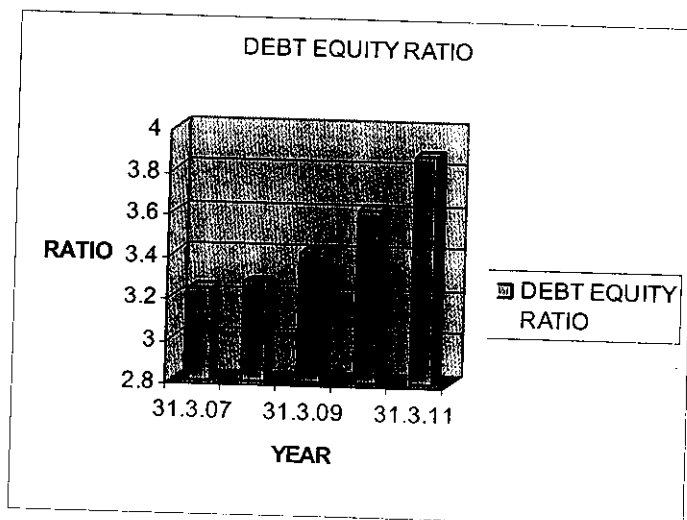
(Rs in lakhs)

YEAR	TOTAL LIABILITIES	SHARE HOLDERS EQUITY	DEBT EQUITY RATIO
31.3.07	505.12	156.10	3.24
31.3.08	511.31	156.10	3.27
31.3.09	532.58	156.10	3.41
31.3.10	565.33	156.10	3.62
31.3.11	605.73	156.10	3.88
Average			3.48

Source: Financial Projections

Interpretation: From the table 4.2.3, during the year 2007, the debt equity ratio is 3.24:1. Debt equity ratio is then increases to 3.27:1 during the next year, i.e. in 2008. In the year 2009, the Debt equity ratio increased to 3.41:1. During the next two years i.e. 2010, 2011, the Debt equity ratio shows an increasing trend from 3.62:1 to 3.88:1 respectively.

Chart 4.2.3 Debt Equity Ratio



Inference: The debt equity ratio indicates that the firm has a great amount of debt in its capital structure. The average debt equity ratio of the Hospital is 3.48 which is above the banking standard of 2:1.

4.2.4. Net Working Capital

Table 4.2.4

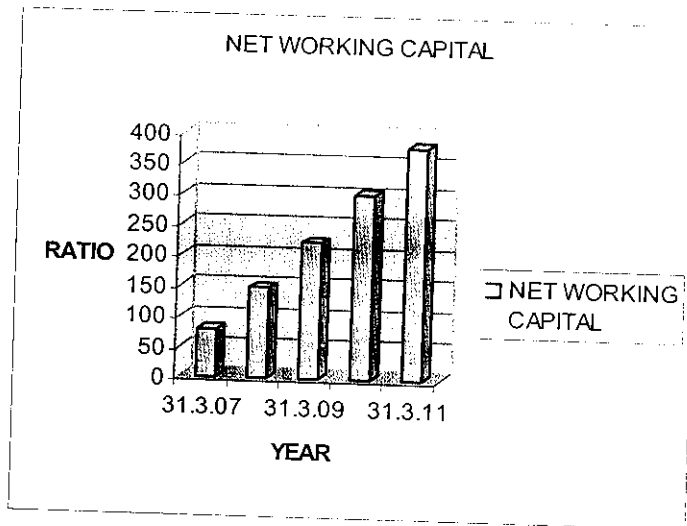
(Rs in lakhs)

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	NET WORKING CAPITAL
31.3.07	82.9	3.55	79.35
31.3.08	151.94	3.55	148.39
31.3.09	226.64	3.55	223.09
31.3.10	304.80	3.55	301.25
31.3.11	383.80	3.55	380.25
Average			226.47

Source: Financial Projections

Interpretation: The above table 4.2.4, shows the networking capital of hospital for the five years, i.e. from 2007 to 2011 shows a fluctuating trend. It is also evident that the current assets of the company are sufficient to meet its current liabilities. The amount of net working capital in the first year amounts to 79.35 lakhs which increased to 148.39 lakhs in the second year and increased to 223.09 lakhs, 301.25 lakhs, 380.25 lakhs in the 3rd, 4th and the 5th year respectively

Chart 4.2.4 Net Working Capital



Inference: The average net working capital of the hospital is 226.47 is found to be satisfactory.

4.2.5. Tangible Net worth:

Table 4.2.5

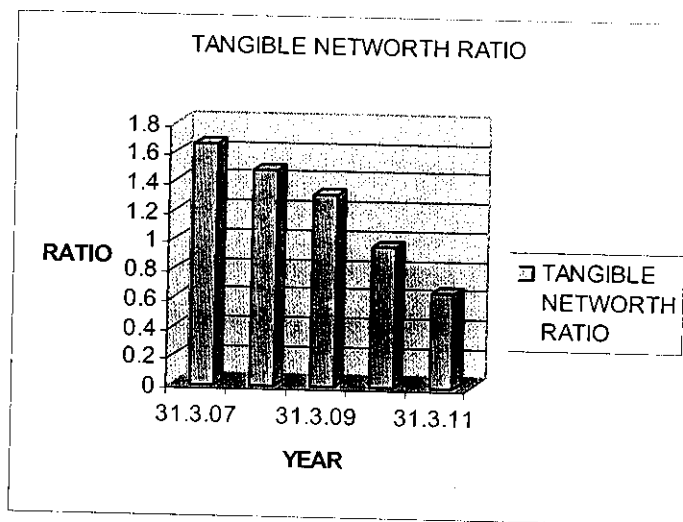
(Rs in lakhs)

YEAR	TOTAL OUTSIDERS LIABILITIES	TANGIBLE NET WORTH	TANGIBLE NETWORTH RATIO
31.3.07	303.55	180.90	1.66
31.3.08	253.55	175.14	1.48
31.3.09	203.55	155.80	1.31
31.3.10	153.55	159.27	0.96
31.3.11	103.55	160.09	0.65
Average			1.21

Source: Financial Projections

Interpretation: From the above table 4.2.5, the tangible net worth ratio for the year 2007 is 1.66 declines to 1.48 in the year 2008 and again declines to 1.31 in the year 2009. The tangible net worth for the year 2010 and 2011 are 0.96 and 0.65 respectively. The tangible net-worth ratio is found to be very much satisfactory.

Chart 4.2.5. Tangible Net worth



Inference: The average tangible net worth ratio is 1.21. It satisfies the standard of banking norms of 3:1. This means that for every one rupee of tangible net worth the company has Rs.1.21 worth total outsider's liability which is showing a positive sign.

4.2.6 Debt Service Coverage Ratio:

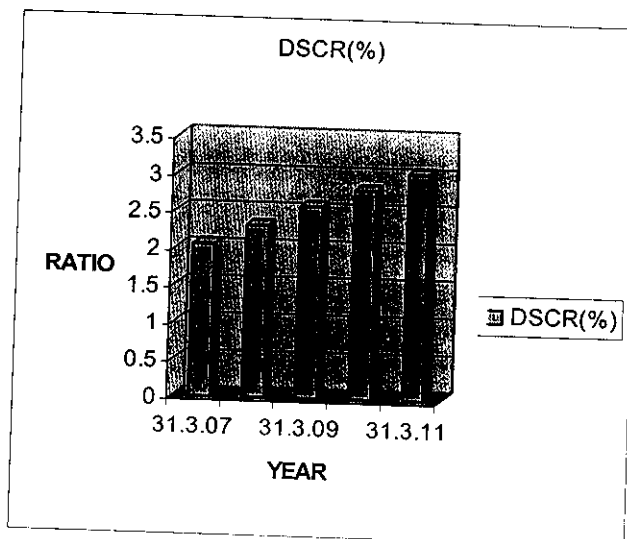
Table 4.2.6

YEAR	NET PROFIT + DEPRECIATION+ INTEREST	TERM LOAN REPAYMENT	DSCR(%)
31.3.07	173.24	84.34	2.05
31.3.08	183.36	79.09	2.32
31.3.09	190.23	73.83	2.58
31.3.10	193.36	68.58	2.82
31.3.11	192.2	63.33	3.04
Average			2.56

Source: Financial Projections

Interpretation: The above table 4.2.6 shows the DSCR of hospital proposal for the five years, i.e. from 2007 to 2011 shows an increasing trend. It is also evident that the repayment of the term loan is found to be satisfactory. In the year 2007 the DSCR is found to be 2.05 then increases to 2.32 in the year 2008. In the year 2009 it again increases to 2.58 and then increases to 2.82 and 3.04 in the year 2010 and 2011 respectively.

Chart 4.2.6 Debt Service Coverage Ratio



Inference: The average DSCR is 2.56. It satisfies the standard of banking norms of 1.20:1. It shows a positive sign of repayment of the term loan interest and the principal even at the times of cash losses and ensures that it would pay at least the interest even at the event of cash losses.

4.2.7 Maximum Permissible Bank Finance- Working Capital

TABLE 4.2.7

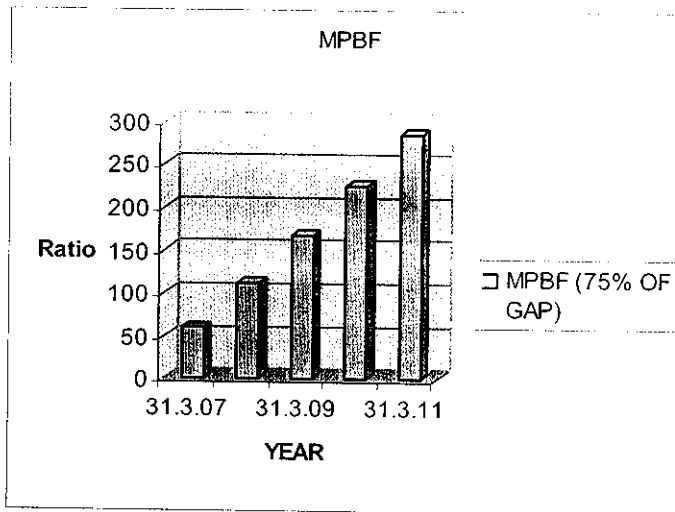
(Rs in lakhs)

YEAR	TOTAL CURRENT ASSETS	OTHER CURRENT LIABILITIES	WORKING GAP	MPBF (75% OF GAP)
31.3.07	82.9	3.55	79.35	59.51
31.3.08	151.94	3.55	148.39	111.29
31.3.09	226.64	3.55	223.09	167.32
31.3.10	304.80	3.55	301.25	225.94
31.3.11	383.80	3.55	380.25	285.19

Source: Financial Projections

Interpretation: From the table 4.2.7 the maximum permissible finance by the bank for the client is calculated. In the year 2007 the MPBF is 59.51 lakhs increases to 111.29 in the year 2008, again increases to 167.32 in the year 2009, and again increases to 225.94 and then again increases to 285.19 in the year 2011.

Chart 4.2.7 Maximum Permissible Bank Finance- Working Capital



Inference: The MPBF shows the maximum permissible bank finance as working capital loan as per the given financial projections. As per the hospital proposal the MPBS increases every year which shows a positive sign.

4.2.8 DUPONT Control Chart

Table 4.2.8

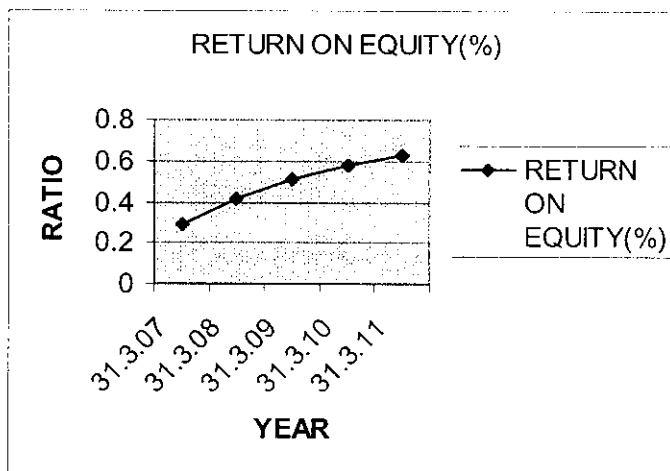
(Rs in lakhs)

YEAR	NET PROFIT AFTER TAXES	SHARE HOLDERS EQUITY	RETURN ON EQUITY(%)
31.3.07	45.47	156.10	0.29
31.3.08	63.99	156.10	0.41
31.3.09	79.08	156.10	0.51
31.3.10	90.56	156.10	0.58
31.3.11	98.20	156.10	0.63
Average			0.50

Source: Financial Projections

Interpretation: From the table 4.2.8 it shows that the return of equity has an increasing trend. The return of equity is 22% in the year 2007 then increases to 39% in the year 2008 and again increases to 51% in the year 2009 and stays constant for the next year and again increases to 0.54 in the year 2011. it shows a positive trend.

Chart 4.2.8 DUPONT Control Chart



Inference: A 50% return on equity is good in any industry. A minimum of 13 % return of equity shows the firms profitability and potential growth. The average of 50% shows that the firm is very much healthy.

4.2.9 ZETA SCORE MODEL

Table 4.2.9

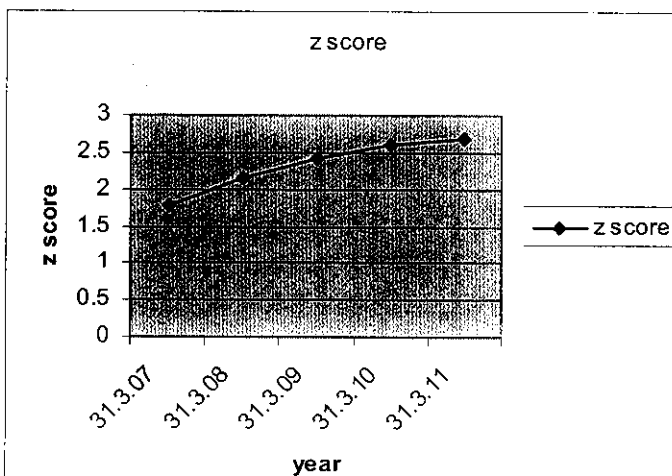
(Rs in Lakhs)

RATIO * WEIGHTAGE	31.3.07	31.3.08	31.3.09	31.3.10	31.3.11
EBIT / Total assets * 3.3	0.650	0.779	0.848	0.865	0.838
Net sales / Total assets *0.999	0.627	0.682	0.714	0.729	0.733
M.V of equity / total liab *0.6	0.185	0.183	0.176	0.166	0.155
Working cap / total assets *1.2	0.188	0.348	0.503	0.640	0.752
Retained earnings / total assets *1.4	0.126	0.154	0.188	0.204	0.210
Z SCORE	1.776	2.146	2.429	2.604	2.689

Source: Financial Projections

Interpretation: From the table 4.2.9, the z score values for the year 2007 is 1.776 which means that there are possibility of bankruptcy within two years of operations from the date of financial figures given, where as the year 2008, 2009 it seems to be increasing and is still below 3 which explains that the company is still in grey area and in the year 2010 and 2011 it again increases by 0.18 and 0.085 respectively even then it is in the grey area.

Chart 4.2.9 Zeta Score Model



Inference: From the first year till the third year the firm shows high chances for bankruptcy where as from the 4th year it enters into the grey area where one should exercise caution. The firm being a service industry it will take time to get the return for a period of time as all the income is being spent on the purchase of new equipments and other hospital requirements.

4.3 PROPOSAL – III GARMENTS

Table 4.3.1

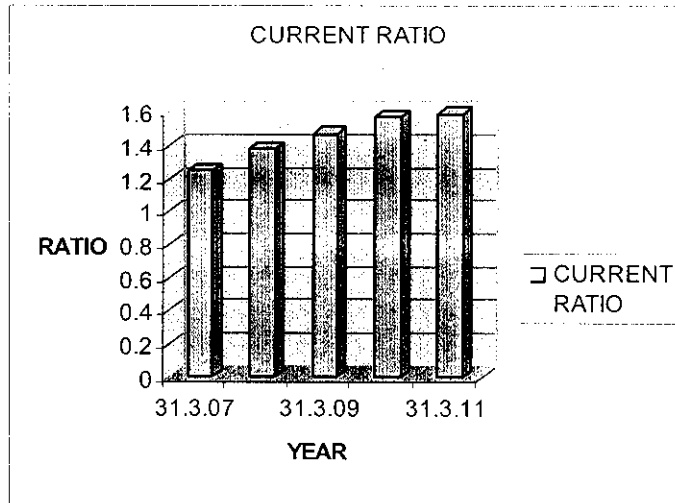
Current Ratio:

(Rs in lakhs)

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO
31.3.07	56.43	45.01	1.25
31.3.08	65.78	47.67	1.38
31.3.09	74.59	50.57	1.47
31.3.10	83.43	53.25	1.57
31.3.11	85.13	53.60	1.59
Average			1.45

Source: Financial Projections

Interpretation: As per the table 4.3.1, current ratio of Garments proposal shows fluctuating trend. During the year 2007, the current ratio is 1.25. In the year 2008, the current ratio increased to 1.38 and there is still an increase in the current ratio in the year 2009 i.e. 1.47. In the year 2010 the current ratio increased to 1.57 and in the year 2011 it shows an increase to 1.59, which is above the standard. The short term solvency position of garments is very much sound. The following graph shows the current ratio of garments.

Chart 4.3.1**Current ratio**

Inference: The average current ratio of Garment proposal 1.45:1, which is above the banking standard of 1.25:1. It means that, for every Re.1 of current liability, there is a current asset of Rs.1.45. Therefore the short term insolvency position of the Garment is found to be very much satisfactory

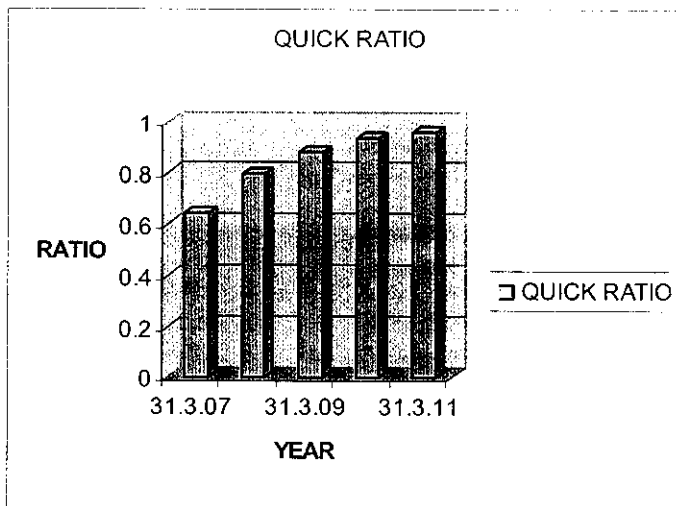
4.3.2 Quick Ratio :**Table 4.3.2****(Rs in lakhs)**

YEAR	QUICK ASSETS	CURRENT LIABILITIES	QUICK RATIO
31.3.07	28.94	45.01	0.64
31.3.08	38.29	47.67	0.80
31.3.09	44.34	50.57	0.88
31.3.10	50.16	53.25	0.94
31.3.11	51.86	53.60	0.96
Average			0.84

Source: Financial Projections

Interpretation: It can be seen from the table 4.3.2, that during the year 2007, the quick ratio is 0.64. Quick ratio is then increases to 0.80:1 during the next year, i.e. in 2008. In the year 2009, the quick ratio increased to 0.88:1. During the next two years i.e. 2010, 2011, the quick ratio shows a increasing trend from 0.94:1 to 0.96:1 respectively. A low quick ratio represents that firm's liquidity position is not good.

Chart 4.3.2 Quick Ratio



Inference: The average quick ratio of garment concern is 0.84:1, which is below the banking standard of 1:1. It means that, for every Re.1 of quick liability, there is a quick asset of Rs. 0.84. Therefore the short term liquidity position of the garments concern is not found to be satisfactory.

4.3.3. Debt Equity Ratio:

Table 4.3.3

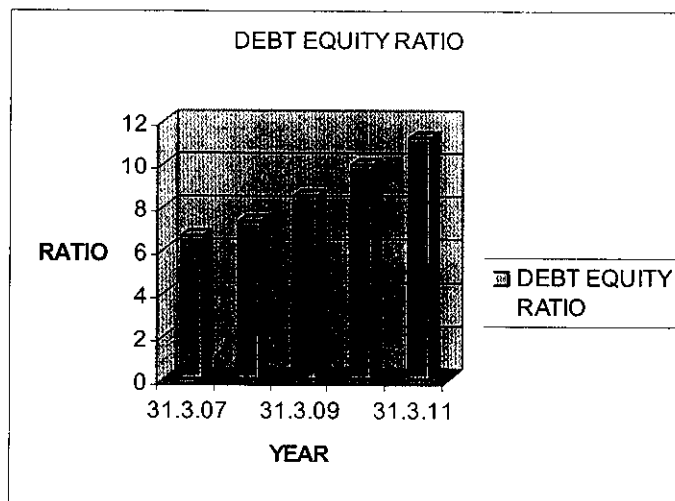
(Rs in lakhs)

YEAR	TOTAL LIABILITIES	SHARE HOLDERS EQUITY	DEBT EQUITY RATIO
31.3.07	79.69	12	6.64
31.3.08	88.22	12	7.35
31.3.09	101.76	12	8.48
31.3.10	119.14	12	9.93
31.3.11	135.01	12	11.25
Average			8.73

Source: Financial Projections

Interpretation: From the table 4.3.3, during the year 2007, the debt equity ratio is 6.64:1. Debt equity ratio is then increases to 7.45:1 during the next year, i.e. in 2008. In the year 2009, the Debt equity ratio increased to 8.48:1. During the next two years i.e. 2010, 2011, the Debt equity ratio shows an increasing trend from 9.93:1 to 11.25:1 respectively.

Chart 4.3.3 Debt Equity Ratio



Inference: The debt equity ratio indicates that the firm has a great amount of debt in its capital structure. The average debt equity ratio of the garments concern is 8.73, which is above the banking standard of 2:1.

4.3.4 Net Working Capital

Table 4.3.4

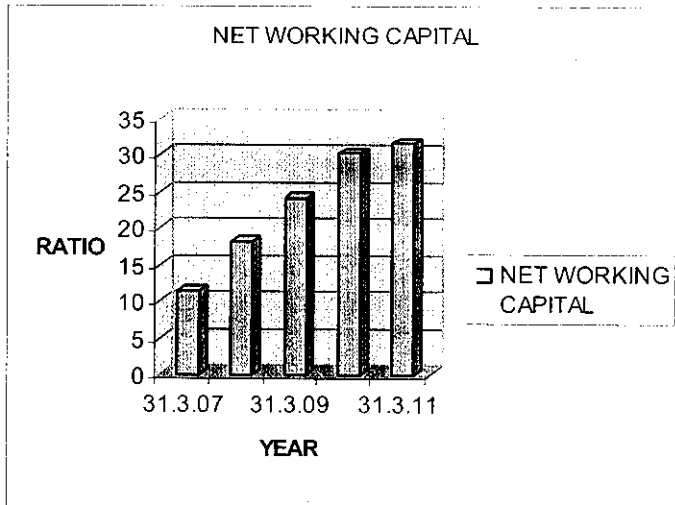
(Rs in lakhs)

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	NET WORKING CAPITAL
31.3.07	56.43	45.01	11.42
31.3.08	65.78	47.67	18.11
31.3.09	74.59	50.57	24.02
31.3.10	83.43	53.25	30.18
31.3.11	85.13	53.60	31.53
Average			23.05

Source: Financial Projections

Interpretation: The above table 4.3.4 shows the networking capital of garments for the five years, i.e. from 2007 to 2011 shows a fluctuating trend. It is also evident that the current assets of the company are sufficient to meet its current liabilities. The amount of net working capital in the first year amounts to 11.42 lakhs which increased to 18.11 lakhs in the second year and increased to 2.02 lakhs, 30.18 lakhs, 31.53 lakhs in the 3rd, 4th and the 5th year respectively

Chart 4.3.4 Net Working Capital



Inference: The average net working capital of the garment concern is 23.05 lakhs which is found to be satisfactory

4.3.5 Tangible Net worth:

Table 4.3.5

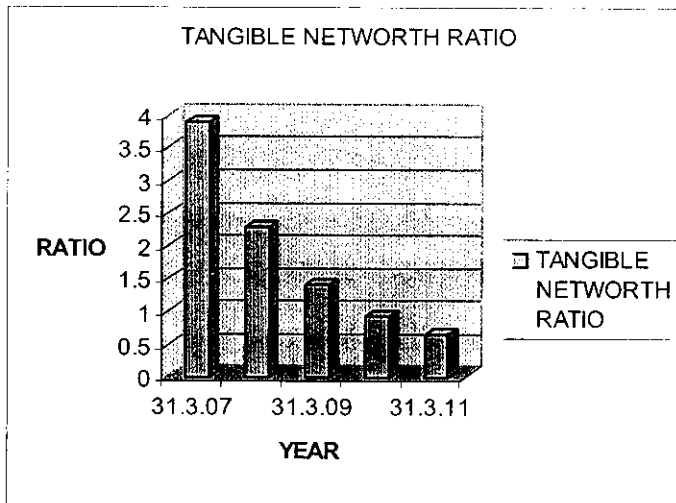
(Rs in lakhs)

YEAR	TOTAL OUTSIDERS LIABILITIES	TANGIBLE NET WORTH	TANGIBLE NETWORTH RATIO
31.3.07	63.41	16.28	3.90
31.3.08	61.47	26.75	2.30
31.3.09	59.77	41.99	1.42
31.3.10	57.85	61.29	0.94
31.3.11	53.60	81.41	0.66
Average			1.84

Source: Financial Projections

Interpretation: From the above table 4.3.5, the tangible net worth ratio for the year 2007 is 3.90 declines to 2.30 in the year 2008 and again declines to 1.42 in the year 2009. The tangible net worth for the year 2010 and 2011 are 0.94 and 0.66 respectively. The tangible net-worth ratio is found to be very much satisfactory.

Chart 4.3.5 Tangible Net worth:



Inference: The average tangible net worth ratio is 1.84. It satisfies the standard of banking norms of 3:1. This means that for every one rupee of tangible net worth the company has Rs.1.84 worth total outsider's liability which is showing a positive sign.

4.3.6 Debt Service Coverage Ratio:

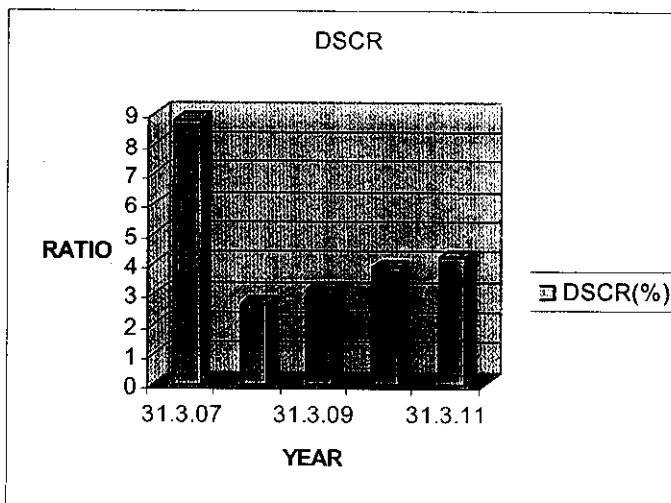
Table 4.3.6

YEAR	NET PROFIT + DEPRECIATION+ INTEREST	TERM LOAN REPAYMENT	DSCR(%)
31.3.07	13.57	1.54	8.80
31.3.08	18.67	6.98	2.67
31.3.09	20.36	6.45	3.16
31.3.10	23.07	5.92	3.90
31.3.11	22.75	5.39	4.22
Average			4.55

Source: Financial Projections

Interpretation: The above table 4.3.6 shows the DSCR of garments proposal for the five years, i.e. from 2007 to 2011 shows a fluctuating trend. It is also evident that the repayment of the term loan is found to be satisfactory. In the year 2007 the DSCR is found to be 8.80 then decreases to 2.67 in the year 2008. In the year 2009 it again increases to 3.16 and then increases to 3.90 and 4.22 in the year 2010 and 2011 respectively.

Chart 4.3.6 Debt Service Coverage Ratio



Inference: The average DSCR is 4.55. It satisfies the standard of banking norms of 1.20:1. It shows a positive sign of repayment of the term loan interest and the principal even at the times of cash losses and ensures that it would pay at least the interest even at the event of cash losses.

4.3.7 Maximum Permissible Bank Finance- Working Capital

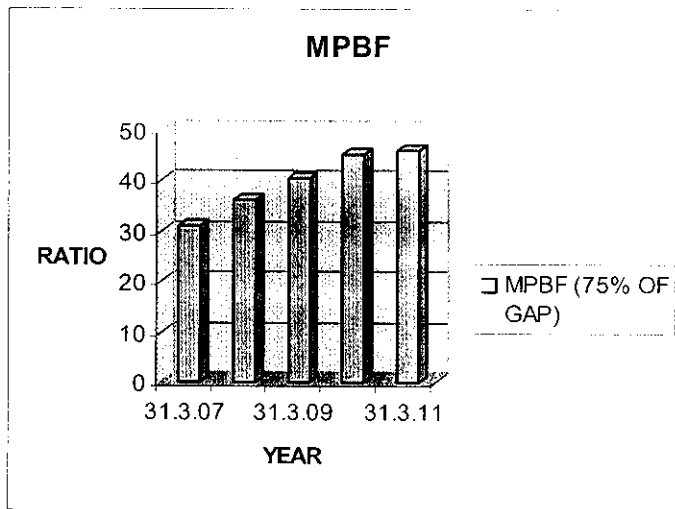
Table 4.3.7

(Rs in lakhs)

YEAR	TOTAL CURRENT ASSETS	OTHER CURRENT LIABILITIES	WORKING GAP	MPBF (75% OF GAP)
31.3.07	56.43	15.01	41.42	31.07
31.3.08	65.78	17.67	48.11	36.09
31.3.09	74.59	20.57	54.02	40.52
31.3.10	88.43	23.25	60.18	45.13
31.3.11	85.13	23.60	61.54	46.13

Source: Financial Projections

Interpretation: From the table 4.3.7 the maximum permissible finance by the bank for the client is calculated. In the year 2007 the MPBF is 31.07 lakhs increases to 36.09 lakhs in the year 2008, again increases to 40.52 lakhs in the year 2009, and again increases to 45.13 lakhs and then again increases to 46.13 in the year 2011.

Chart 4.3.7 Maximum Permissible Bank Finance- Working Capital

Inference: The MPBF shows the maximum permissible bank finance as working capital loan as per the given financial projections. As per the garments proposal the MPBS increases every year which shows a positive sign.

4.3.8 DUPONT Control Chart

Table 4.3.8

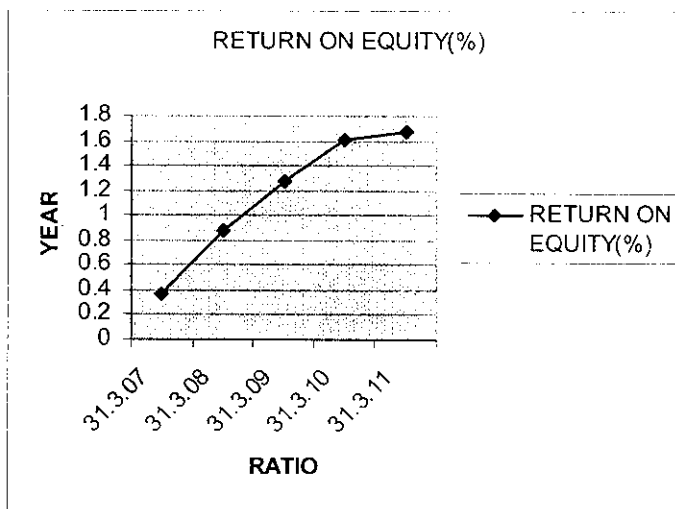
(Rs in lakhs)

YEAR	NET PROFIT AFTER TAXES	SHARE HOLDERS EQUITY	RETURN ON EQUITY(%)
31.3.07	4.28	12	0.36
31.3.08	10.47	12	0.87
31.3.09	15.24	12	1.27
31.3.10	19.30	12	1.61
31.3.11	20.12	12	1.68
Average			1.15

Source: Financial Projections

Interpretation: From the table 4.3.8 it shows that the return of equity has an increasing trend. The return of equity is 36% in the year 2007 then increases to 87% in the year 2008 and again increases to 121% in the year 2009 and again increases to 161 for the next year and again increases to 168% in the year 2011. it shows a positive trend.

Chart 4.3.8 DUPONT Control Chart



Inference: An average of 115% return on equity is good in any industry. A minimum of 13 % return of equity shows the firms profitability and potential growth. The average of 115% shows that the firm is very much healthy.

4.3.9 ZETA SCORE MODEL

Table 4.3.9

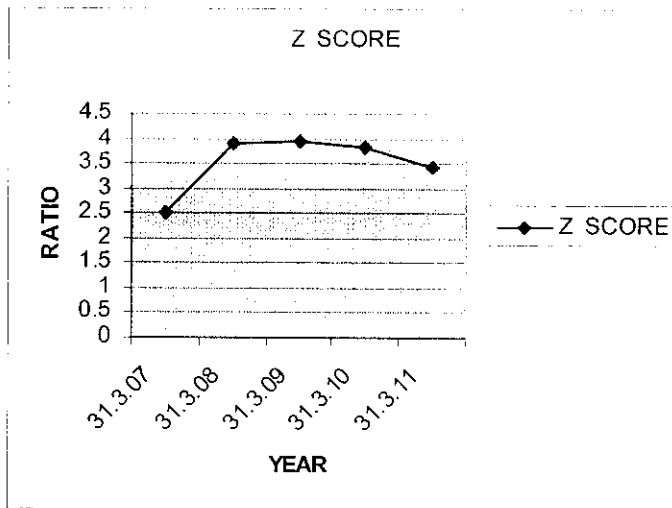
(Rs in Lakhs)

RATIO * WEIGHTAGE	31.3.07	31.3.08	31.3.09	31.3.10	31.3.11
EBIT / Total assets * 3.3	0.396	0.759	0.858	0.891	0.792
Net sales / Total assets *0.999	1.76	2.65	2.51	2.36	2.10
M.V of equity / total liab *0.6	0.09	0.08	0.07	0.06	0.05
Working cap / total assets *1.2	0.17	0.25	0.29	0.30	0.28
Retained earnings / total assets *1.4	0.07	0.17	0.21	0.22	0.21
Z SCORE	2.49	3.91	3.94	3.83	3.43

Source: Financial Projections

Interpretation: From the table 4.3.9, the z score values for the year 2007 is 2.49 which means that there are possibility of bankruptcy within two years of operations from the date of financial figures given, where as the year 2008, 2009 it seems to be increasing which is 3.91 and 3.94 which explains that the company is very much in the comfortable position and in the year 2010 and 2011 it again decreases to 3.83 and 3.43 which is also in the comfortable position.

Chart 4.3.9 Zeta Score Model



Inference: First year being the initial period of the concern the chances of bankruptcy is very much high where as from the next year onwards it shows a positive sign of moving above the standard position of 3 and is very much comfortable till 2011 as per the analysis, which means the chances of bankruptcy for the garments is very low.

4.4. PROPOSAL – IV ELECTRONICS PROPOSAL

Table 4.4.1

Current Ratio:

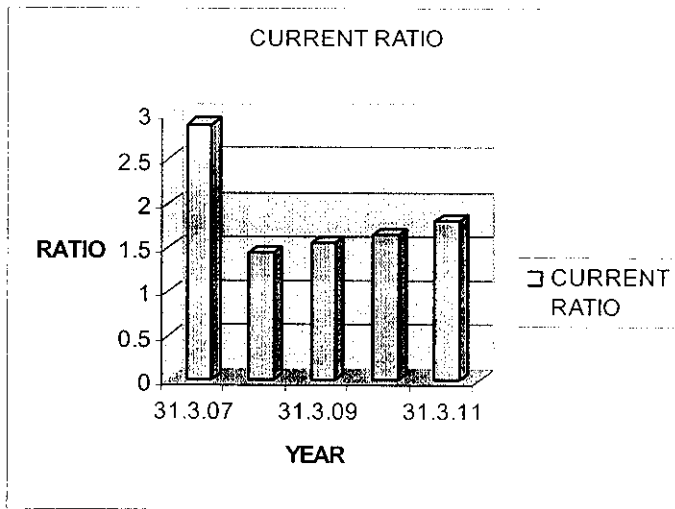
(Rs in lakhs)

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO
31.3.07	4.54	1.57	2.89
31.3.08	10.39	7.20	1.44
31.3.09	12.58	8.14	1.55
31.3.10	14.05	8.54	1.65
31.3.11	16.54	9.12	1.81
Average			1.87

Source: Financial Projections

Interpretation: As per the table 4.4.1, current ratio of electronics proposal shows fluctuating trend. During the year 2007, the current ratio is 2.89. In the year 2008, the current ratio decreased to 1.44 and then an increase in the current ratio in the year 2009 i.e. 1.55. In the year 2010 the current ratio increased to 1.65 and in the year 2011 it shows an increase to 1.81, which is above the standard. The short term solvency position of electronics is very much sound. The following graph shows the current ratio of electronics proposal.

Chart 4.4.1 Current Ratio



Inference: The average current ratio of electronics is 1.87 :1, which is above the banking standard of 1.25:1. It means that, for every Re.1 of current liability, there is a current asset of Rs.1.87. Therefore the short term insolvency position of the electronics proposal is found to be very much satisfactory.

4.4.2 Quick Ratio :

Table 4.4.2

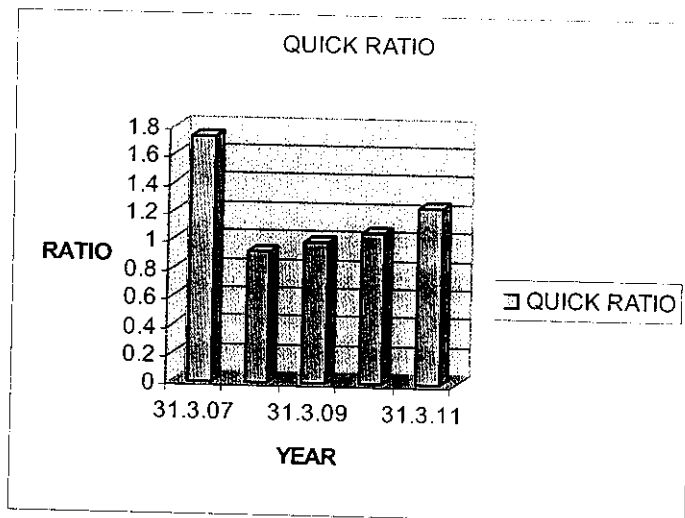
(Rs in lakhs)

YEAR	QUICK ASSETS	CURRENT LIABILITIES	QUICK RATIO
31.3.07	2.71	1.57	1.73
31.3.08	6.64	7.20	0.92
31.3.09	8.08	8.14	0.99
31.3.10	9.10	8.54	1.06
31.3.11	11.39	9.12	1.24
Average			1.18

Source: Financial Projections

Interpretation: It can be seen from the table 4.4.2, that during the year 2007, the quick ratio is 1.73. Quick ratio is then decreases to 0.92 during the next year, i.e. in 2008. In the year 2009, the quick ratio increased to 0.99. During the next two years i.e. 2010, 2011, the quick ratio shows a increasing trend from 1.06 and 1.24 respectively. A high quick ratio shows that the firm is liquid and shows the ability to meet the current liabilities in fine.

Chart 4.4.2 Quick Ratio



Inference: The average quick ratio of electronics is 1.18, which is above the banking standard of 1:1. It means that, for every Re.1 of quick liability, there is a quick asset of Rs.1.18. Therefore the short term liquidity position of the electronics proposal is found to be very satisfactory.

4.4.3. Debt Equity Ratio:

Table 4.4.3

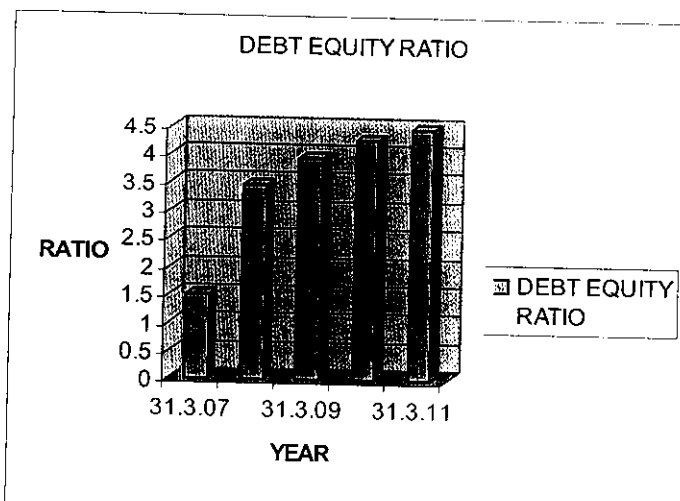
(Rs in lakhs)

YEAR	TOTAL LIABILITIES	SHARE HOLDERS EQUITY	DEBT EQUITY RATIO
31.3.07	4.86	3.27	1.49
31.3.08	11.38	3.31	3.44
31.3.09	13.07	3.31	3.95
31.3.10	14.04	3.31	4.24
31.3.11	14.79	3.31	4.47
Average			3.51

Source: Financial Projections

Interpretation: From the table 4.4.3, during the year 2007, the debt equity ratio is 1.49:1. Debt equity ratio is then increases to 3.44:1 during the next year, i.e. in 2008. In the year 2009, the Debt equity ratio increased to 3.95:1. During the next two years i.e. 2010, 2011, the Debt equity ratio shows an increasing trend from 4.24:1 to 4.47:1 respectively.

Chart 4.4.3 Debt Equity Ratio



Inference: The debt equity ratio indicates that the firm has a great amount of debt in its capital structure. The average debt equity ratio of the electronics proposal is 3.51 which is above the banking standard of 2:1.

4.4.4. Net Working Capital

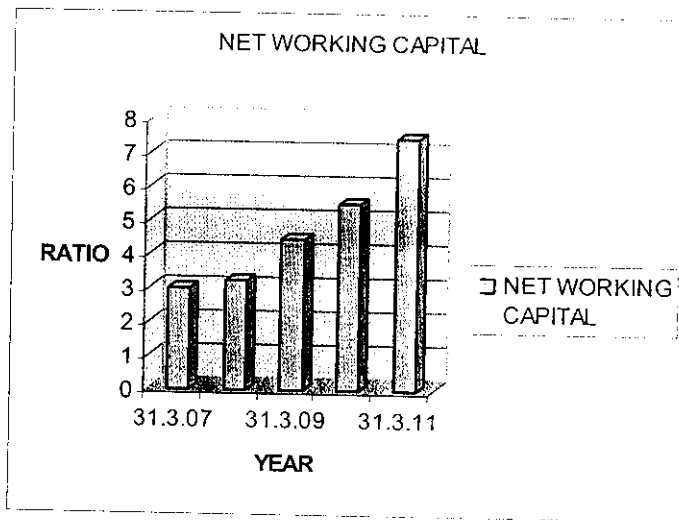
Table 4.4.4

(Rs in lakhs)

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	NET WORKING CAPITAL
31.3.07	4.54	1.57	2.97
31.3.08	10.39	7.20	3.19
31.3.09	12.58	8.14	4.44
31.3.10	14.05	8.54	5.51
31.3.11	16.54	9.12	7.42
Average			4.40

Source: Financial Projections

Interpretation: The above table 4.4.4 shows the networking capital of electronics for the five years, i.e. from 2007 to 2011 shows an increasing trend. It is also evident that the current assets of the company are sufficient to meet its current liabilities. The amount of net working capital in the first year amounts to 2.97 lakhs which increased to 3.19 lakhs in the second year and increased to 4.44 lakhs, 5.51 lakhs, 7.42 lakhs in the 3rd, 4th and the 5th year respectively.

Chart 4.4.4 Net Working Capital

Inference: The average net working capital of the electronics proposal is 4.40 lakhs which is found to be satisfactory

4.4.5. Tangible Net worth:

Table 4.4.5

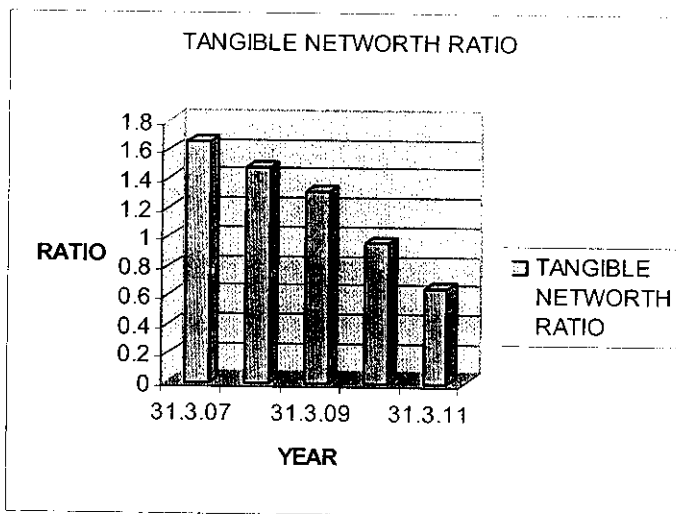
(Rs in lakhs)

YEAR	TOTAL OUTSIDERS LIABILITIES	TANGIBLE NET WORTH	TANGIBLE NETWORTH RATIO
31.3.07	303.55	180.90	1.66
31.3.08	253.55	175.14	1.48
31.3.09	203.55	155.80	1.31
31.3.10	153.55	159.27	0.96
31.3.11	103.55	160.09	0.65
Average			1.21

Source: Financial Projections

Interpretation: From the above table 4.4.5, the tangible net worth ratio for the year 2007 is 1.66 declines to 1.48 in the year 2008 and again declines to 1.31 in the year 2009. The tangible net worth for the year 2010 and 2011 are 0.96 and 0.65 respectively. The tangible net-worth ratio is found to be very much satisfactory.

Chart 4.4.5 Tangible Net worth:



Inference: The average tangible net worth ratio is 1.21. It satisfies the standard of banking norms of 3:1. This means that for every one rupee of tangible net worth the company has Rs.1.21 worth total outsider's liability which is showing a positive sign.

4.4.6 Debt Service Coverage Ratio:

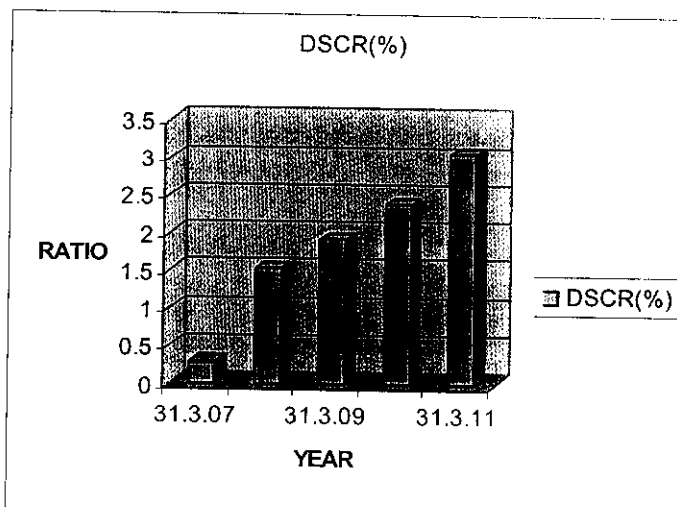
Table 4.4.6

YEAR	NET PROFIT + DEPRECIATION+ INTEREST	TERM LOAN REPAYMENT	DSCR(%)
31.3.07	0.47	1.55	0.30
31.3.08	2.20	1.44	1.53
31.3.09	2.56	1.33	1.92
31.3.10	2.92	1.22	2.39
31.3.11	3.40	1.11	3.06
Average			1.84

Source: Financial Projections

Interpretation: The above table 4.4.6 shows the DSCR of electronics proposal for the five years, i.e. from 2007 to 2011 shows an increasing trend. It is also evident that the repayment of the term loan is found to be satisfactory. In the year 2007 the DSCR is found to be 0.30 then increases to 1.53 in the year 2008. In the year 2009 it again increases to 1.92 and then increases to 2.39 and 3.06 in the year 2010 and 2011 respectively.

Chart 4.4.6 Debt Service Coverage Ratio



Inference: The average DSCR is 1.84. It satisfies the standard of banking norms of 1.20:1. It shows a positive sign of repayment of the term loan interest and the principal even at the times of cash losses and ensures that it would pay at least the interest even at the event of cash losses.

4.4.7 Maximum Permissible Bank Finance- Working Capital

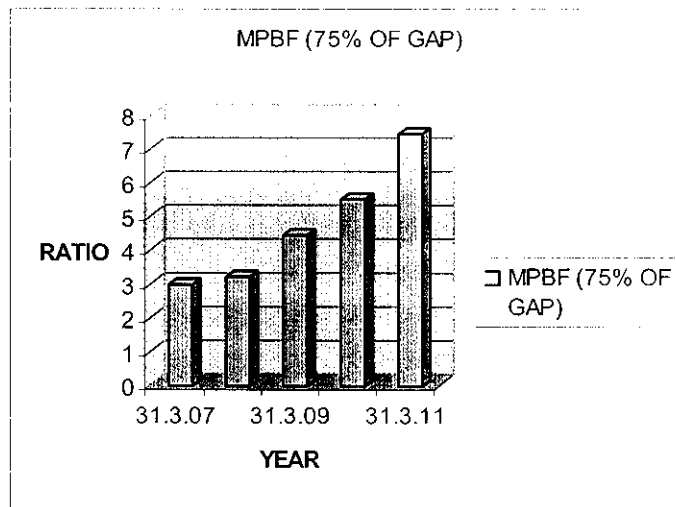
Table 4.4.7

(Rs in lakhs)

YEAR	TOTAL CURRENT ASSETS	OTHER CURRENT LIABILITIES	WORKING GAP	MPBF (75% OF GAP)
31.3.07	4.54	1.57	2.97	2.97
31.3.08	10.39	2.20	8.19	3.19
31.3.09	12.58	3.14	9.44	4.44
31.3.10	14.05	3.54	10.51	5.51
31.3.11	16.54	4.12	12.42	7.42

Source: Financial Projections

Interpretation: From the table 4.4.7 the maximum permissible finance by the bank for the client is calculated. In the year 2007 the MPBF is 2.97 increases to 3.19 in the year 2008, again increases to 4.44 in the year 2009, and again increases to 5.51 and then again increases to 7.42 in the year 2011.

Chart 4.4.7 Maximum Permissible Bank Finance- Working Capital

Inference: The MPBF shows the maximum permissible bank finance as working capital loan as per the given financial projections. As per the electronics proposal the MPBS increases every year which shows a positive sign.

4.4.8 DUPONT Control Chart

Table 4.4.8

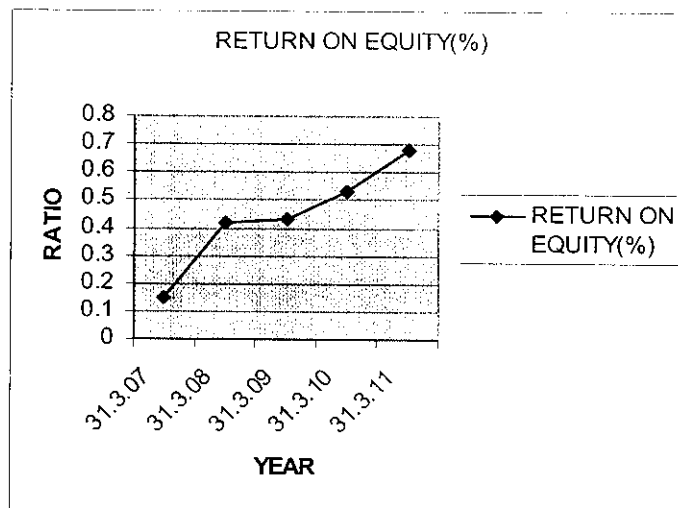
(Rs in lakhs)

YEAR	NET PROFIT AFTER TAXES	SHARE HOLDERS EQUITY	RETURN ON EQUITY(%)
31.3.07	0.47	3.27	0.15
31.3.08	1.37	3.31	0.42
31.3.09	1.41	3.31	0.43
31.3.10	1.77	3.31	0.53
31.3.11	2.25	3.31	0.68
Average			0.44

Source: Financial Projections

Interpretation: From the table 4.4.8 it shows that the return of equity has an increasing trend. The return of equity is 15% in the year 2007 then increases to 42% in the year 2008 and again increases to 43% in the year 2009 and increases for the next year to 53% and again increases to 68% in the year 2011. It shows a positive trend.

Chart 4.4.8 DUPONT Control Chart



Inference: A 44% return on equity is good in any industry. A minimum of 13 % return of equity shows the firms profitability and potential growth. The average of 44% shows that the firm is very much healthy.



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4.4.9 ZETA SCORE MODEL

Table 4.4.9

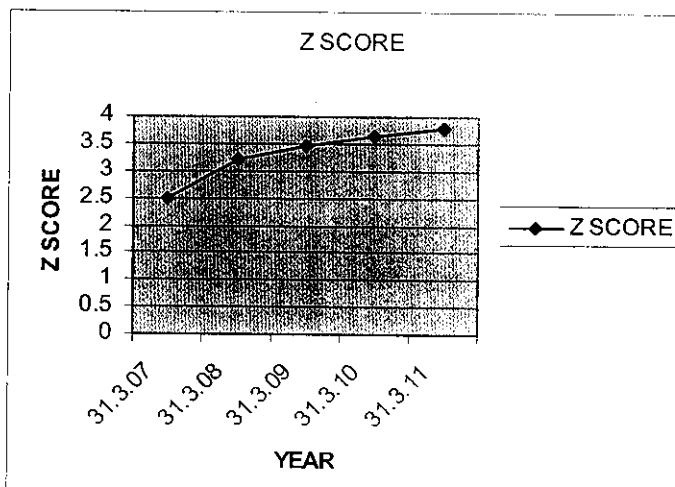
(Rs in Lakhs)

RATIO * WEIGHTAGE	31.3.07	31.3.08	31.3.09	31.3.10	31.3.11
EBIT / Total assets * 3.3	0.03	0.05	0.06	0.08	0.09
Net sales / Total assets *0.999	1.16	2.46	2.69	2.78	2.74
M.V of equity / total liab *0.6	0.41	0.17	0.15	0.14	0.13
Working cap / total assets *1.2	0.73	0.34	0.41	0.47	0.60
Retained earnings / total assets *1.4	0.14	0.17	0.15	0.18	0.21
Z SCORE	2.47	3.19	3.46	3.65	3.77

Source: Financial Projections

Interpretation: From the table 4.4.9, the z score values for the year 2007 is 2.47 which means that there are possibility of bankruptcy within two years of operations from the date of financial figures given, where as the year 2008, 2009 it seems to be increasing and above 3 (i.e.) 3.19 and 3.46 respectively which explains that the company is in the safe area and in the year 2010 and 2011 it again increases to 3.65 and 3.77 respectively which is in the safe area.

Chart 4.4.9 Zeta Score Model



Inference: First year being the initial period of the concern the chances of bankruptcy is very much high where as from the next year onwards it shows a positive sign of moving above the standard position and is very much comfortable till 2011 as per the analysis, which means the chances of bankruptcy for the electronics proposal is very low.

4.5 PROPOSAL – V MINES PROPOSAL

Table 4.5.1

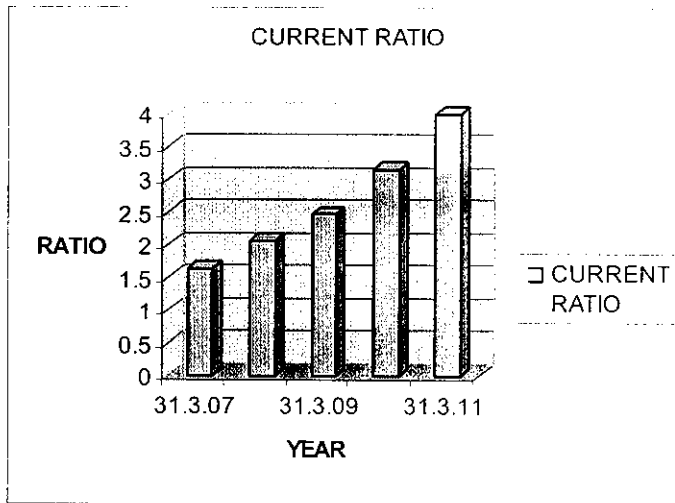
Current Ratio:

(Rs in lakhs)

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO
31.3.07	67.30	40.97	1.64
31.3.08	74.01	35.89	2.06
31.3.09	100.27	40.81	2.46
31.3.10	128.33	40.73	3.15
31.3.11	162.46	40.65	4.00
Average			2.66

Source: Financial Projections

Interpretation: As per the table 4.51, current ratio of Mines proposal shows fluctuating trend. During the year 2007, the current ratio is 1.64. In the year 2008, the current ratio increased to 2.06 and there is still an increase in the current ratio in the year 2009 i.e. 2.46. In the year 2010 the current ratio increased to 3.15 and in the year 2011 it shows an increase to 4, which is above the standard. The short term solvency position of Mines proposal is very much sound. The following graph shows the current ratio of Mines Proposal.

Chart 4.5.1 Current Ratio:

Inference: The average current ratio of Mines proposal is 2.66:1, which is above the banking standard of 1.25:1. It means that, for every Re.1 of current liability, there is a current asset of Rs.2.66. Therefore the short term insolvency position of the Mines is found to be very much satisfactory.

4.5.2 Quick Ratio :

Table 4.5.2

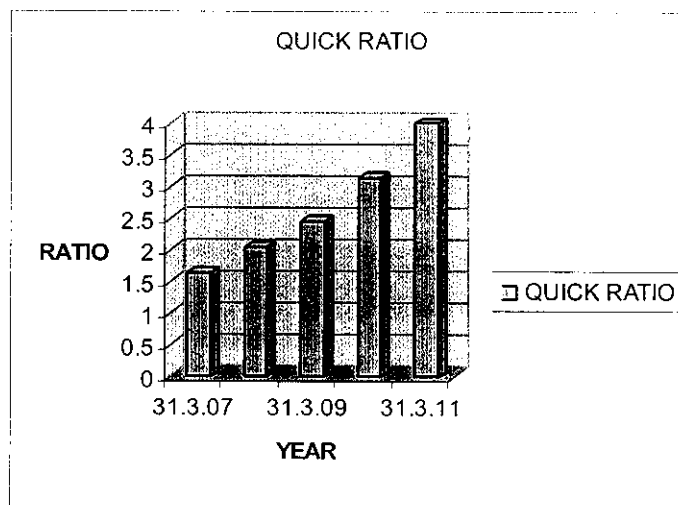
(Rs in lakhs)

YEAR	QUICK ASSETS	CURRENT LIABILITIES	QUICK RATIO
31.3.07	67.30	40.97	1.64
31.3.08	74.01	35.89	2.06
31.3.09	100.27	40.81	2.46
31.3.10	128.33	40.73	3.15
31.3.11	162.46	40.65	4.00
Average			2.66

Source: Financial Projections

Interpretation: It can be seen from the table 4.5.2, that during the year 2007, the quick ratio is 1.64:1. Quick ratio is then increases to 2.06:1 during the next year, i.e. in 2008. In the year 2009, the quick ratio increased to 2.46:1. During the next two years i.e. 2010, 2011, the quick ratio shows a increasing trend from 3.15:1 to 4:1 respectively. A high quick ratio shows that the firm is liquid and shows the ability to meet the current liabilities in fine.

Chart 4.5.2 Quick Ratio



Inference: The average quick ratio of Mines is 2.66:1, which is above the banking standard of 1:1. It means that, for every Re.1 of quick liability, there is a quick asset of Rs.2.66. Therefore the short term liquidity position of the Mines is found to be very satisfactory.

4.5.3. Debt Equity Ratio:

Table 4.5.3

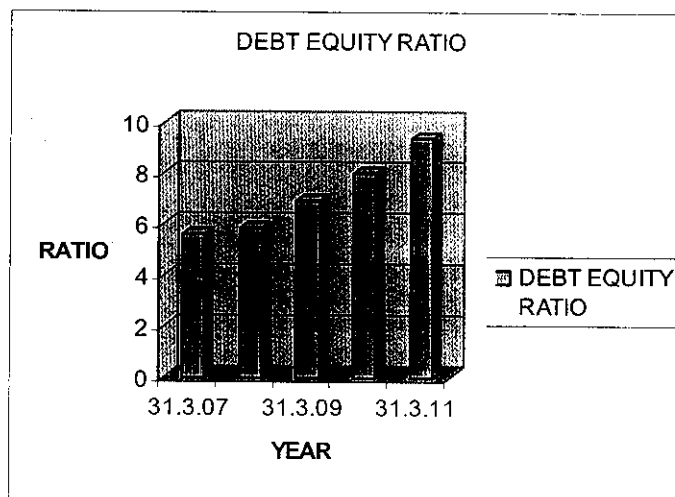
(Rs in lakhs)

YEAR	TOTAL LIABILITIES	SHARE HOLDERS EQUITY	DEBT EQUITY RATIO
31.3.07	38.41	25	5.54
31.3.08	145.11	25	5.80
31.3.09	171.37	25	6.85
31.3.10	199.43	25	7.98
31.3.11	233.56	25	9.34
Average			7.10

Source: Financial Projections

Interpretation: From the table 4.5.3, during the year 2007, the debt equity ratio is 5.54:1. Debt equity ratio is then increases to 5.80:1 during the next year, i.e. in 2008. In the year 2009, the Debt equity ratio increased to 6.85:1. During the next two years i.e. 2010, 2011, the Debt equity ratio shows an increasing trend from 7.98:1 to 9.34:1 respectively.

Chart 4.5.3 Debt Equity Ratio



Inference: The debt equity ratio indicates that the firm has a great amount of debt in its capital structure. The average debt equity ratio of the Mines proposal is 7.10 is above the banking standard of 2:1.

4.5.4. Net Working Capital

Table 4.5.4

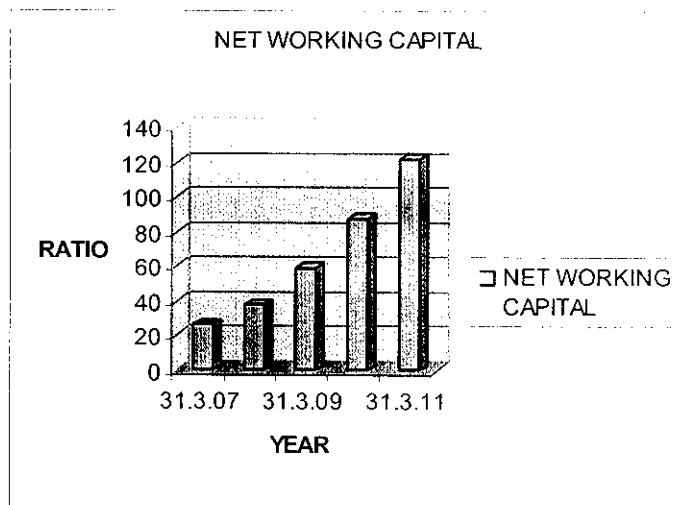
(Rs in lakhs)

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	NET WORKING CAPITAL
31.3.07	67.30	40.97	26.33
31.3.08	74.01	35.89	38.12
31.3.09	100.27	40.81	59.46
31.3.10	128.33	40.73	87.60
31.3.11	162.46	40.65	121.81
Average			66.66

Source: Financial Projections

Interpretation: The above table 4.5.4 shows the networking capital of Mines for the five years, i.e. from 2007 to 2011 shows a increasing trend. It is also evident that the current assets of the company are sufficient to meet its current liabilities. The amount of net working capital in the first year amounts to 26.33 lakhs which increased to 38.12 lakhs in the second year and increased to 56.46 lakhs, 87.60 lakhs, 121.81 lakhs in the 3rd, 4th and the 5th year respectively .

Chart 4.5.4 Net Working Capital



Inference: The average net working capital of the Mines is 66.66 which is found to be satisfactory

4.5.5. Tangible Net worth:

Table 4.5.5

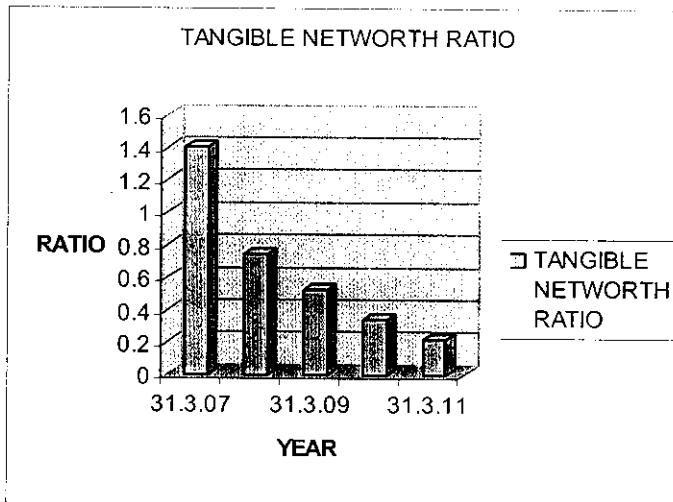
(Rs in lakhs)

YEAR	TOTAL OUTSIDERS LIABILITIES	TANGIBLE NET WORTH	TANGIBLE NETWORTH RATIO
31.3.07	80.88	57.53	1.41
31.3.08	61.89	83.22	0.74
31.3.09	58.81	112.56	0.52
31.3.10	50.73	148.70	0.34
31.3.11	42.65	190.91	0.22
Average			0.65

Source: Financial Projections

Interpretation: From the above table 4.5.5, the tangible net worth ratio for the year 2007 is 1.41 declines to 0.74 in the year 2008 and again declines to 0.52 in the year 2009. The tangible net worth for the year 2010 and 2011 are 0.34 and 0.22 respectively. The tangible net-worth ratio is found to be very much satisfactory.

Chart 4.5.5 Tangible Net worth



Inference: The average tangible net worth ratio is 0.65. It satisfies the standard of banking norms of 3:1. This means that for every one rupee of tangible net worth the company has Rs.0.65 worth total outsider's liability which is showing a positive sign.

4.5.6 Debt Service Coverage Ratio:

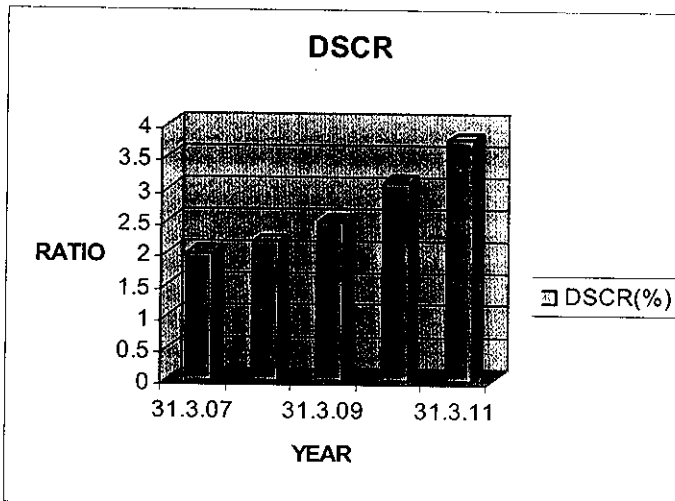
Table 4.5.6

YEAR	NET PROFIT + DEPRECIATION+ INTEREST	TERM LOAN REPAYMENT	DSCR(%)
31.3.07	28.34	14.16	2
31.3.08	32.93	15.24	2.16
31.3.09	35.62	14.28	2.49
31.3.10	41.46	13.32	3.11
31.3.11	46.56	12.36	3.77
Average			2.71

Source: Financial Projections

Interpretation: The above table 4.5.6 shows the DSCR of Mines proposal for the five years, i.e. from 2007 to 2011 shows an increasing trend. It is also evident that the repayment of the term loan is found to be satisfactory. In the year 2007 the DSCR is found to be 2 then increases to 2.16 in the year 2008. In the year 2009 it again increases to 2.49 and then increases to 3.11 and 3.77 in the year 2010 and 2011 respectively.

Chart 4.5.6 Debt Service Coverage Ratio



Inference: The average DSCR is 2.71. It satisfies the standard of banking norms of 1.20:1. It shows a positive sign of repayment of the term loan interest and the principal even at the times of cash losses and ensures that it would pay at least the interest even at the event of cash losses.

4.5.7 Maximum Permissible Bank Finance- Working Capital

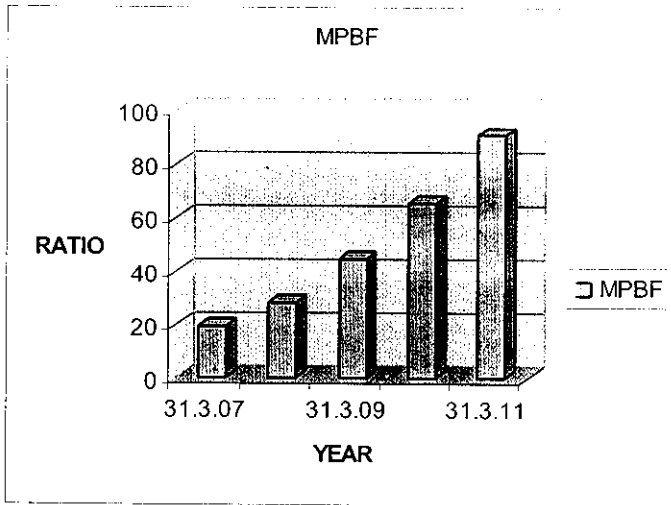
Table 4.5.7

(Rs in lakhs)

YEAR	TOTAL CURRENT ASSETS	OTHER CURRENT LIABILITIES	WORKING GAP	MPBF (75% OF GAP)
31.3.07	67.30	40.97	26.33	19.75
31.3.08	74.01	35.89	38.12	28.59
31.3.09	100.27	40.81	59.46	44.59
31.3.10	128.33	40.73	87.60	65.70
31.3.11	162.46	40.65	121.81	91.36

Source: Financial Projections

Interpretation: From the table 4.5.7 the maximum permissible finance by the bank for the client is calculated. In the year 2007 the MPBF is 19.75 lakhs increases to 28.59 in the year 2008, again increases to 44.59 in the year 2009, and again increases to 65.70 and then again increases to 91.36 in the year 2011.

Chart 4.5.7 Maximum Permissible Bank Finance- Working Capital

Inference: The MPBF shows the maximum permissible bank finance as working capital loan as per the given financial projections. As per the Mines proposal the MPBS increases every year which shows a positive sign.

4.5.8 DUPONT Control Chart

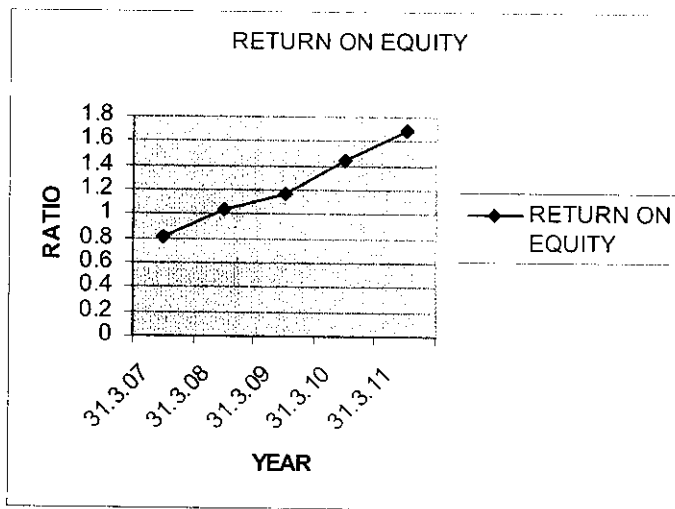
Table 4.5.8**(Rs in lakhs)**

YEAR	NET PROFIT AFTER TAXES	SHARE HOLDERS EQUITY	RETURN ON EQUITY(%)
31.3.07	20.16	25	0.81
31.3.08	25.68	25	1.03
31.3.09	29.35	25	1.17
31.3.10	36.14	25	1.45
31.3.11	42.20	25	1.69
Average			1.23

Source: Financial Projections

Interpretation: From the table 4.5.8 it shows that the return of equity has an increasing trend. The return of equity is 81% in the year 2007 then increases to 103% in the year 2008 and again increases to 117% in the year 2009 and increases to 145% in 2010 and again increases to 169% in the year 2011. It shows a positive trend.

Chart 4.5.8 DUPONT Control Chart



Inference: A 123% return on equity is good in any industry. A minimum of 13% return of equity shows the firms profitability and potential growth. The average of 123% shows that the firm is very much healthy.

4.5.9 ZETA SCORE MODEL

Table 4.5.9

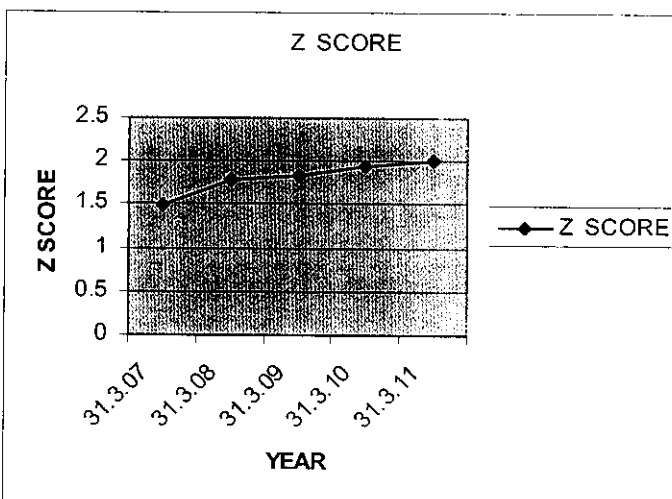
(Rs in Lakhs)

RATIO * WEIGHTAGE	31.3.07	31.3.08	31.3.09	31.3.10	31.3.11
EBIT / Total assets * 3.3	0.10	0.12	0.11	0.11	0.10
Net sales / Total assets *0.999	0.83	1	0.96	0.96	0.95
M.V of equity / total liab *0.6	0.11	0.10	0.09	0.08	0.07
Working cap / total assets *1.2	0.23	0.31	0.42	0.53	0.62
Retained earnings / total assets *1.4	0.21	0.25	0.24	0.25	0.25
Z SCORE	1.48	1.78	1.82	1.93	2

Source: Financial Projections

Interpretation: From the table 4.5.9, the z score values for the year 2007 is 1.48 increasing to 1.78 in the year 2008 and shows a good chances of bankruptcy, again increases to 1.82 in the year 2009, again increases to 1.93 in the year 2010 and 2 in the year 2011 and is still below 3 which explains that the company is still in grey area.

Chart 4.5.9 Zeta Score Model



Inference: The first year and second year is below 1.80 which implies that the probability of financial embarrassment is very high. From the third year till fifth year the firm shows high chances for bankruptcy with in 2 years of operations from the date of financial figures given. Being a mine the company's profitability increases as the years go on.

4.6 PROPOSAL – VI TEXTILES PROPOSAL

Table 4.6.1

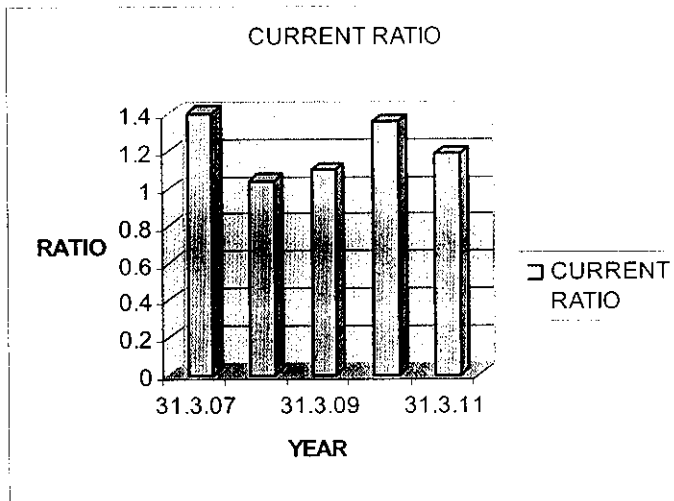
Current Ratio:

(Rs in lakhs)

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO
31.3.07	180.61	128.82	1.40
31.3.08	198.94	190.75	1.04
31.3.09	295.70	267.99	1.10
31.3.10	444.40	329.58	1.35
31.3.11	593.10	502.35	1.18
Average			1.21

Source: Financial Projections

Interpretation: As per the table 4.6.1, current ratio of Textiles proposal shows fluctuating trend. During the year 2007, the current ratio is 1.40. In the year 2008, the current ratio decreased to 1.04 and there is an increase in the current ratio in the year 2009 i.e. 1.10. In the year 2010 the current ratio increased to 1.35 and in the year 2011 it shows a decrease to 1.18, which is below the standard. The short term solvency position of textiles is not found to be satisfactory. The following graph shows the current ratio of textiles

Chart 4.6.1 Current Ratio

Inference: The average current ratio of textile is 1.21:1, which is below the banking standard of 1.25:1. It means that, for every Re.1 of current liability, there is a current asset of Rs.1.21. Therefore the short term insolvency position of the textiles is not found to be very much satisfactory.

4.6.2 Quick Ratio :

Table 4.6.2

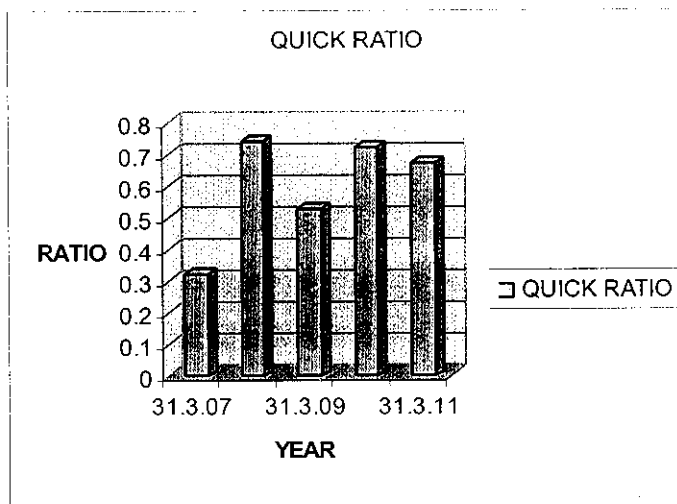
(Rs in lakhs)

YEAR	QUICK ASSETS	CURRENT LIABILITIES	QUICK RATIO
31.3.07	41.34	128.82	0.32
31.3.08	141.22	190.75	0.74
31.3.09	143.20	267.99	0.53
31.3.10	240.66	329.58	0.72
31.3.11	337.72	502.35	0.67
Average			0.60

Source: Financial Projections

Interpretation: It can be seen from the table 4.6.2, that during the year 2007, the quick ratio is 0.32:1. Quick ratio is then increases to 0.74:1 during the next year, i.e. in 2008. In the year 2009, the quick ratio decreases to 0.53:1. In 2010 it increases to 0.72 and decreases to 0.67 in the year 2011 which shows a low quick ratio shows that the firm is illiquid and shows the inability to meet the current liabilities.

Chart 4.6.2 Quick Ratio



Inference: The average quick ratio of Textiles is 0.60:1, which is below the banking standard of 1:1. It means that, for every Re.1 of quick liability, there is a quick asset of Rs.0.60. Therefore the short term liquidity position of the textile is found to be very unsatisfactory.

4.6.3. Debt Equity Ratio:

Table 4.6.3

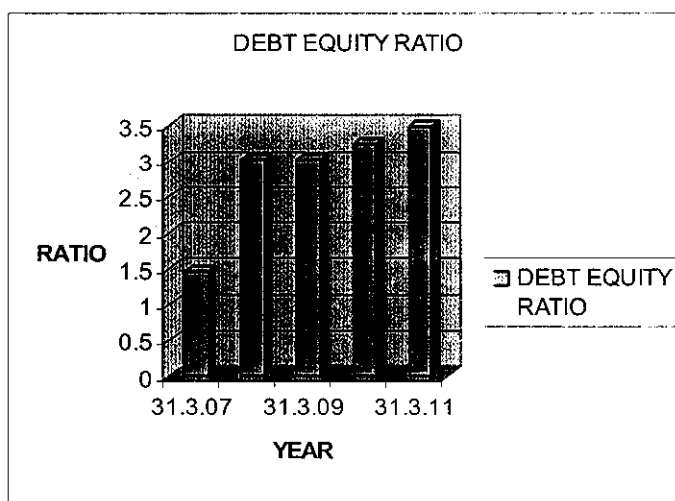
(Rs in lakhs)

YEAR	TOTAL LIABILITIES	SHARE HOLDERS EQUITY	DEBT EQUITY RATIO
31.3.07	367.09	251	1.46
31.3.08	1040.48	344.25	3.02
31.3.09	1189.05	394.25	3.02
31.3.10	1285.16	394.25	3.25
31.3.11	1381.2	394.25	3.50
Average			2.85

Source: Financial Projections

Interpretation: From the table 4.6.3, during the year 2007, the debt equity ratio is 1.46:1. Debt equity ratio is then increases to 3.02:1 during the next year, i.e. in 2008 and remains constant in the year 2009, the Debt equity ratio increases to 3.25:1 in the year 2010 and again increases to 3.50 in the year 2011.

Chart 4.6.3 Debt Equity Ratio



Inference: The debt equity ratio indicates that the firm has a great amount of debt in its capital structure. The average debt equity ratio of the Textiles is 2.85 is above the banking standard of 2:1.

4.6.4. Net Working Capital

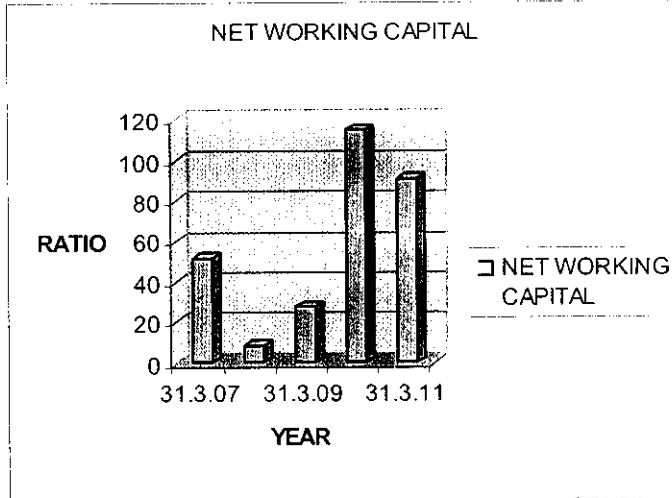
Table 4.6.4

(Rs in lakhs)

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	NET WORKING CAPITAL
31.3.07	180.61	128.82	51.79
31.3.08	198.94	190.75	8.19
31.3.09	295.70	267.99	27.71
31.3.10	444.40	329.58	114.82
31.3.11	593.10	502.35	90.75
Average			58.65

Source: Financial Projections

Interpretation: The above table 4.6.4 shows the networking capital of Textiles for the five years, i.e. from 2007 to 2011 shows a fluctuating trend. It is also evident that the current assets of the company are sufficient to meet its current liabilities. The amount of net working capital in the first year amounts to 51.79 lakhs which decreased to 8.19 lakhs in the second year and increased to 27.71 lakhs, 114.82 lakhs in the 3rd, 4th year respectively and again decreased to 90.75 in the fifth year.

Chart 4.6.4 Net Working Capital

Inference: The average net working capital of the textiles is 55.65 which is found to be satisfactory

4.6.5. Tangible Net worth:

Table 4.6.5

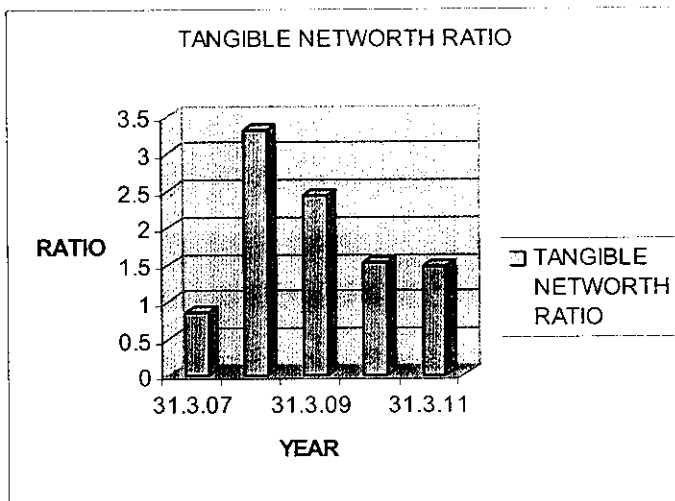
(Rs in lakhs)

YEAR	TOTAL OUTSIDERS LIABILITIES	TANGIBLE NET WORTH	TANGIBLE NETWORTH RATIO
31.3.07	161.98	186.67	0.86
31.3.08	774.44	233.47	3.31
31.3.09	820.22	336.56	2.43
31.3.10	757.25	495.63	1.53
31.3.11	805.11	551.48	1.46
Average			1.92

Source: Financial Projections

Interpretation: From the above table 4.6.5, the tangible net worth ratio for the year 2007 is 0.86 increases to 3.31 in the year 2008 and declines to 2.43 in the year 2009. The tangible net worth for the year 2010 and 2011 are 1.53 and 1.46 respectively. The tangible net-worth ratio is found to be very much satisfactory.

Chart 4.6.5 Tangible Net worth



Inference: The average tangible net worth ratio is 1.92. It satisfies the standard of banking norms of 3:1. This means that for every one rupee of tangible net worth the company has Rs.1.92 worth total outsider's liability which is showing a positive sign.

4.6.6 Debt Service Coverage Ratio:

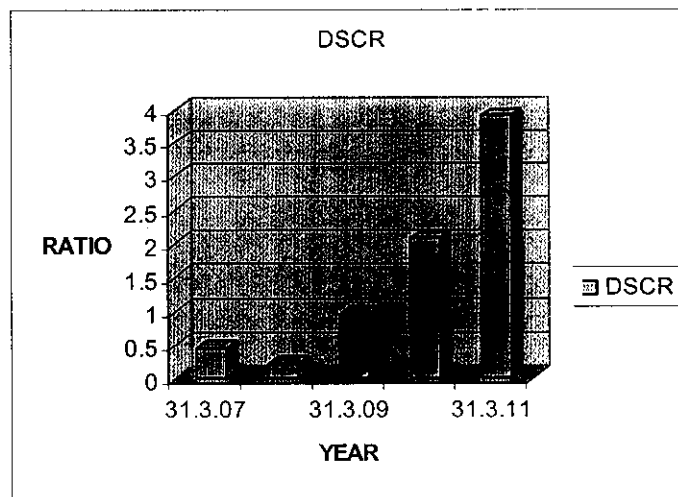
Table 4.6.6

YEAR	NET PROFIT + DEPRECIATION+ INTEREST	TERM LOAN REPAYMENT	DSCR(%)
31.3.07	67	152.83	0.44
31.3.08	57.21	277.24	0.21
31.3.09	229.31	245.12	0.94
31.3.10	406.65	196.77	2.07
31.3.11	581.80	148.33	3.92
Average			1.52

Source: Financial Projections

Interpretation: The above table 4.6.6 shows the DSCR of textiles proposal for the five years, i.e. from 2007 to 2011 shows an increasing trend. It is also evident that the repayment of the term loan is found to be satisfactory. In the year 2007 the DSCR is found to be 0.44 then decreases to 0.21 in the year 2008. In the year 2009 it again increases to 0.94 and then increases to 2.94 and 3.92 in the year 2010 and 2011 respectively.

Chart 4.6.6 Debt Service Coverage Ratio:



Inference: The average DSCR is 1.52. It satisfies the standard of banking norms of 1.20:1. It shows a positive sign of repayment of the term loan interest and the principal even at the times of cash losses and ensures that it would pay at least the interest even at the event of cash losses.

4.6.7 Maximum Permissible Bank Finance- Working Capital

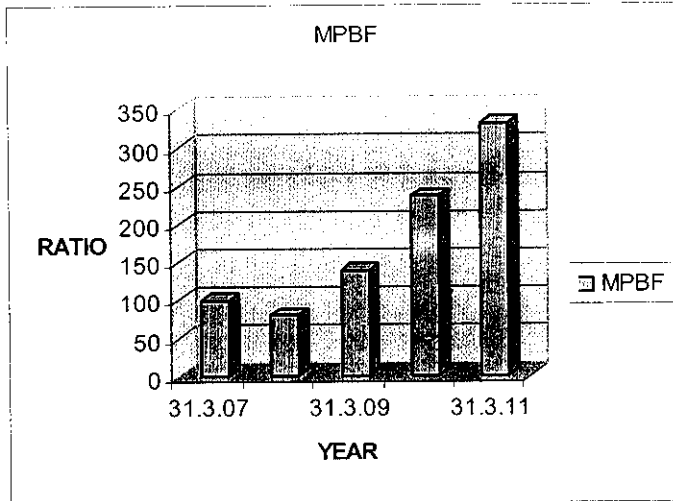
Table 4.6.7

(Rs in lakhs)

YEAR	TOTAL CURRENT ASSETS	OTHER CURRENT LIABILITIES	WORKING GAP	MPBF (75% OF GAP)
31.3.07	180.61	47.97	132.64	99.48
31.3.08	198.94	92.17	106.77	80.08
31.3.09	295.70	107.99	187.71	137.79
31.3.10	444.40	129.58	314.82	236.12
31.3.11	593.10	151.17	441.93	331.45

Source: Financial Projections

Interpretation: From the table 4.6.7 the maximum permissible finance by the bank for the client is calculated. In the year 2007 the MPBF is 99.48 lakhs decreases to 80.08 in the year 2008. The MPBF increases to 137.79 in the year 2009, and again increases to 236.12 and then again increases to 331.45 in the year 2011.

Chart 4.6.7 Maximum Permissible Bank Finance- Working Capital

Inference: The MPBF shows the maximum permissible bank finance as working capital loan as per the given financial projections. As per the Textiles proposal the MPBS increases every year which shows a positive sign.

4.6.8 DuPont Control Chart

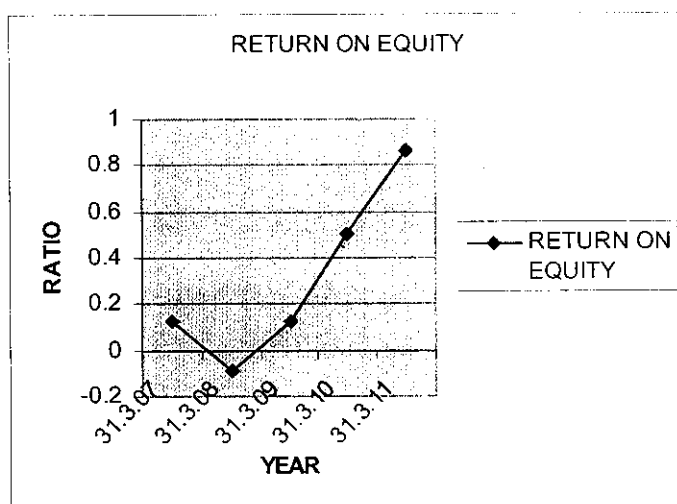
Table 4.6.8**(Rs in lakhs)**

YEAR	NET PROFIT AFTER TAXES	SHARE HOLDERS EQUITY	RETURN ON EQUITY(%)
31.3.07	31.47	251	0.13
31.3.08	-32.59	344.25	-0.09
31.3.09	53.09	394.25	0.13
31.3.10	198.50	394.25	0.50
31.3.11	342.12	394.25	0.86
Average			0.30

Source: Financial Projections

Interpretation: From the table 4.6.8 it shows that the return of equity has an increasing trend. The return of equity is 13% in the year 2007 then decreases to -09% in the year 2008 and again increases to 13% in the year 2009, increases to 50% in the year 2010 and increases to 86% in the year 2011. It shows a positive trend.

Chart 4.6.8 DuPont Control Chart



Inference: A 30% return on equity is good in any industry. A minimum of 13 % return of equity shows the firms profitability and potential growth. The average of 30% shows that the firm is very much healthy.

4.6.9 Zeta Score Model

Table 4.6.9

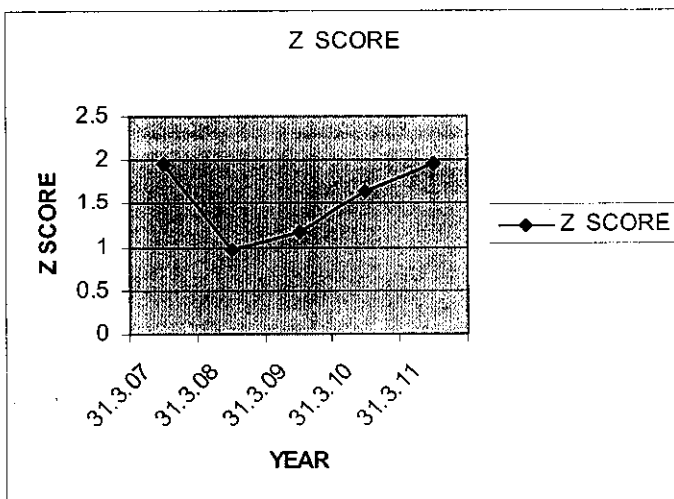
(Rs in Lakhs)

RATIO * WEIGHTAGE	31.3.07	31.3.08	31.3.09	31.3.10	31.3.11
EBIT / Total assets * 3.3	0.06	-0.006	0.026	0.075	0.12
Net sales / Total assets *0.999	1.19	0.81	0.86	1.09	1.29
M.V of equity / total liab *0.6	0.41	0.20	0.20	0.19	0.17
Working cap / total assets *1.2	0.17	0.008	0.024	0.108	0.084
Retained earnings / total assets *1.4	0.126	0.042	0.06	0.172	0.308
Z SCORE	1.96	0.97	1.17	1.65	1.97

Source: Financial Projections

Interpretation: From the table 4.6.9, the Z score values for the year 2007 is 1.96 which decreases to 0.97 in the year 2008. There is an increase in the year 2009 with the z score of 1.17 and there is an increase to 1.65 in the year 2010 and still an increase in the year 1.97.

Chart 4.6.9 Zeta Score Model



Inference: First year seems to be in the grey area where as the second year it shows that there are good chances of bankruptcy, third year and fourth year also it shows that there are chances of bankruptcy, in the fifth year it enters the grey area. All together the proposal is not so impressive.

4.7 PROPOSAL – VII TRADING COMPANY PROPOSAL

Table 4.7.1

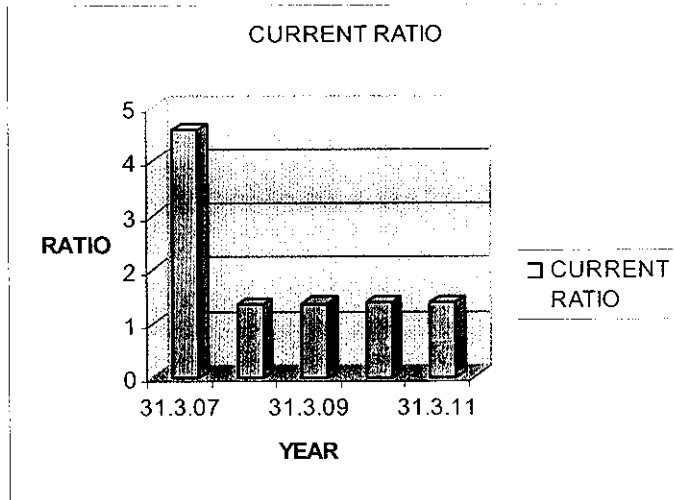
Current Ratio:

(Rs in lakhs)

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO
31.3.07	190.27	41.64	4.56
31.3.08	509.63	377	1.35
31.3.09	630.06	461	1.37
31.3.10	750.49	545	1.38
31.3.11	870.92	629	1.38
Average			2.01

Source: Financial Projections

Interpretation: As per the table 4.7.1, current ratio of trading company proposal shows fluctuating trend. During the year 2007, the current ratio is 4.56. In the year 2008, the current ratio decreased to 1.35 and there is an increase in the current ratio in the year 2009 i.e. 1.37. In the year 2010 the current ratio increased to 1.38 and in the year 2011 it remains constant. The short term solvency position of trading company is very much sound. The following graph shows the current ratio of trading company.

Chart 4.7.1 Current Ratio

Inference: The average current ratio of trading company is 2.01:1, which is above the banking standard of 1.25:1. It means that, for every Re.1 of current liability, there is a current asset of Rs.2.01. Therefore the short term insolvency position of the trading company is found to be very much satisfactory.

4.7.2 Quick Ratio :

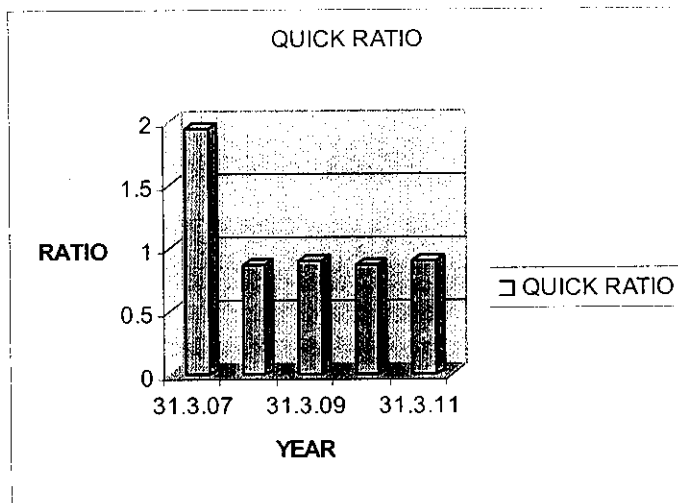
Table 4.7.2**(Rs in lakhs)**

YEAR	QUICK ASSETS	CURRENT LIABILITIES	QUICK RATIO
31.3.07	81.15	41.64	1.94
31.3.08	329.6	377	0.87
31.3.09	414	461	0.90
31.3.10	470	545	0.86
31.3.11	570	629	0.90
Average			1.09

Source: Financial Projections

Interpretation: It can be seen from the table 4.7.2, that during the year 2007, the quick ratio is 1.94:1. Quick ratio decreases to 0.87:1 during the next year, i.e. in 2008. In the year 2009, the quick ratio increased to 0.90:1. During the year 2010 it decreases to 0.86:1 and in the year 2011 it increases to 0.90. The quick ratio shows a fluctuating trend. A high quick ratio shows that the firm is liquid and shows the ability to meet the current liabilities.

Chart 4.7.2 Quick Ratio



Inference: The average quick ratio of trading company is 1.09:1, which is above the banking standard of 1:1. It means that, for every Re.1 of quick liability, there is a quick asset of Rs.1.09. Therefore the short term liquidity position of the trading company is found to be very satisfactory.

4.7.3. Debt Equity Ratio:

Table 4.7.3

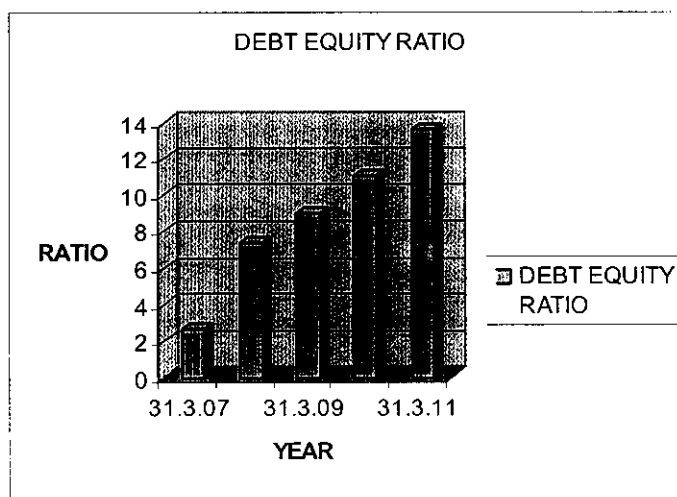
(Rs in lakhs)

YEAR	TOTAL LIABILITIES	SHARE HOLDERS EQUITY	DEBT EQUITY RATIO
31.3.07	175.13	67	2.61
31.3.08	514.96	70	7.36
31.3.09	631.90	70	9.03
31.3.10	775.34	70	11.08
31.3.11	951.34	70	13.59
Average			8.73

Source: Financial Projections

Interpretation: From the table 4.7.3, during the year 2007, the debt equity ratio is 2.61:1. Debt equity ratio is then increases to 7.36:1 during the next year, i.e. in 2008. In the year 2009, the Debt equity ratio increased to 9.03:1. During the next two years i.e. 2010, 2011, the Debt equity ratio shows an increasing trend from 11.08:1 to 13.59:1 respectively.

Chart 4.7.3 Debt Equity Ratio



Inference: The debt equity ratio indicates that the firm has a great amount of debt in its capital structure. The average debt equity ratio of the trading company is 8.73 which is above the banking standard of 2:1.

4.7.4. Net Working Capital

Table 4.7.4

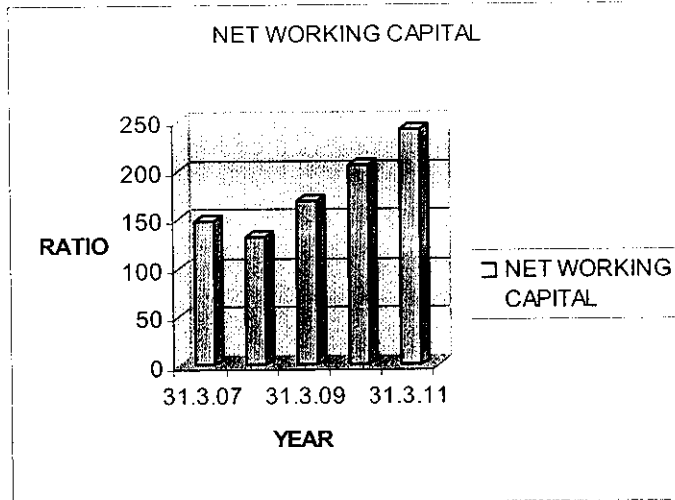
(Rs in lakhs)

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	NET WORKING CAPITAL
31.3.07	190.27	41.64	148.63
31.3.08	509.63	377	132.63
31.3.09	630.06	461	169.06
31.3.10	750.49	545	205.49
31.3.11	870.92	629	241.90
Average			179.54

Source: Financial Projections

Interpretation: The above table 4.7.4 shows the networking capital of trading company for the five years, i.e. from 2007 to 2011 shows a fluctuating trend. It is also evident that the current assets of the company are sufficient to meet its current liabilities. The amount of net working capital in the first year amounts to 148.63 lakhs which decreased to 132.63 lakhs in the second year and increased to 169.06 lakhs, 205.49 lakhs, 241.90 lakhs in the 3rd, 4th and the 5th year respectively

Chart 4.7.4 Net Working Capital



Inference: The average net working capital of the trading company is 119.74 which is found to be satisfactory

4.7.5. Tangible Net worth:

Table 4.7.5

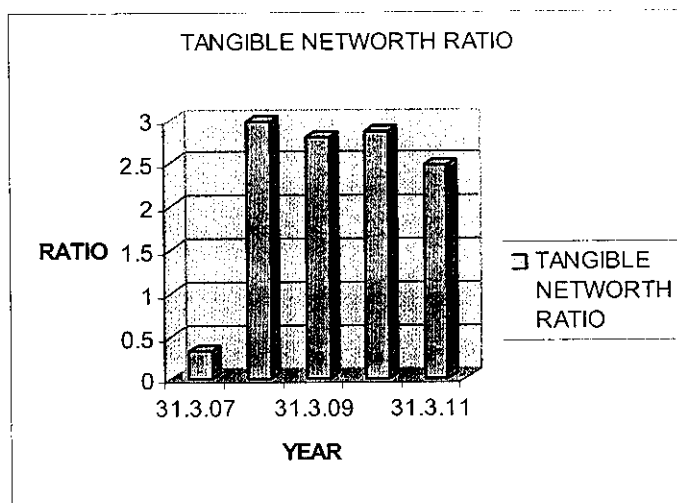
(Rs in lakhs)

YEAR	TOTAL OUTSIDERS LIABILITIES	TANGIBLE NET WORTH	TANGIBLE NETWORTH RATIO
31.3.07	41.64	133.49	0.31
31.3.08	385.81	129.15	2.98
31.3.09	465.61	166.29	2.79
31.3.10	545.36	190.60	2.86
31.3.11	629.1	253.43	2.48
Average			2.28

Source: Financial Projections

Interpretation: From the above table 4.7.5, the tangible net worth ratio for the year 2007 is 0.31 increases to 2.98 in the year 2008 and again increases to 2.79 in the year 2009. The tangible net worth for the year 2010 is 2.86 and decreases to 2.48 in the year 2011. The tangible net-worth ratio is found to be very much satisfactory.

Chart 4.7.5 Tangible Net worth



Inference: The average tangible net worth ratio is 2.28. It satisfies the standard of banking norms of 3:1. This means that for every one rupee of tangible net worth the company has Rs.2.28 worth total outsider's liability which is showing a positive sign.

4.7.6 Debt Service Coverage Ratio:

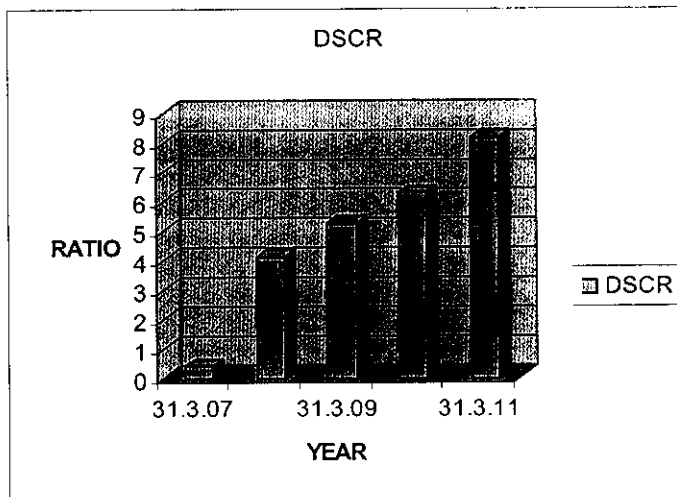
Table 4.7.6

YEAR	NET PROFIT + DEPRECIATION+ INTEREST	TERM LOAN REPAYMENT	DSCR(%)
31.3.07	6.50	15.25	0.43
31.3.08	58.10	14.20	4.09
31.3.09	68.83	13.15	5.23
31.3.10	75.60	12.10	6.25
31.3.11	90.10	11.05	8.15
Average			4.83

Source: Financial Projections

Interpretation: The above table 4.7.6 shows the DSCR of trading company proposal for the five years, i.e. from 2007 to 2011 shows an increasing trend. It is also evident that the repayment of the term loan is found to be satisfactory. In the year 2007 the DSCR is found to be 0.43 then increases to 4.09 in the year 2008. In the year 2009 it again increases to 5.23 and then increases to 6.25 and 8.15 in the year 2010 and 2011 respectively.

Chart 4.7.6 Debt Service Coverage Ratio:



Inference: The average DSCR is 4.83. It satisfies the standard of banking norms of 1.20:1. It shows a positive sign of repayment of the term loan interest and the principal even at the times of cash losses and ensures that it would pay at least the interest even at the event of cash losses.

4.7.7 Maximum Permissible Bank Finance- Working Capital

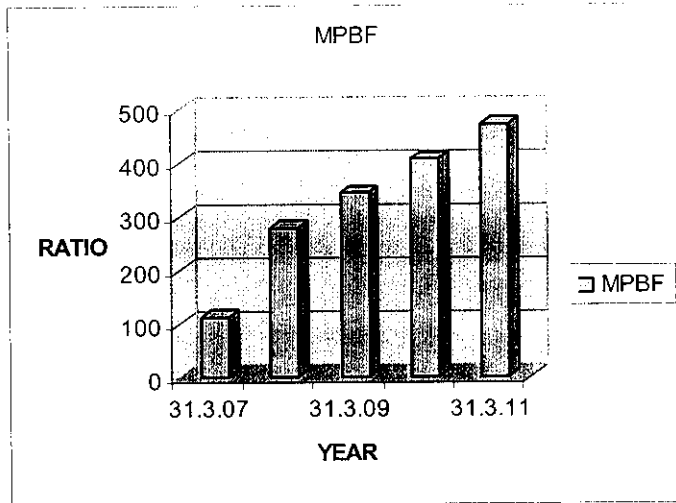
Table 4.7.7

(Rs in lakhs)

YEAR	TOTAL CURRENT ASSETS	OTHER CURRENT LIABILITIES ,	WORKING GAP	MPBF (75% OF GAP)
31.3.07	190.27	41.92	148.35	111.26
31.3.08	509.63	136.00	373.63	280.22
31.3.09	630.06	171	459.06	344.26
31.3.10	750.49	206	544.49	408.36
31.3.11	870.92	241	629.92	472.44

Source: Financial Projections

Interpretation: From the table 4.7.7 the maximum permissible finance by the bank for the client is calculated. In the year 2007 the MPBF is 111.26 lakhs increases to 280.22 in the year 2008, again increases to 344.26 in the year 2009, and again increases to 40.36 and then again increases to 472.44 in the year 2011.

Chart 4.7.7 Maximum Permissible Bank Finance- Working Capital

Inference: The MPBF shows the maximum permissible bank finance as working capital loan as per the given financial projections. As per the trading proposal the MPBS increases every year which shows a positive sign.

4.7.8 DuPont Control Chart

Table 4.7.8

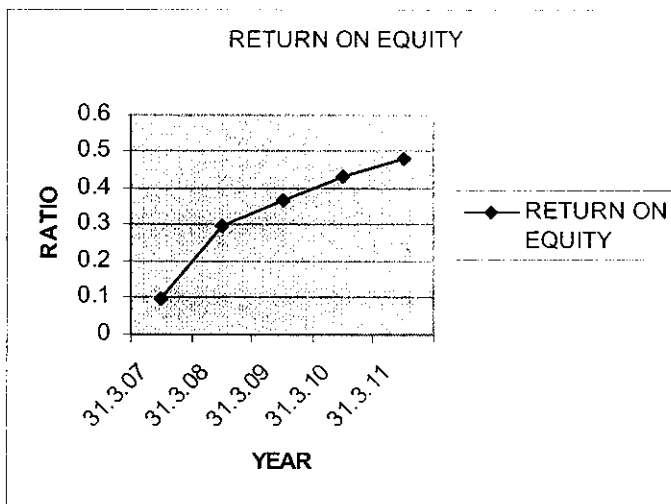
(Rs in lakhs)

YEAR	NET PROFIT AFTER TAXES	SHARE HOLDERS EQUITY	RETURN ON EQUITY (%)
31.3.07	6.50	67	0.10
31.3.08	20.90	70	0.30
31.3.09	26.19	70	0.37
31.3.10	30.20	70	0.43
31.3.11	33.28	70	0.48
Average			0.34

Source: Financial Projections

Interpretation: From the table 4.7.8 it shows that the return of equity has an increasing trend. The return of equity is 10% in the year 2007 then increases to 30% in the year 2008 and again increases to 37% in the year 2009 and increases to 43% the next year and again increases to 48% in the year 2011. It shows a positive trend.

Chart 4.7.8 DuPont Control Chart



Inference: A 34% return on equity is good in any industry. A minimum of 13 % return of equity shows the firms profitability and potential growth. The average of 34% shows that the firm is very much healthy.

4.7.9 Zeta Score Model

Table 4.7.9

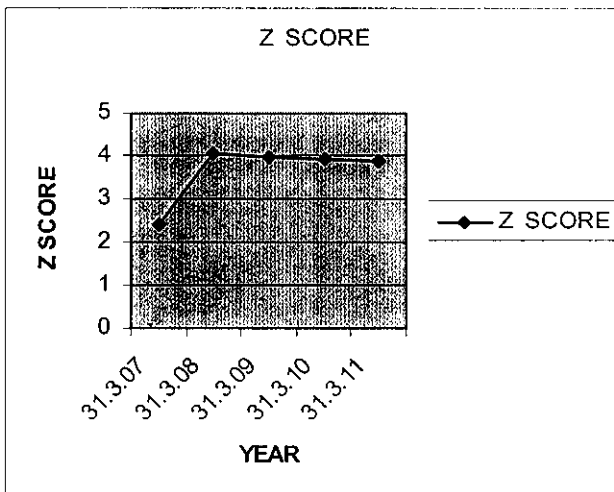
(Rs in Lakhs)

RATIO * WEIGHTAGE	31.3.07	31.3.08	31.3.09	31.3.10	31.3.11
EBIT / Total assets * 3.3	0.01	0.04	0.04	0.04	0.04
Net sales / Total assets *0.999	1.085	2.98	2.92	2.87	2.84
M.V of equity / total liab *0.6	0.23	0.08	0.06	0.05	0.05
Working cap / total assets *1.2	1.02	0.876	0.876	0.876	0.876
Retained earnings / total assets *1.4	0.06	0.06	0.06	0.06	0.06
Z SCORE	2.41	4.04	3.96	3.90	3.87

Source: Financial Projections

Interpretation: From the table 4.7.9, the z score values for the year 2007 is 3.41 which increases to 4.04 in the year 2008 then decreases to 3.96 in the year 2009 and again decreases to 3.90 in the year 2010 and in the year 2011 it again decreases to 3.87.

Chart 4.7.9 Zeta Score Model



Inference: First year being the initial period of the concern the chances of bankruptcy is very much high where as from the next year onwards it shows a positive sign of moving above the standard position and is very much comfortable till 2011 as per the analysis, which means the chances of bankruptcy for the textile is very low.

4.8 PROPOSAL – VIII ENGINEERING COMPANY

Table 4.8.1

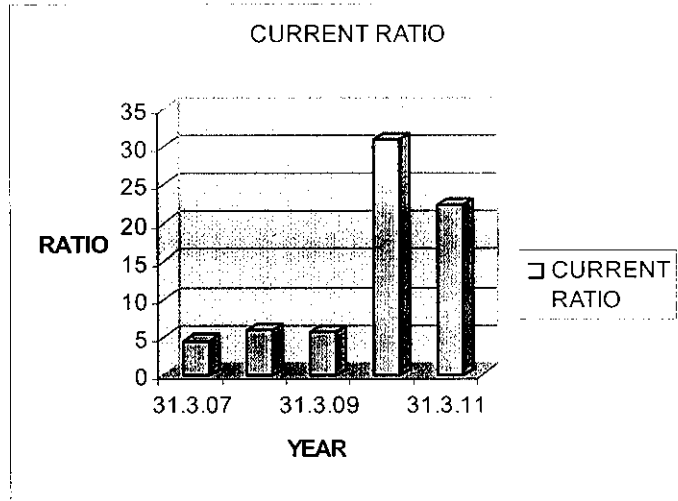
Current Ratio:

(Rs in lakhs)

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO
31.3.07	7.16	1.59	4.50
31.3.08	8.13	1.36	5.98
31.3.09	6.75	1.18	5.72
31.3.10	8.63	0.28	30.82
31.3.11	9.06	0.43	22.32
Average			13.87

Source: Financial Projections

Interpretation: As per the table 4.8.1, current ratio of engineering proposal shows fluctuating trend. During the year 2007, the current ratio is 4.50. In the year 2008, the current ratio increased to 5.98 and a decrease in the current ratio in the year 2009 i.e. 5.72. In the year 2010 the current ratio increased to 30.82 and in the year 2011 it shows a decrease to 22.32, which is above the standard. The short term solvency position of engineering company is very much sound. The following graph shows the current ratio of engineering company.

Chart 4.8.1 Current Ratio

Inference: The average current ratio of engineering company is 13.87:1, which is above the banking standard of 1.25:1. It means that, for every Re.1 of current liability, there is a current asset of Rs.13.87. Therefore the short term insolvency position of the engineering company is found to be very much satisfactory.

4.8.2 Quick Ratio :

Table 4.8.2

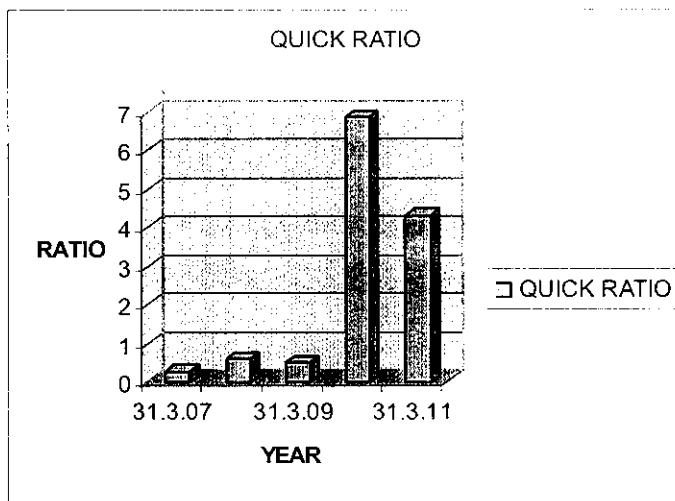
(Rs in lakhs)

YEAR	QUICK ASSETS	CURRENT LIABILITIES	QUICK RATIO
31.3.07	0.42	1.59	0.26
31.3.08	0.79	1.36	0.58
31.3.09	0.60	1.18	0.51
31.3.10	1.92	0.28	6.86
31.3.11	1.86	0.43	4.32
Average			2.51

Source: Financial Projections

Interpretation: It can be seen from the table 4.8.2, that during the year 2007, the quick ratio is 0.26:1. Quick ratio is then increases to 0.58:1 during the next year, i.e. in 2008. In the year 2009, the quick ratio increased to 0.51:1. During the next 2010, it increases to 6.86 and then in 2011, the quick ratio shows a decreasing trend to 4.32. A high quick ratio shows that the firm is liquid and shows the ability to meet the current liabilities.

Chart 4.8.2 Quick Ratio



Inference: The average quick ratio of engineering company is 2.51:1, which is above the banking standard of 1:1. It means that, for every Re.1 of quick liability, there is a quick asset of Rs.2.96. Therefore the short term liquidity position of the engineering company is found to be very satisfactory.

4.8.3. Debt Equity Ratio:

Table 4.8.3

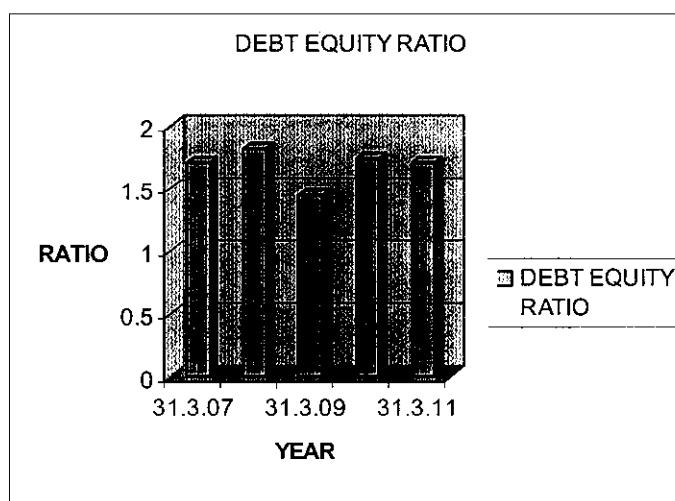
(Rs in lakhs)

YEAR	TOTAL LIABILITIES	SHARE HOLDERS EQUITY	DEBT EQUITY RATIO
31.3.07	8.23	4.80	1.71
31.3.08	9.92	5.46	1.82
31.3.09	8.16	5.64	1.45
31.3.10	9.94	5.70	1.74
31.3.11	9.87	5.76	1.71
Average			1.69

Source: Financial Projections

Interpretation: From the table 4.8.3, during the year 2007, the debt equity ratio is 1.71:1. Debt equity ratio is then increases to 1.82:1 during the next year, i.e. in 2008. In the year 2009, the Debt equity ratio decreased to 1.45:1. in the year 2010 it shows an increase to 1.74 and then a decrease to 1.71 in the year 2011.

Chart 4.8.3 Debt Equity Ratio



Inference: The debt equity ratio indicates that the firm has a less amount of debt in its capital structure. The average debt equity ratio of the engineering company is 1.69 which is below the banking standard of 2:1.

4.8.4. Net Working Capital

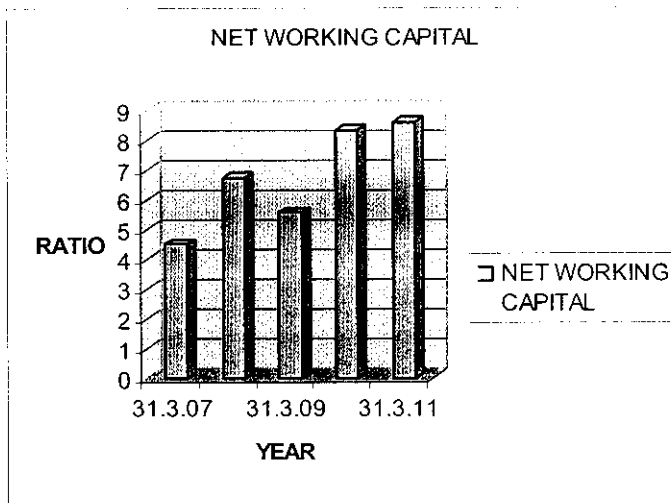
Table 4.8.4

(Rs in lakhs)

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	NET WORKING CAPITAL
31.3.07	7.16	1.59	4.50
31.3.08	8.13	1.36	6.77
31.3.09	6.75	1.18	5.57
31.3.10	8.63	0.28	8.35
31.3.11	9.06	0.43	8.63
Average			6.76

Source: Financial Projections

Interpretation: The above table 4.8.4 shows the networking capital of engineering company for the five years, i.e. from 2007 to 2011 shows a fluctuating trend. It is also evident that the current assets of the company are sufficient to meet its current liabilities. The amount of net working capital in the first year amounts to 4.50 lakhs which increased to 6.77lakhs in the second year and decreased to 5.57 lakhs, in the 3rd year and an increase to 8.35lakhs and 8.63 lakhs in the 4th and the 5th year respectively

Chart 4.8.4 Net Working Capital

Inference: The average net working capital of the engineering company is 6.76 which is found to be satisfactory

4.8.5. Tangible Net worth:

Table 4.8.5

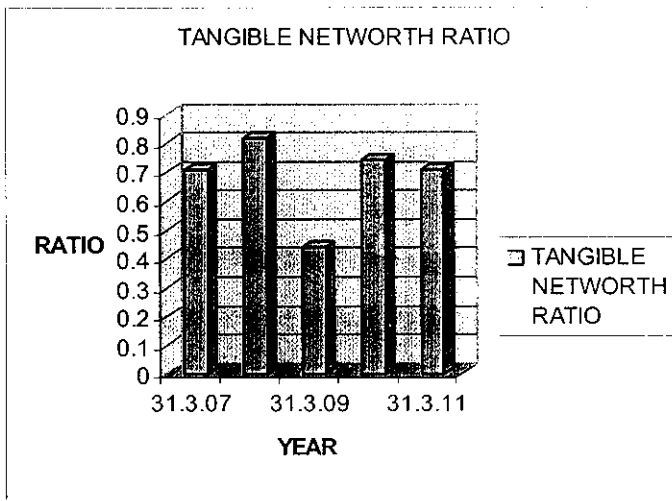
(Rs in lakhs)

YEAR	TOTAL OUTSIDERS LIABILITIES	TANGIBLE NET WORTH	TANGIBLE NETWORTH RATIO
31.3.07	3.42	4.80	0.71
31.3.08	4.46	5.46	0.82
31.3.09	2.51	5.64	0.44
31.3.10	4.24	5.70	0.74
31.3.11	4.10	5.76	0.71
Average			0.68

Source: Financial Projections

Interpretation: From the above table 4.8.5, the tangible net worth ratio for the year 2007 is 0.71 increases to 0.82 in the year 2008 and again declines to 0.44 in the year 2009. The tangible net worth for the year 2010 and 2011 are 0.74 and 0.71 respectively. The tangible net-worth ratio is found to be very much satisfactory.

Chart 4.8.5 Tangible Net worth



Inference: The average tangible net worth ratio is 0.68. It satisfies the standard of banking norms of 3:1. This means that for every one rupee of tangible net worth the company has Rs.0.68 worth total outsider's liability which is showing a positive sign.

4.8.6 Debt Service Coverage Ratio:

Table 4.8.6

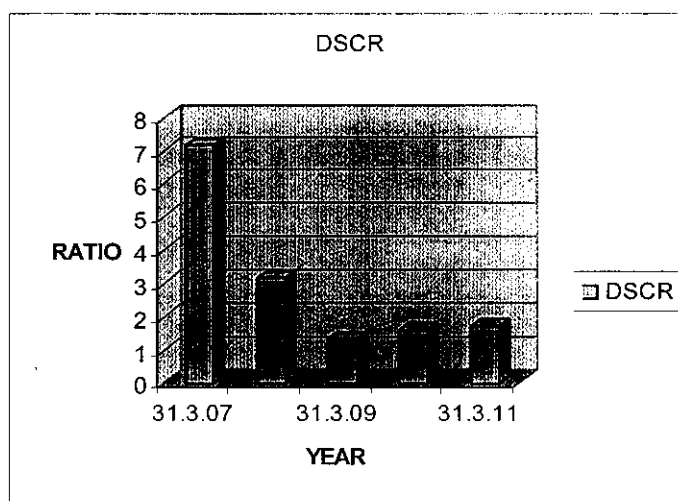
(Rs in Lakhs)

YEAR	NET PROFIT + DEPRECIATION+ INTEREST	TERM LOAN REPAYMENT	DSCR(%)
31.3.07	0.93	0.13	7.15
31.3.08	1.82	0.58	3.14
31.3.09	1.70	1.29	1.32
31.3.10	2.41	1.53	1.58
31.3.11	2.33	1.37	1.70
Average			2.98

Source: Financial Projections

Interpretation: The above table 4.8.6 shows the DSCR of engineering proposal for the five years, i.e. from 2007 to 2011 shows an increasing trend. It is also evident that the repayment of the term loan is found to be satisfactory. In the year 2007 the DSCR is found to be 7.15 then decreases to 3.14 in the year 2008. In the year 2009 it again decreases to 1.32 and then increases to 1.58 and 1.70 in the year 2010 and 2011 respectively.

Chart 4.8.6 Debt Service Coverage Ratio:



Inference: The average DSCR is 2.98. It satisfies the standard of banking norms of 1.20:1. It shows a positive sign of repayment of the term loan interest and the principal even at the times of cash losses and ensures that it would pay at least the interest even at the event of cash losses.

4.8.7 Maximum Permissible Bank Finance- Working Capital

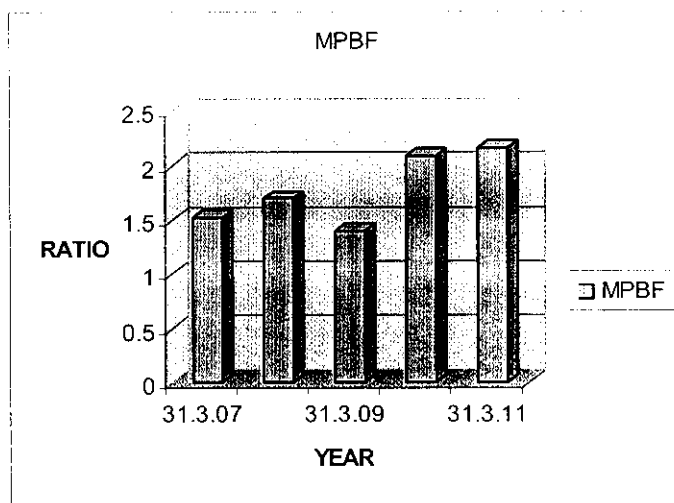
Table 4.8.7

(Rs in lakhs)

YEAR	TOTAL CURRENT ASSETS	OTHER CURRENT LIABILITIES	WORKING GAP	MPBF (75% OF GAP)
31.3.07	7.16	1.06	6.1	1.53
31.3.08	8.13	1.35	6.78	1.70
31.3.09	6.75	1.18	5.57	1.39
31.3.10	8.63	0.28	8.35	2.09
31.3.11	9.06	0.43	8.63	2.16

Source: Financial Projections

Interpretation: From the table 4.8.7 the maximum permissible finance by the bank for the client is calculated. In the year 2007 the MPBF is 1.53 lakhs increases to 1.70lakhs in the year 2008, decreases to 1.39 lakhs in the year 2009, and again increases to 2.09 lakhs and then again increases to 2.16 in the year 2011.

Chart 4.8.7 Maximum Permissible Bank Finance- Working Capital

Inference: The MPBF shows the maximum permissible bank finance as working capital loan as per the given financial projections. As per the engineering proposal the MPBS increases every year which shows a positive sign.

4.8.8 DuPont Control Chart

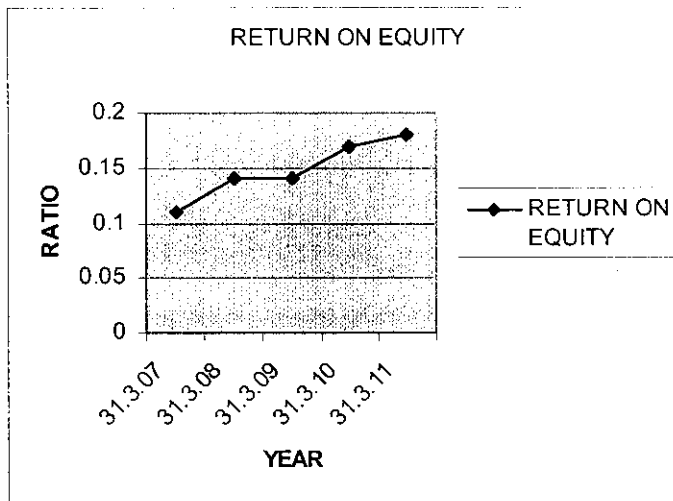
Table 4.8.8**(Rs in lakhs)**

YEAR	NET PROFIT AFTER TAXES	SHARE HOLDERS EQUITY	RETURN ON EQUITY(%)
31.3.07	0.51	4.80	0.11
31.3.08	0.74	5.46	0.14
31.3.09	0.77	5.64	0.14
31.3.10	0.96	5.70	0.17
31.3.11	1.05	5.76	0.18
Average			0.15

Source: Financial Projections

Interpretation: From the table 4.8.8 it shows that the return of equity has an increasing trend. The return of equity is 11% in the year 2007 then increases to 14% in the year and remains constant in the year 2009. It increases to 17% in the 2010 and again increases to 18% in the year 2011. it shows a positive trend.

Chart 4.8.8 DuPont Control Chart



Inference: A 15% return on equity is good in any industry. A minimum of 13 % return of equity shows the firms profitability and potential growth. The average of 15% shows that the firm is very much healthy.

4.8.9 Zeta Score Model

Table 4.8.9

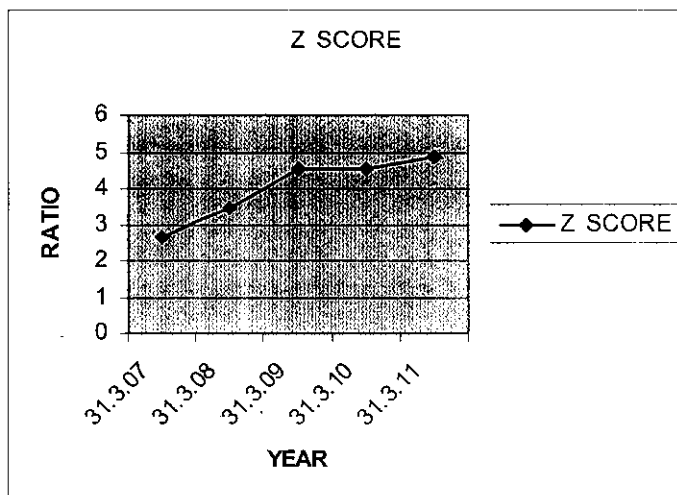
(Rs in Lakhs)

RATIO * WEIGHTAGE	31.3.07	31.3.08	31.3.09	31.3.10	31.3.11
EBIT / Total assets * 3.3	0.14	1.44	0.35	0.66	0.08
Net sales / Total assets *0.999	0.12	2.09	0.33	0.82	0.10
M.V of equity / total liab *0.6	0.22	2.94	0.41	0.82	0.13
Working cap / total assets *1.2	0.17	2.88	0.34	1.01	0.14
Retained earnings / total assets *1.4	0.17	3.15	0.35	1.04	0.15
Z SCORE	2.67	3.46	4.52	4.54	4.86

Source: Financial Projections

Interpretation: From the table 4.8.9, the Z score values for the year 2007 is 2.67 and starts increasing from 3.46 in the year 2008, 4.52 in the year 2009, 4.54 in the year 2010 and 4.86 in the year 2011. The Z score values show an increasing trend.

Chart 4.8.9 Zeta Score Model



Inference: First year being the initial period of the concern the chances of bankruptcy is very much high where as from the next year onwards it shows a positive sign of moving above the standard position and is very much comfortable till 2011 as per the analysis, which means the chances of bankruptcy for the engineering company is very low.

CONCLUSION

CHAPTER – 5

CONCLUSIONS

5.1 FINDINGS

The present study is a past-facto study conducted to analyze the financial rationale of South Indian Bank limited, Saibaba colony branch in sanctioning the funding proposals for term loans. For this purpose, 8 proposals for which the loans were already sanctioned were taken for the analysis. The tools like current ratio, quick ratio, debt equity ratio, networking capital, tangible net worth, debt service coverage ratio and Maximum Permissible Bank Finance (MPBF), the Zeta Score model and Du Pont control chart were used to draw conclusions on the study.

PROPOSAL – I JEWELLERY

1. The average current ratio of Jewellery is 17.00:1, which is above the banking standard of 1.25:1. It means that, for every Re.1 of current liability, there is a current asset of Rs.17. therefore the short term insolvency position of the Jewellery is found to be very much satisfactory.

2. The average quick ratio of Jewellery is 2.96:1, which is above the banking standard of 1:1. It means that, for every Re.1 of quick liability, there is a quick asset of Rs.2.96. Therefore the short term liquidity position of the Jewellery is found to be very satisfactory.

3. The debt equity ratio indicates that the firm has a great amount of debt in its capital structure. The average debt equity ratio of the Jewellery is 3.41 which is above the banking standard of 2:1.

4. The average net working capital of the Jewellery is 118.44 which is found to be satisfactory.

5. The average tangible net worth ratio is 0.70. It satisfies the standard of banking norms of 3:1. This means that for every one rupee of tangible net worth the company has Re 0.70 worth total outsider's liability which is showing a positive sign.

6. The average DSCR is 1.87. It satisfies the standard of banking norms of 1.20:1. It shows a positive sign of repayment of the term loan interest and the principal even at the times of cash losses and ensures that it would pay at least the interest even at the event of cash losses.
7. The MPBS shows the maximum permissible bank finance by the bank as loan as per the given financial projections. As per the jewellery proposal the MPBS increases every year which shows a positive sign.
8. A 43.10% return on equity is good in any industry. A minimum of 13 % return of equity shows the firms profitability and potential growth. The average of 43.10% shows that the firm is very much healthy.
9. First year being the initial period of the concern the chances of bankruptcy is very much high where as from the next year onwards it shows a positive sign of moving above the standard position and is very much comfortable till 2011 as per the analysis, which means the chances of bankruptcy for the jewellery is very low.

PROPOSAL –II HOSPITAL

1. The average current ratio of hospital is 64.79:1, which is above the banking standard of 1.25:1. It means that, for every Re.1 of current liability, there is a current asset of Rs.323.60. Therefore the short term insolvency position of the hospital is found to be very much satisfactory.
2. The average quick ratio of hospital is 64.79:1, which is above the banking standard of 1:1. It means that, for every Re.1 of quick liability, there is a quick asset of Rs.2.96. Therefore the short term liquidity position of the Hospital is found to be very satisfactory.
3. The debt equity ratio indicates that the firm has a great amount of debt in its capital structure. The average debt equity ratio of the Hospital is 3.48 which is above the banking standard of 2:1.
4. The average net working capital of the hospital is 226.47 is found to be satisfactory.

5. The average tangible net worth ratio is 1.21. It satisfies the standard of banking norms of 3:1. This means that for every one rupee of tangible net worth the company has Rs.1.21 worth total outsider's liability which is showing a positive sign.
6. The average DSCR is 2.56. It satisfies the standard of banking norms of 1.20:1. It shows a positive sign of repayment of the term loan interest and the principal even at the times of cash losses and ensures that it would pay at least the interest even at the event of cash losses.
7. The MPBF shows the maximum permissible bank finance by the bank as loan as per the given financial projections. As per the hospital proposal the MPBS increases every year which shows a positive sign.
8. A 50% return on equity is good in any industry. A minimum of 13 % return of equity shows the firms profitability and potential growth. The average of 50% shows that the firm is very much healthy.
9. From the first year till the third year the firm shows high chances for bankruptcy where as from the 4th year it enters into the grey area where one should exercise caution. The firm being a service industry it will take time to get the return for a period of time as all the income is being spent on the purchase of new equipments and other hospital requirements.

PROPOSAL – III GARMENTS

1. The average current ratio of Garment proposal 1.45:1, which is above the banking standard of 1.25:1. It means that, for every Re.1 of current liability, there is a current asset of Rs.1.45. Therefore the short term insolvency position of the Garment is found to be very much satisfactory.
2. The average quick ratio of garment concern is 0.84:1, which is below the banking standard of 1:1. It means that, for every Re.1 of quick liability, there is a quick asset of Rs. 0.84. Therefore the short term liquidity position of the garments concern is not found to be satisfactory

3. The debt equity ratio indicates that the firm has a great amount of debt in its capital structure. The average debt equity ratio of the garments concern is 8.73, which is above the banking standard of 2:1.
4. The average net working capital of the garment concern is 23.05 lakhs which is found to be satisfactory
5. The average tangible net worth ratio is 1.84. It satisfies the standard of banking norms of 3:1. This means that for every one rupee of tangible net worth the company has Rs.1.84 worth total outsider's liability which is showing a positive sign.
6. The average DSCR is 4.55. It satisfies the standard of banking norms of 1.20:1. It shows a positive sign of repayment of the term loan interest and the principal even at the times of cash losses and ensures that it would pay at least the interest even at the event of cash losses.
7. The MPBF shows the maximum permissible bank finance by the bank as loan as per the given financial projections. As per the garments proposal the MPBS increases every year which shows a positive sign.
8. An average of 115% return on equity is good in any industry. A minimum of 13 % return of equity shows the firms profitability and potential growth. The average of 115% shows that the firm is very much healthy.
9. First year being the initial period of the concern the chances of bankruptcy is very much high where as from the next year onwards it shows a positive sign of moving above the standard position of 3 and is very much comfortable till 2011 as per the analysis, which means the chances of bankruptcy for the garments is very low.

PROPOSAL – IV ELECTRONICS

1. The average current ratio of Electronics is 1.87:1, which is above the banking standard of 1.25:1. It means that, for every Re.1 of current liability, there is a current asset of Rs.1.87. Therefore the short term insolvency position of the electronics proposal is found to be very much satisfactory.
2. The average quick ratio of Electronics is 1.18, which is above the banking

of Rs.1.18. Therefore the short term liquidity position of the electronics proposal is found to be very satisfactory.

3. The debt equity ratio indicates that the firm has a great amount of debt in its capital structure. The average debt equity ratio of the electronics proposal is 3.51, is above the banking standard of 2:1.

4. The average net working capital of the Electronics is 4.40 lakhs which is found to be satisfactory

5. The average tangible net worth ratio is 1.21. It satisfies the standard of banking norms of 3:1. This means that for every one rupee of tangible net worth the company has Rs.1.21 worth total outsider's liability which is showing a positive sign.

6. The average DSCR is 1.84. It satisfies the standard of banking norms of 1.20:1. It shows a positive sign of repayment of the term loan interest and the principal even at the times of cash losses and ensures that it would pay at least the interest even at the event of cash losses.

7. The MPBF shows the maximum permissible bank finance by the bank as loan as per the given financial projections. As per the electronics proposal the MPBS increases every year which shows a positive sign.

8. A 44% return on equity is good in any industry. A minimum of 13 % return of equity shows the firms profitability and potential growth. The average of 44% shows that the firm is very much healthy.

9. First year being the initial period of the concern the chances of bankruptcy is very much high where as from the next year onwards it shows a positive sign of moving above the standard position and is very much comfortable till 2011 as per the analysis, which means the chances of bankruptcy for the electronics proposal is very low.

PROPOSAL – V MINES

1. The average current ratio of Mines is 2.66:1, which is above the banking standard of 1.25:1. It means that, for every Re.1 of current liability, there is a current asset of Rs.2.66. Therefore the short term insolvency position of the Mines is found to be very much satisfactory.
2. The average quick ratio of Mines is 2.66:1, which is above the banking standard of 1:1. It means that, for every Re.1 of quick liability, there is a quick asset of Rs.2.66. Therefore the short term liquidity position of the Mines is found to be very satisfactory.
3. The debt equity ratio indicates that the firm has a great amount of debt in its capital structure. The average debt equity ratio of the mines is 7.10 is above the banking standard of 2:1.
4. The average net working capital of the Mines is 66.66 which is found to be satisfactory
5. The average tangible net worth ratio is 0.65. It satisfies the standard of banking norms of 3:1. This means that for every one rupee of tangible net worth the company has Rs.0.65 worth total outsider's liability which is showing a positive sign.
6. The average DSCR is 2.71. It satisfies the standard of banking norms of 1.20:1. It shows a positive sign of repayment of the term loan interest and the principal even at the times of cash losses and ensures that it would pay at least the interest even at the event of cash losses.
7. The MPBF shows the maximum permissible bank finance by the bank as loan as per the given financial projections. As per the Mines proposal the MPBS increases every year which shows a positive sign.
8. A 123% return on equity is good in any industry. A minimum of 13% return of equity shows the firms profitability and potential growth. The average of 123% shows that the firm is very much healthy
9. The first year and second year is below 1.80 which implies that the probability of financial embarrassment is very high. From the third year till fifth year the firm shows high chances for bankruptcy with in 2 years of operations from the date of

financial figures given. Being a mine the company's profitability increases as the years go on.

PROPOSAL- VI TEXTILES

1. The average current ratio of textile is 1.21:1, which is below the banking standard of 1.25:1. It means that, for every Re.1 of current liability, there is a current asset of Rs.1.21. Therefore the short term insolvency position of the textiles is not found to be very much satisfactory.

2. The average quick ratio of mines is 0.60:1, which is below the banking standard of 1:1. It means that, for every Re.1 of quick liability, there is a quick asset of Rs.0.60. Therefore the short term liquidity position of the textile is found to be very unsatisfactory

3. The debt equity ratio indicates that the firm has a great amount of debt in its capital structure. The average debt equity ratio of the Textiles is 2.85 is above the banking standard of 2:1.

4. The average net working capital of the mines is 55.65 which is found to be satisfactory

5. The average tangible net worth ratio is 1.92. It satisfies the standard of banking norms of 3:1. This means that for every one rupee of tangible net worth the company has Rs.1.92 worth total outsider's liability which is showing a positive sign.

6. The average DSCR is 1.52. It satisfies the standard of banking norms of 1.20:1. It shows a positive sign of repayment of the term loan interest and the principal even at the times of cash losses and ensures that it would pay at least the interest even at the event of cash losses.

7. The MPBF shows the maximum permissible bank finance by the bank as loan as per the given financial projections. As per the Textiles proposal the MPBS increases every year which shows a positive sign.

8. A 30% return on equity is good in any industry. A minimum of 13 % return of equity shows the firms profitability and potential growth. The average of 30% shows that the firm is very much healthy.

9. First year seems to be in the grey area where as the second year it shows that there are good chances of bankruptcy, third year and fourth year also it shows that there are chances of bankruptcy, in the fifth year it enters the grey area. All together the proposal is not so impressive.

PROPOSAL – VII TRADING COMPANY

1. The average current ratio of trading company is 2.01:1, which is above the banking standard of 1.25:1. It means that, for every Re.1 of current liability, there is a current asset of Rs.2.01. Therefore the short term insolvency position of the trading company is found to be very much satisfactory.

2. The average quick ratio of trading company is 1.09:1, which is above the banking standard of 1:1. It means that, for every Re.1 of quick liability, there is a quick asset of Rs.1.09 Therefore the short term liquidity position of the trading company is found to be very satisfactory.

3. The debt equity ratio indicates that the firm has a great amount of debt in its capital structure. The average debt equity ratio of the trading company is 8.73 which is above the banking standard of 2:1.

4. The average net working capital of the trading company is 119.74 which is found to be satisfactory

5. The average tangible net worth ratio is 2.28. It satisfies the standard of banking norms of 3:1. This means that for every one rupee of tangible net worth the company has Rs.2.28 worth total outsider's liability which is showing a positive sign.

6. The average DSCR is 4.83. It satisfies the standard of banking norms of 1.20:1. It shows a positive sign of repayment of the term loan interest and the principal even at the times of cash losses and ensures that it would pay at least the interest even at the event of cash losses.

7. The MPBF shows the maximum permissible bank finance as working capital loan as per the given financial projections. As per the trading proposal the MPBS increases every year which shows a positive sign

8. A 34 % return on equity is good in any industry. A minimum of 13 % return of equity shows the firms profitability and potential growth. The average of 34% shows that the firm is very much healthy
9. First year being the initial period of the concern the chances of bankruptcy is very much high where as from the next year onwards it shows a positive sign of moving above the standard position and is very much comfortable till 2011 as per the analysis, which means the chances of bankruptcy for the textile is very low.

PROPOSAL – VIII ENGINEERING COMPANY

1. The average current ratio of trading company is 13.87:1, which is above the banking standard of 1.25:1. It means that, for every Re.1 of current liability, there is a current asset of Rs.13.87. Therefore the short term insolvency position of the engineering company is found to be very much satisfactory.
2. The average quick ratio of engineering company is 2.51:1, which is above the banking standard of 1:1. It means that, for every Re.1 of quick liability, there is a quick asset of Rs.2.96. Therefore the short term liquidity position of the engineering company is found to be very satisfactory.
3. The debt equity ratio indicates that the firm has a less amount of debt in its capital structure. The average debt equity ratio of the engineering company is 1.69 which is below the banking standard of 2:1.
4. The average net working capital of the engineering company is 6.76 which is found to be satisfactory
5. The average tangible net worth ratio is 0.68. It satisfies the standard of banking norms of 3:1. This means that for every one rupee of tangible net worth the company has Rs.0.68 worth total outsider's liability which is showing a positive sign.
6. The average DSCR is 2.98. It satisfies the standard of banking norms of 1.20:1. It shows a positive sign of repayment of the term loan interest and the principal even at the times of cash losses and ensures that it would pay at least the interest even at the event of cash losses.

7. The MPBF shows the maximum permissible bank finance by the bank as loan as per the given financial projections. As per the engineering proposal the MPBS increases every year which shows a positive sign.
8. A 15% return on equity is good in any industry. A minimum of 13 % return of equity shows the firms profitability and potential growth. The average of 15% shows that the firm is very much healthy.
9. First year being the initial period of the concern the chances of bankruptcy is very much high where as from the next year onwards it shows a positive sign of moving above the standard position and is very much comfortable till 2011 as per the analysis, which means the chances of bankruptcy for the engineering company is very low.

5.2 SUGGESTIONS

Based on the findings arrived the following suggestions are being made:

PROPOSAL I JEWELLERY

The current ratio seems to be decreasing every year. It has to be noted that it does not go below the standard of 2:1 in the following years. All together the jewellery proposal is found to be satisfactory. The organization should take steps to maintain and improve the performance as per the financial projections.

PROPOSAL II HOSPITAL

The zeta score model shows that the organization will be bankrupt in few days therefore every year's financial performance and the statements are to be verified and based on the above evaluation the loan proceedings can be carried forward if not found satisfactory then the loan proceedings can be with held. The organization should take steps to improve the performance as per the financial projections.

PROPOSAL III GARMENTS

The garments proposal all together is found to be very much satisfactory based on the financial projections yet the organization should take steps to increase their quick assets as per the financial projections given. The organization should take steps to maintain and improve the performance as per the financial projections.

PROPOSAL IV ELECTRONICS

The current assets have to be increased as the current ratio is below the standard of 1.25:1. The proposal as per the financial projections given is found to be satisfactory. The organization should take steps to maintain and improve the performance as per the financial projections.

PROPOSAL V MINES

As per the mines proposal, the current ratio, quick ratio, debt equity ratio, networking capital, tangible net worth ratio, debt service coverage ratio, maximum permissible bank finance, return on equity are found to be satisfactory where as the zeta score model shows that there are chances for bankruptcy which is to be taken care of. Every year the financial performance and the financial statements are to be verified based on it further loan proceedings can be done. The organization should take steps to maintain and improve the performance as per the financial projections.

PROPOSAL VI TEXTILES

As per the textiles proposal the organization will have to take effort to increase their current assets and the quick assets. They are supposed to increase it by the next financial year so that based on it loan proceedings can be carried forward. They will also have to see to it that improve their financial performance. Zeta score for the five years is not found to be very satisfactory. So it is very important for the organization to take caution with regard to the financial performance for the loan proceedings from the bank.

PROPOSAL VII TRADING COMPANY

The trading proposal is found to be satisfactory and so the organization will have to take steps to maintain and improve their performance as per their financial projections.

PROPOSAL VIII ENGINEERING COMPANY

The Engineering company proposal is found to be satisfactory and so the organization will have to take steps to maintain and improve their performance as per their financial projections.

5.3 CONCLUSION

It is an attempt being made to provide an overall view about the calculations that are carried out in order to evaluate the company proposals before funding them by the banks. For this study 8 proposals of different organizations are taken. The financial projections given by the organizations from 31.3.07 to 31.3.11 were being analyzed. The eight proposals include

1. Jewellery
2. Hospital
3. Garments
4. Electronics
5. Mines
6. Textiles
7. Trading
8. Engineering

Among these proposals all the proposals except the textiles proposal is found to be enjoying sound position in liquidity and utilize funds in the appropriate manner. There is a little deficiency with the textiles proposal which has to be taken care of. If the above companies maintain stability in their performance and overcome some of its weak managerial aspects, they will deliver sound financial performance in the years to come. The organization of study i.e. South Indian Bank do follow the banking norms properly in funding the loan proposals and the rationality with which the process is evaluated is found to be satisfactory.

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