

**A STUDY OF NBFC's WITH SPECIAL REFERENCE TO  
SAKTHI FINANCE LIMITED,  
COIMBATORE.**

**BY**

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**of**

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

**A PROJECT REPORT  
Submitted to the**

**FACULTY OF MANAGEMENT STUDIES**

**In partial fulfillment of the requirements**

**for the award of the degree**

**of**

**MASTER OF BUSINESS ADMINISTRATION**

**AUGUST, 2007**



**KCT BUSINESS SCHOOL**  
**DEPARTMENT OF MANAGEMENT STUDIES**  
**KUMARAGURU COLLEGE OF TECHNOLOGY**  
**COIMBATORE**

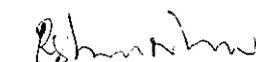
**BONAFIDE CERTIFICATE**

Certified that this project titled "A STUDY OF NBFC's WITH SPECIAL REFERENCE TO SAKTHI FINANCE LIMITED " is the bonafide work of **Ms.K.LOGESHWARI (71206631023)** 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 an earlier occasion on this or any other candidate.

  
Faculty Guide

  
Prof.S.V.DEVANATHAN  
Director

Evaluated and viva-voce conducted on ..... 29/10/07 .....

  
.....  
Examiner I

  
.....  
Examiner II



# SAKTHI FINANCIAL SERVICES LIMITED

14<sup>th</sup> September '2007

## TO WHOMSOEVER IT MAY CONCERN

This is to certify that Ms. K.Logeshwari of II Year M.B.A. Student of KCT Business School ( Kumaraguru College of Technology ) Coimbatore District, has undergone her project work in our Organization during the period from June 19<sup>th</sup> 2007 to August 1<sup>st</sup> 2007 under the title "A Study of NBFC's" with special reference to Sakthi finance and Comparison statement with its competitors.

During this period her character and conduct were found extremely good.

We wish her all success in future.

Thanking you

Yours faithfully,  
For SAKTHI FINANCIAL SERVICES LTD

B.Senthilnathan  
Asst.General Manager – Resources

***DECLARATION***

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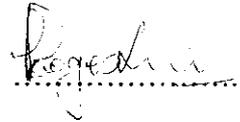
## DECLARATION

I, hereby declare that this project report entitled as “**SAKTHI FINANCE LIMITED**”, has undertaken for academic purpose submitted to Anna University in partial fulfillment of requirement for the award of the degree of Master of Business Administration. The project report is the record of the original work done by me under the guidance of **Mrs. Hemanalini** during the academic year 2007-2008.

I, also declare hereby, that the information given in this report is correct to best of my knowledge and belief.

Date:

Place: Coimbatore:



(K.Logeshwar)

## ***ACKNOWLEDGEMENT***

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## ACKNOWLEDGEMENT

It is inevitable that thoughts and ideas of other people tend to drift into subconscious when one feels to acknowledge helping derived from others. I acknowledge to all those who helped me in the preparation of this project work.

I wish to express my deep gratitude to **Prof. Joseph V. Thanikal** Principal, Kumaraguru College of Technology for his guidance and encouragement to complete my project work.

I wish to express my sincere thanks to **Prof.S.V.Devanathan** – Director, KCT Business School, for his continuous encouragement throughout my project.

I owe my hearty gratitude to **Mrs. Hemanalini**, Lecturer KCT Business School, for her help and valuable guidance given to me throughout my project.

I express my sincere thanks to **Dr.S. Ganesan**, Director Sakthi Finance Limited, Coimbatore for granting permission to do my project work.

I like to extend my hearty thanks to **Mr. B.Senthil Nathan**, Assistant General Manager of Sakthi Finance Limited, who guided me the In-plant training to visit the various department successfully.

I extend my sincere gratitude to **Mr.G.Subramaniam**, Company secretary, Sakthi Finance Limited, for his guidance to complete my project successfully. And also to the staffs of Roots Industries Limited who furnished all the information related the research work.

## ***EXECUTIVE SUMMARY***

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## EXECUTIVE SUMMARY

In all business the sources of finance is primarily concerned with Financial statement analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationships between the items of the balance sheet and profit and loss account. Financial statement analysis can be undertaken by the firm or by parties outside the firm viz, owners, creditors, investors, and others. The nature of analysis will differ depending on the purpose of the analyst.

Ratio analysis is a powerful tool of financial statement analysis. The main objective of the study is to make an analysis on the financial performance of the company for the past 5 years, to calculate profitability turnover and financial ratio to assess the financial position of the firm, to study the efficiency and liquidity position using ratios to study the trend of financial performance of the company, the asses individual financial segments and put forth the strength and weakness of the financial elements of balance sheet through trend analysis.

Year by year the companies profit is increasing, it shows financial managers are working seriously under financial performance. The analysis of the data is calculated for the period of 5 years i.e. 2002-2003, 2003-2004., 2004-2005, 2005-2006, and 2006-2007.

Sakthi Finance Limited is a Non Banking Financial Company mainly engaged in asset financing segment where it provides for hire purchase of vehicles and other movable assets. Even though the company has strict customer selection norms, due to various reasons each of the account behave in a different way at the time of recovering back the amount lent to the customer. A round 10% of the customers prove to pay belatedly, out of which around 8% to9% of the customers repay due to the pressure applied by the company. Around 0.5% of those accounts have to be written off.

The methodology used in analytical and ratio analysis is used for the analysis of the financial statement. With the help of the analysis and the interpretation, suggestions are framed for the company.

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## ***INTRODUCTION***

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## CHAPTER - 1

### 1. INTRODUCTION

#### 1.1 BACK GROUND:

The progress in the banking and financial sector is an important prerequisite for economic development. The channelise the resources from the household for the economic development of a country. India has a fairly diversified financial infrastructure essentially; the financial infrastructure in the organized sector consists of banking network including investment banks. In addition to the organized banking system, there is parallel banking system operating in the economy, which includes Non-banking financial company s (NBFC 's), Miscellaneous Non-Banking Company's (MNBC 's), Residuary Non-banking Company's, Non-financial Company's.

#### DEFINITION OF NBFC:

“Non-Banking Financial Company” includes only the non-banking institution that is a loan company or an investment company or hire purchase finance company or equipment leasing company or a mutual benefit financial company. The role of an NBFC is not different from that of a bank mobilizing money from people with the promise of replaying more. No wonder, that nearly 40, 0000 NBFC's set up establishments to mobilize money with a promise of high interest. Unfortunately many of them were fly-by night operators.

Finally the Apex bank has woken-up announcing a string of guidelines to regulate the industry. The RBI has issued a new set of directories known as the Non-banking company's Prudential Norms directions 2006, which came into force in January 2006. These regulations aim at protecting public deposits and ensuring that only stronger player service.

Sakthi Finance Ltd started its operations as a NBFC 's away back in 1955, now it is major player in the finance sector , backed by the trust of the investors, and the Sakthi group commitment , Sakthi Finance Ltd., with its innovative schemes and excellence in service is a name to reckon with in the finance industry. In the plight of this circumstances where RBI has issued strong guidelines which is likely to change the working pattern / structure of NBFC's itself, this study acquires special importance.

## **COMPARATIVE STUDY ON SAKTHI FINAINCE Vs 5 OTHER NBFCs**

*"Comparison are odious"* -John Fortescue.

### **THE PARAMETERS:**

Each finance company in the sample has been evaluated on a maximum of 36 parameters. These 36 parameters fall under four functional categories:

- Financial
- Operational
- Profitability
- Productivity

The financial parameters include the following five absolute indicators: working funds, reported net profit, total deployed assets, business volume and operating profit. The operational parameters include the following five ratios. Total debt to net worth, banks loans to owned funds, accounts receivable to business volume, public deposits to working funds and business volume to working funds. The profitability parameters include the following six ratios: reported net profit to working funds, operating profit to working funds, reported net profit to reported net worth, lease rentals to gross assets and lease rentals to gross leased assets. The productivity (efficiency) parameters include the following three ratios: finance charges to working funds and finance charges to total income and tax shelter.

In addition to these 18 indicators and ratios each finance company has been Judged on growth ratios related to each of the above 18 indicators, and ratios.

**LIMITATIONS:**

This study indicates the standing of the companies as on 31 st march 2006, but much has happened in the sector since that date. The CRB episode and the subsequent tightening regulatory grip on finance companies has resulted in a shakeout in the sector. The five competitors which are taken for this analysis are

NAME OF THE COMPANY	CATEGORY	RATING
1.Sundaram Finance	Large	MAAA
2.Cholamandalam Investment and Finance Co.	Large	MAAA
3. Ashok Leyland Finance	Large	FAA
4. Annamalai Finance	Medium	FA+
5. Coimbatore Lakshmi Investment and Finance Company (CLIF)	Mini	MA-

**THE DEFINITIONS:****1. WORKING FUNDS (WF):**

Working funds are total resources (total liabilities or total asset) of a finance company as on a particular date. Total resources include shareholders funds and loan funds (secured, unsecured and deferred payment liabilities). A high working funds shows a finance company's total resources strength.

**2. REPORTED NET PROFIT (RNP):**

This is profit net of provisions, amortization and taxes. RNP is the basic indicator of a finance company's profitability.

**3. TOTAL DEPLOYED ASSETS (TDA):**

Total assets less cash assets and less miscellaneous exp. TDA indicates the deployment capabilities of a finance company.

**4. BUSINESS VOLUME (BV):**

Alternative known as volume of business, business volume is nothing but gross revenue (GR) or total income (TI). Business volume is obtained By adding together income from operations and income from other sources (non-operational or other income). A high business volume reflects the ability of a finance company to deploy its funds and generate constant streams of income.

**5. OPERATING PROFIT (OP):**

Net profit before provisions and contingencies. Provisions include all provisions created towards non-performing assets and taxes. OP is a measure of a finance company's operating efficiency.

**6. TOTAL DEBT TO REPORTED NET WORTH (TD/RNW):**

This ratio is expressed as a number. The corresponding ratio in a manufacturing company is termed the debt-equity ratio; this ratio denotes a finance company's degree of leveraging relative to its net worth. A high ratio is proof of a finance company's ability to leverage its net worth effectively.

**7. BANK LOANS TO OWNED FUNDS (BL/OF):**

This ratio indicates the relative leveraging from banks against owned funds and reflects the finance company's dependence on the banking sector for resources. A high ratio indicates a finance company's borrowing and bargaining power with the banks.

**8. ACCOUNT RECEIVABLE TO BUSINESS VOLUME (AR/BV):**

This ratio indicates the proportion of business volume locked up in accounts receivable. A low ratio indicates better accounts receivable planning and management.

**9. TOTAL DEPOSITS TO WORKING FUNDS (TDP/WF):**

This ratio relates total deposits (public and inter-corporate deposits) to working funds. A high ratio indicates a finance company's ability to mobilize deposits. In a sense, the ratio mirrors the strength of the finance company's brand equity.

**10. BUSINESS VOLUME TO WORKING FUNDS (BV/WF):**

This ratio helps to find out whether a finance company generates enough business volume in relation to its working funds. This ratio is a good detector of ideal funds and a reflector of slackness in operations. A high ratio indicates the intensity of working funds deployment.

**11. REPORTED NET PROFIT TO WORKING FUNDS (RNP/WF):**

This ratio is a foolproof indicator of excellent utilization of resources and optimum leveraging of funds. A high ratio is a good indicator of profitability.

**12. OPERATING PROFIT TO WORKING FUNDS (OP/WF):**

A good indicator of profitability at the operating level.

**13. REPORTED NET PROFIT TO OWNED FUNDS (RNP/OF):**

This ratio is the equivalent of the return on net worth ratio used in other industries. It is a good indicator of profitability and return on shareholders' funds. Also known as reported net profit to reported net worth (RNP/RNW).

**14. OPERATING PROFIT TO OWNED FUNDS (OP/OF):**

It is an indicator of shareholder's return at the operating level.

**15. LEASE INCOME TO GROSS BLOCKS (LI/GB):**

A good measure of how active and vibrant are the leasing activities of a finance company. A high ratio indicates how active is the leasing division and how Active is the leasing division and how profitable are the division's operations.

**16. LEASE INCOME TO GROSS LEASED ASSETS:**

A high ratio indicates not only the health of the leasing divisions, but more importantly it reflects the division's competitiveness within the industry.

**17. FINANCE CHARGES TO WORKING FUNDS:**

A high ratio indicates how active and alive are the finance company's operations.

**18. FINANCE CHARGES TO BUSINESS VOLUME (FC/BV):**

This ratio indicates a finance company's ability to source cheap funds and also its ability to strike the right balance between the need for funds and the cost of funds.

**19. TAX SHELTER (TS):**

This is the difference between the profit before tax (PBT) and profit after tax (PAT). Tax shelter indicates how well a finance company has done its home work as for as tax planning is concerned. However, a high ratio indicates a larger scope for bottom line improvements in future.

REASONS: Better tax planning and greater rationalization of corporate taxes. Moreover, High ratio indicates a better quality of profit which are secured by tax payments.

**THE CONCEPTS:**

- **ACCOUNTS RECEIVABLES (AR):**

Include total debtors (lease and non-lease debtors) and loans and advances.

- **BANK LOANS (BL):**

Include both secured and unsecured banks loans. Include bank overdraft cash credit and other bank advances. Exclude term loans from term-lending financial institutions.

- **FINANCE CHARGES (FC):**

Include interest on fixed loans interest on debentures. interest on all other loans, bill re-discounting charges, brokerage, commission, bank charges, debenture issue expenses and other financial expenses.

- **GROSS BLOCK (GB):**

Includes gross value of fixed assets and capital work in progress.

- **GROSS LEASED ASSETS (GLA):**

Include the gross value of all leased assets, both assets on operating lease and on financial lease.

- **REPORTED NETWORTH (RNW):**

Alternatively known as owned funds (OF), RNW is equal to the aggregate of equity capital and reserves and surplus net of:

1. Revaluation reserves
2. Unamortized miscellaneous exp. &
3. Accumulated losses.

- **TAX:**

Includes tax and wealth tax.

- **TOTAL DEBT:**

Total debt includes all secured loans, unsecured loans and deferred payment liabilities.

- **TOTAL DEPOSITS:**

Include public deposits and inter-corporate deposits.

## 1.2 REVIEW OF LITERATURE

A literature review discusses published information in particular subject area and sometimes information in a particular subject is with in a certain time period. A literature review can be just a simple summary of the sources, but it usually has an organizational pattern and combines both summary and syntheses. A summary in a recap of the important information of the sources but a synthesis in a re-organization of that information. It might give a new interpretation of old material or combine new with old interpretations or it might race the intellectual progression of the field, including major debates. And depending on the situation, the literature review may evaluate the sources and advice the reader on the most pertinent and relevant.

A literature review has a number of purposes it enables to:

- Define and limit the problem you are working on
- Place the study in a historical perspective
- Evaluate promising research methods
- Relate your findings to previous knowledge and suggest further researcher
- Non banking financial companies (NBFC's) play a crucial role in breadening access to financial service, enhancing competition and diversification of the finance sector. They are increasingly being recognized as complementary to the banking system, capable of absorbing shocks and speeding raised at times of financial distress. Since both the bank and NBFCs are seen to be competing for increasingly similar type of some business, especially on the assets side, and since there regulatory and costincentive structure are not identical it is necessary to establish cretin checks and balances to ensure that the banks' depositors are not indirectly exposed to the risks of a different cost –incentive structure. BFECs can undertake activities that are not permitted manner, for example, financing of acquisitions and mergers, capital market activities, etc. The difference in the level of regulation of the

“ Risk Management in Banks” an article by Mr. G.H.Deolalkar, former Managing Director of State Bank of India, December 2000.

banks and NBFC's which are undertaking some similar activities, gives rise to considerable scope for regulation arbitrage. Hence, routing of transaction through NBFCs would tantamount to undermining banking regulation. This is partially addressed in the case of NBFCs that are a part of banking group of account of prudential norms applicable for banking groups<sup>6</sup>

- The Indian Economy is booming on the back of strong economic policies and a healthy regulatory regime. The effects of this are far-reaching and have the potential to ultimately achieve the high growth rate that the country is yearning for, The banking system lies at the nucleus of a country's development robust reforms are needed in India's case to fulfill that. The Bank of International Settlements attempts to put in place sound frame works of measuring and quantifying that risks associated with banking operations. The paper seeks to showcase the changes that will emerge as a results of banks adopting the specified norms. strengthen owing to the liberalization, regulation and integration with global markets Management of risks will be carried out proactively and quality of credit will improve, leading to a stronger financial sector.<sup>7</sup>
- Risks are an inevitable component of any financial organization. The very existence of a financial instruction is to take risks. Though there is no method to eliminate risks completely, regulations have been laid down from time to time to assist to minimizing these risks. This is how the concept of risk management came into being. Though the term gained momentum in recent times, the concept is not new to the financial industry. The process of identifying, measuring, reporting and controlling risks has been rooted in the industry since years. Risk management has helped organizations in identifying risks and in building up measures to minimize them. A sound risk management practice has been identified as an essential ingredient for the progress of the financial services industry and has been accepted.

6.“Circular issued by Reserve Bank of India Regarding Financial Regulation of Systemically Important NBFCs and Banks’ and relationship with them, November 30, 2006.

7.A presentation on “ Tackling risks” by Mr. Mitali Kalita on 28 October 2003; Source <http://www.domainb.com/scripts/recommend/recommend.asp>.

address the concept of risk management, review the reasons behind its popularity and explain its importance to the industry. We also try to the gloomy economy, concluding with the steps that the financial services industry must adopt to improve risk management.<sup>8</sup>

- The Indian financial Institution has come of age in the past few years. Overall, it has been a period when these financial institutions have thrives. We have seen the growth of some financial institutions to phenomenal levels. But there's still a fair way to go before an Indian bank's can truly announce its global arrival. The imperatives that are going to be derives and undergoing a transformation. Shaping up of a bank, internally with respects to target markets & customer, business models and risk management is going to impact the future tremendously. At external level consolidation is the word, the changes in landscape due to mergers & acquisitions being undertaken across the industry. The emerging Indian Rural market is playing a big role in charting out of trend for the growth of banks. With the economy surging, the income level have increased in rural banking was the forte of public sector banks which was more of an obligation than a well through out banking initiative for the same. The dynamics of the rural market are changing, and so must the strategy of banks which has to includes the spirit of microfinance, credit for small enterprises along with commercial banking.<sup>9</sup>
- Managing credit risk has always been the most risky business in the financial services industry. If we look back into the past, we will find that poor management of credit risk was the root cause behind most of the major banking disasters. Being the oldest risk in the market, it was not given much attention and almost remained aloof to the advent if technology until the late 1900s. With the introduction of banking regulations, there is awareness in the industry now to identify measure, monitor and control credit risk as well as to determine that the hold capital against this risk

8. Excerpts from remarks of Dr. Bimal Jalan, Governor Reserve Bank of India at the twenty-fourth Bank Economists' Conference on December 27, 2002 at Banaglore.

9. Excerpts from the article "Future of banking in India-Changing imperative" issued at Insight'06, National Management Symposium, Loyola Institute of Business Administration.

biggest challenge facing the industry is credit risk because large-scale borrower defaults may even force a bank into bankruptcy. As the market has turned increasingly competitive with the mushrooming of new players, it is quite evident that companies are taking on more credit risk. But for a more transparent market and healthy competition, the financial services industry must turn credit risk into an opportunity.<sup>10</sup>

- Then face of banking, as we have known it, is also changing rapidly. India is approaching an era of financial conglomeratisation and 'bundling' in the provision of financial services. Besides infusing heightened competition, there are implications for the regulatory and supervisory regime. Banks and financial institutions have to prepare for change in the regulatory framework towards a more focused, comprehensive and efficient environment that eschews regulatory forbearance. Legal reforms accordingly will have to ascend the hierarchy of priorities in the reform process. Against this background, in this talk I propose to focus on the main challenges facing Indian banking, such as the role of financial intermediation in different phases of the business cycle, the emerging compulsion of the new prudential norms, and benchmarking the Indian financial system against international standards and best practices. I will also say a few words about the changing context of regulations and supervision of the financial system in India, the need for introducing new technology in the banking and financial system, and the importance of strengthening skills and intellectual capital formation in the banking industry.<sup>11</sup>

<sup>11</sup> The space on "Indian Banking and Finance : Managing New Challenges" by Dr. Bimal Jalan, Former Governor, Reserve Bank of India at the twenty – fourth Bank Economics' Conference , Bangalore on December 27,2002.

### **1.3 OBJECTIVES OF THE STUDY**

- To know the effect of recent RBI regulations towards Non –Banking Financial companies with references to Sakthi Finance Limited (NBFC's).
- To analyses the financial performance of Sakthi Finance Limited, from 2001- 02 to 2005-06 financial year.
- To examine the performance of major competitors of Sakthi Finance for the year 2005-06.
- To compare the performance of one of the main competitors to Sakthi Finance Limited., (Annamalai Finance) for the financial year 2001-06.

#### **1.4 STATEMENT OF THE PROBLEM**

The current study is stating that a comparison study of NBFC's institutions in Coimbatore. This study is a comparison of NBFC's with other financial institutions. The quality of a customer has to be assessed based on his intentions to pay and "capacity to pay". Various factors will have to be assessed and finally a decision will be taken. Even though various factors of bad accounts are being analyzed for each and every proposal, the relevance of each of these factors and the degree of commonality given to each factor has not been studied and used by the company. Hence an attempt is made to understand The influence of various factors on the important attributes of bad accounts.

#### **1.5 SCOPE OF THE STUDY**

The scope of study is to determine Ratio analysis of Sakthi Finance Limited. The study will be useful for improvement in the performance of the firm. The study covers a period of 5 years from 2002-2006. In Financial analysis the direction of changes over a period of years is of crucial importance. Time series of Ratio analysis indicates the direction of change. This kind of analysis is particularly applicable to the items of profit and loss account.

## **1.6 METHODOLOGY**

### **1.6.1 TYPE OF STUDY**

The type of study used for this project is analytical research, researcher has to use the facts and information already available and analyses these to make critical evaluation of the credit.

### **1.6.2 RESEARCH DESIGN**

Research design constitutes the blueprint for the collection, measurements, and analysis of the data. The present study is based on descriptive research design. The objective of a descriptive study is to learn who, what, when, where, and how from the topic. The present study is about non banking financial institutions with special reference to sakthi finance.

### **1.6.3 DATA COLLECTION**

The secondary data were collected from annual reports and balance sheet for the financial year 2002 to 2006. Some more details were collected from the company's.

Primary data and secondary data are used for the study. Primary data was collected by direct contact with officers and managers. Sources of Secondary data were Annual reports of sakthi finance for the year ended 2002 march to 2006 march. Ratio analysis was done and statement showing changes in working capital was prepared to analyses the working capital.

### **1.6.4 TOOLS FOR ANALYSIS**

Ratio analysis have been used to evaluate the performance of Sakthi Finance & its competitors. Graphs are used to highlight the analysis.

- Ratio Analysis

## 2.2. THE MANAGEMENT :

### 2.2.1 BOARD OF DIRECTOS

Exhibit 2.1

Name of the director	Catergory
Dr. N. Mahalingam	Non – Executive Chairman, Promoter
Sri. M. Manicakam	Non – Executive, Vice Chairman, Promoter
Sri M. Balasubramaniam	Managing Director , Promoter
Sri M. Srinivasan	Non – executive Director , Promoter
Sri A. Shanmugam	Non – executive Director, Non-Independent
Sri.A. Shanmugasundaram	Non – executive Director, Non - Independent
Sri .S.A Murali Prasad	Non – executive Director, Independent
Dr.A.Selvakumar	Non – executive Director, Independent
Sri.P.S.Gopalakrishnan	Non – executive Director, Independent
Name of the director	Catergory

Source : Sakthi Finance Limited –Annual Report - 2006

### 2.2.II PRINCIPAL EXECUTIVES :

1. Mr.N.Srinivasan Vice President
2. Mr.P.S.Muralidaran Vice President (Strategy)
3. Mr.S.Anand General Manager ( Operations )

### 2.2.III. COMMITTEES OF THE BOARD

#### a) Audit Committee :

- Reviewing the accounting system and polices periodically and suggest any improvement to the Board as and when required.
- Reviewing the financial statement before they are submitted to the board of directors reviewing the internal control system.

#### b) Remuneration Committee

- The Remuneration Committee determines and recommends to the Board the remuneration including commission, perquisites and allowance payable to the Managing Director.
- The company has complied with the non- mandatory requirement of Clause 49 regarding remuneration committee.

## **1.7 LIMITATIONS**

The limitations of the study are:

1. The available data that has been collected from the published annual reports of the company is generally influenced by the accounting concepts, conventions and personal judgments of the accounting people.
2. The study has been restricted to period of 5 years
3. The Balance sheet has been prepared on a particular date and it ignores fluctuations in assets and liabilities that may occur between the periods of two consecutive balance sheets.
4. The performance analysis of 5 competitors is based on the annual report on companies up to 2005-04 March Financial year. The 2006-07 has not been taken into consideration by the researcher due to non-availability of some company's data. This is a major limitation of the study as the new RBI regulations of NBFC's came to effect on 31<sup>st</sup> January 2006.

## **1.8 CHAPTER SCHEME**

### **Chapter 1: Introduction**

The first chapter deals with the background, objectives, scope of the study, methodology used in data collection, limitation, of the study, and brief introduction of all the chapters.

### **Chapter 2: Organization Profile**

Organization profile includes details on the history of the organization, management and organization structure, product profile and market potential, competitive strength of the company and brief description on various functional areas of the organization.

### **Chapter 3: Macro-micro Economic analysis**

Macro-Micro analysis deals with the prevailing scenario of the organization with respect to its respective industry and perform the SWOT analysis of the company.

### **Chapter 4: Data Analysis and Interpretation**

The chapter mainly deals with perform various ratio analysis related to working capital in order to analyze and compare the performance of the company & trend analysis.

### **Chapter 5: Conclusion**

Conclusion includes the result and the discussion put forth regarding the performance of the company for the past 5 years and the considered recommendations to improve the performance of the company.

## ***ORGANISATION PROFILE***

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## CHAPTER - 2

### 2. ORGANISATION PROFILE

#### 2.1 HISTORY OF THE ORGANIZATION :-

Sakthi Finance Limited was incorporated on 30<sup>th</sup> March 1955 under the Company's Act in the name of "Pollachi Credit Society" Private Limited, as groups in house financing arm for TELCO dealership. The company made its first public issue in 1984. With successive rights issue on premium the company paid up the capital raised from Rs 25 lakhs to 17.5 crores as on March 2002.

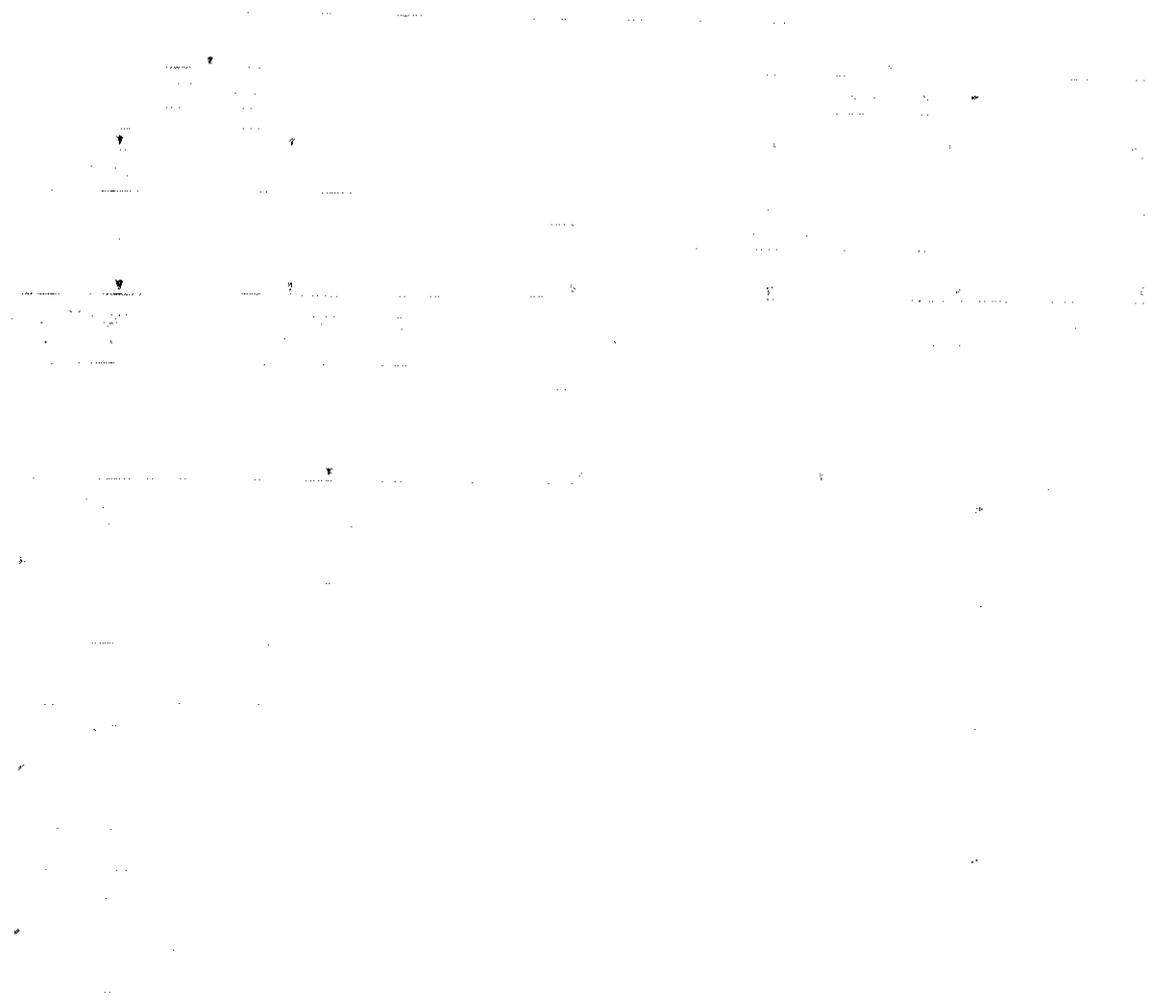
The company's authorized capital comprises . 4,00,00,000 equity shares of Rs.10 each and 5,00,000 redeemable cumulative preference share of Rs.100 each. The issued subscribed and paid up capital are 2,00,71,321 equity shares ors Rs.10 each fully paid up.

Sakthi Finance Limited is a unit of Sakthi Group Promoted by Dr.N. Mahalingam. Authorised share capital of the capitals of the company in 2006 is Rs. 45 cores which is divided into 4 crores Equity shares of Rs.10 each and 5 lakhs Redeemable Preference share of Rs.100 each. The Paid- up Shares capital is 2,00,71,231 Equity shares of Rs.10 each.

Presently the company operates through a networks of 21 branches located in Tamilnadu, Kerala, Andrapradhesh and Maharashtra. with specific focus on Tamil Nadu and Savings centers have been established at various deposit potential arrears at taluks of different districts in Tamilnadu and Kerala for mobilizing public deposits. The Company is also having safety locker facility to the deposit holders.

# ORGANIZATIONAL STRUCTURE

XXXXXXXXXX  
XXXXXXXXXX



## **MANAGEMENT**

### **2.1.1 BRANCH OFFICES**

1. **Tamilnadu** : Chennai, Coimbatore, Mylapore, Madurai, Polachi, Trichy, Salem, Erode, Namakkal and Tirunelveli.
2. **Kerala** : Calicut, Eranankulam, Kottayam and Kannur.
3. **Karnataka** : Bangalore
4. **Andhra Pradesh** : Vishakapatnam, Vijayawada.
5. **New Delhi**

### **2.1 THE STRENGTH OF VISION:**

Sakthi, a growing group that's business interests are etching out new industrial horizons. With the strength of vision, the Sakthi group is now among the top corporate houses in the country. Led by the farsighted Dr.N.Mahalingam, the group chairman – the driving force behind Sakthi the group today is a Rs.800 Crore conglomerate, has diverse interests spanning across Sugars, Textiles, Transport .Finance. Fruit beverages, Soya products, Synthetic gem manufacturing.

A keen participant in social commitments, the Sakthi group has set up many Educational and charitable institutions, hospitals and religious centers.

### **VISION OF SAKTHI FINANCE LIMITED:**

1. Be amongst the top three re-financiers of commercial vehicles in the country.
2. Become total solution provided through channel seven – value chain management.
3. Become the most preferred supplier of the customer choice.

### **MISSION OF SAKTHI FINANCE LIMITED:**

1. To partner the progress of “ the small and medium transport “ (SRTO & MRTO)
2. To provide “End to End service” leading to “Total Customer Solution” with speed, Flexibility and Integrity.

## **2.2 LISTED COMPANIES:**

### **2.2.1. TRANSPORT**

- Annamalai Bus Transport
- Annamalai Engineering
- Annamalai Rethreading co.
- Sakthi Automobiles
- N.Mahalingam and co

### **2.2.2. SUGARS:**

- Sakthi Sugar Ltd
- Sri. Chamundeswari Sugars Ltd

### **2.2.3. FOUNDRY:**

- Sakthi Foundry

### **2.2.4. FINANCE:**

- Sakthi Finance Ltd

### **2.2.5. CONSUMER GOODS:**

- Sri Sakthi Textiles Ltd
- Sri Bhagawathy Textiles Ltd
- Chennai Bottling Company Ltd
- ABT Industries Ltd

### **2.2.6. EDUCATIONAL INSTITUTIONS:**

- The Kumuaraguru College of Technology
- The Nachimuthu Polytechnic
- The Nallamuthu Gounder Mahalingam College
- The Sakthi Institute of Information Technology
- The Sakthi Institute of Technology

**2.2.7. SOCIAL SERVICE INSTITUTIONS:**

- The Nachimuthu Industrial Association
- The Voluntary Health services
- The V.M.Kailasam Hospital
- Sakthi foundation
- N.G.R.Charitable Trust

**2.3 COMPETITIVE STRENGTHS OF SAKTHI FINANCE METHODS:**

- Part of the Sakthi group – one of the reputed groups of the southern Indian headed by Dr.N.Mahalingam
- Customer base of more than 5 million
- Experience in hire purchase financing of more than 45 years
- Business focused executives at all levels.
- The company is rated by ICRA as MA that means adequate safety.
- First in the industry to issue post dated interest warrants in advance every year.

**2.4 FUTURE PLANS OF SAKTHI FINANCE:**

- The company is in progress of setting up exclusive software for maintaining their electronic database.
- The company has planned to electronically appraise the upcoming credit proposals with the newly build software.
- The company has plans to stretch its market to open new branches in South India.
- The company is in the process of framing new deposit schemes to accumulate deposits from its customers.

***MACRO – MICRO ANALYSIS***

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## CHAPTER - 3

### 3. MACRO AND MICRO ANALAYSIS

#### MACRO ANALYSIS:

#### OVERVIEW OF BANKING AND FINANCIAL INSTITUTIONS:

The banking system in India is significantly different from that of other Asian nations because of the country's unique geographical, social, and economic characteristics. India has a large population and land size, a diverse culture, and extreme disparities in income, which are marked among its regions. There are high levels of illiteracy among a large percentage of its population but, at the same time, the country has a large reservoir of managerial and technologically advanced talents. Between about 30 and 35 percent of the population resides in metro and urban cities and the rest is spread in several semi-urban and rural centers.

As NBFC's come increasing under the regulatory gaze, there will be vacuum in places where there is no bank and the NBFC is required to fold. Regulators have to ensure that banking expansion is promoted in these places. NBFCs undertake a wide spectrum of activities ranging from hire purchase and leasing to pure investments. More than 10,000 reporting NBFCs (out of more than 40,000 NBFCs operating) had deposits of Rs1, 539 billion in 1995/96. RBI initially limited their powers, aiming to moderate deposit mobilization in order to provide depositors with indirect protection. It regulate the NBFCs under the provisions of chapter IIIB of the RBI Act of 1963, which were confined solely to deposit acceptance activities of NBFCs and did not cover their functional diversity and expanding intermediation. This rendered the regulatory framework inadequate to control NBFCs. The RBI working group on financial companies recommended vesting RBI with more powers for more effective regulation of NBFCs. A system of registration was introduced in April 1993 for NBFCs with net owned funds (NOF) OF Rs million or above.

The financial system comprises of financial institutions, financial instruments and financial markets that provide an effective payment and credit system and thereby facilitate channelising of funds from savers to the investors of the economy. In India considerable growth has taken place in the Non-banking financial sector in last two decades. Over a period of time they are successful in rendering a wide range of services. Initially intended to cater to the needs of savers and investors, NBFCs later on developed into institutions that can provide services similar to banks. In India several factors have contributed to the growth of NBFCs. They provide tailor made services to their clients.

Comprehensive regulation of the banking system and absence or relatively lower degree of regulation over NBFCs has been some of the main reasons for the growth momentum of the latter. It has been revealed by some research studies that economic development and growth of NBFCs are positively related. In this regard the World Development Report has observed that in the developing countries banks hold a major share of financial assets than they do in the industrially developed countries<sup>1</sup>. As the demand for financial services grow, countries need to encourage the development NBFCs and securities market in order to broaden the range of services and stimulate competition and efficiency. In India the last decade has witnessed a phenomenal increase in the number of NBFCs. The number of such companies stood at 7063 in 1981, at 15358 in 1985 and it increased to 24009 by 1990 and to 55995 in 1995.

The main reason for deposits with NBFCs is greater customer orientation and higher rate of interest offered by them as compared to banks. With such a dramatic growth in the numbers of NBFCs it was thought necessary to have a regulatory framework for NBFCs. Slowly the RBI came out with set of guidelines for NBFCs. In one of such step RBI gave definition of NBFCs. According to Reserve Bank (Amendment act, 1997) "A Non Banking Finance Company (NBFC)" means.

- A financial institution which is a company.
- A non banking institution which is a company and which has as its principal business the receiving of deposits under any scheme or arrangement or in other manner a lending in any manner.

- Such other non banking institution or class of such institutions as the bank may with the previous approval of the central government specify. The definition excludes financial institutions which carry on agricultural operations as their principle business. NBFCs consists mainly of finance companies which carry on functions like hire purchase finance, housing finance, investment, loan, equipment leasing or mutual benefit financial operations, but do not include insurance companies or stock exchange or stock broking companies. To encourage the NBFCs that are run on sound business principles, on July 24, 1996

NBFCs were divided into two classes:

- i) Equipment leasing and hire purchase companies (finance companies)
- ii) Loan and investment companies.

However, the NBFCs segment of finance was less regulated over a period of time. On account of the CRB scam and the inability of some of the NBFCs to meet with the investors demand for return of the deposits the need was felt by the Reserve Bank of India to increase the regulations for the NBFCs. In the light of this background Reserve Bank of India came out with the guidelines on January 2, 1998. The salient features of this guideline are given below. The acceptance of deposits has been prohibited for the NBFCs having net owned funds less than Rs.25 lakhs) the extent of public deposit raising is linked to credit rating and for equipment leasing and hire purchase companies it can be raised to a higher tune.

Interest rate and rate of brokerage is also defined under the new system. 4) Income recognition norms for equipment leasing and Hire purchase finance companies were liberalized for NPA from overdue for six months to twelve months. 5) Capital adequacy raised 10% by 31/3/98 and 12% by 31/3/99. 6) Grant of loan by NBFCs against the security of its own shares is prohibited. 7) The liquid assets are required to be maintained @ 12.5% and 15% of public deposits from 1/4/98 and 1/4/99 respectively. Modifications also came to these norms over a period of time. The provisioning norms for hire purchase and lease companies were changed. Accordingly, credit was to be given to the underlying assets provided as security. The risk weight for investment in bonds of all PSBs and FD/CD/ bonds of PFI is reduced to 20%<sup>5</sup> By monetary and credit policy for 1999-2000 the RBI has raised the minimum net owned funds limit for new NBFCs to Rs.

2 crores which are incorporated on or after 20/4/99. According to the guideline issued on 8/4/99 the company is to be classified as NBFCs if its financial assets account for more than 50% of its total assets i.e. net of intangible assets and the income from financial assets should be more than 50% of the total income.<sup>6</sup> By June 1999 RBI had removed the ceiling on bank credit to all registered NBFCs which are engaged in the principle business of equipment leasing, hire purchase, loan and investment activities.<sup>7</sup> From above brief summary regarding steps taken by RBI for managing NBFC it is apparent that RBI assigns the priority for proper management of NBFCs keeping in view the investor's protection.

In the light of the above regulatory frame work one should like to examine various parameters of different groups of NBFCs. The classifications of NBFCs have been changed over a period of time. The functioning of different categories of NBFCs are not governed by the homogeneous factors. Therefore financial implication can differ for different group of companies. The financial performance of 10 leasing companies has been examined by Seem Saggari<sup>8</sup> at disaggregate level and compared with other groups of NBFCs for a period of 1985-90.

Moreover, a study by T.S. Harihar<sup>9</sup> throws light on the performance of all NBFCs taken together in terms of cost of debt, operating margin, net profit margin, return on net worth, asset turn over ratio etc. The study by Seema Saggari does not reflect the overall performance of NBFCs as it is based on selected 10 companies. The study by Harihar reveals the aggregate performance of NBFCs which does not throw light on the financial performance of different groups of NBFCs. In the light of these limitations, the present study attempts to examine the financial performance of different groups of NBFCs separately. The present study attempts to examine the relative financial performance of different groups of NBFCs for the period 1985-86 to 1994-95 in terms of profitability, leverage and liquidity. The reasons of selecting this period for the purpose of study are: a) During this period the number of NBFCs have flourished by leaps and bounds. b) The absolute amount of deposits with NBFCs have gone up from 4956.6 crores to Rs. 85495.1 crores (increase is almost 17 times).

Recent years have witnessed significant increase in financial intermediation by the NBFCs. This is reflected in the proposal made by the latest Working Group on

Money Supply for a new measure of liquidity aggregate incorporating NBFCs with public deposits worth Rs.20 crore. For regulatory purposes, NBFCs have been classified into 3 categories: (a) those accepting public deposits, (b) those not accepting public deposits but engaged in financial business and (c) core investment companies with 90 per cent of their total assets as investments in the securities of their group/ holding/subsidiary companies. The focus of regulatory attention is on NBFCs accepting public deposits.

As per the NBFC Acceptance of Public Deposits (Reserve Bank) Directions, 1998, the quantum of public deposit in respect of NBFCs was linked to credit rating from an approved agency so as to enable the depositor to make informed decision. The NBFCs were also encouraged to broad-base their resources through borrowings from banks and financial institutions, inter-corporate deposits/ loans, secured bonds/debentures, etc., which were exempted from the definition of "public deposit". However, the Associations of NBFCs and the apex trade bodies brought to the notice of both the Government and the RBI the problem of asset-liability mismatches caused by frequent downgrading of the credit ratings of NBFCs and the consequent reduction in quantum of permissible public deposits. They also suggested that smaller NBFCs could be exempted from the requirement of credit rating for having public deposits upto a particular limit while larger NBFCs could be allowed higher limits of public deposits subject to minimum investment grade credit rating and higher capital adequacy requirements. The Task Force on NBFCs appointed by the Government of India submitted its report in October, 1998, which recommended rationalisation of regulations for NBFCs, improvement of the legislative framework for protecting the interests of depositors and development of NBFCs on sound and healthy lines.

Top global financial firms which have acquired a foothold in the Indian non-banking finance companies' (NBFCs) segment are now pursuing an aggressive strategy to expand their reach within the country. Fullerton India, a subsidiary of Temasek, the Singapore government's investment arm, is emerging as one of the most aggressive players in the financial sector. The firm is now drawing up plans to open 400 branches over the next 12 months to scale up its operations from the current base of 100 branches. Other recent entrants in the NBFC segment include biggies such as AIG Capital while other global players — BNP Paribas and Societe Generale have also entered the business

The aggressive moves by these firms come at a time when entrenched firms such as Citi Financial and StanChart's Prime Financial have been pursuing a scorching growth strategy. Besides, the new players have to contend with local firms — Future Group and Indiabulls which have also forayed into this business during the past few years.

### **HISTORY OF NBFCs IN INDIA:**

In keeping with the spirit of financial sector liberalization, efforts were made to integrate NBFCs into the mainstream of overall financial sector. The first phase of this process was initiated on the basis of the recommendations of the Shah Committee's recommendation could not, however, be given statutory backing because the RBI Act 1934 did not confer the RBI with necessary powers in this regard. An ordinance was therefore promulgated by the Government in January 1997 effecting comprehensive changes in the provision of the RBI Act, 1934 which was later replaced by the Reserve Bank of India (Amendment) Act, 1997. The Act conferred wide ranging powers on the RBI for registration, regulation/supervision, and issue of guidelines and minimum net owned fund (NOF) of Rs.25 lakh, maintenance of certain percentage of liquid asset, creation of reserve fund were prescribed for the NBFCs. In May, 1997, as certain malpractices pertaining to NBFCs came to light, the RBI took prompt corrective steps and the financial sector was also resilient enough to withstand this shock. The percentage of liquid assets to be maintained by NBFCs has been revised upward uniformly for all NBFCs to 12.5% and 15% of their 'public deposits' with effect from 1.4.1999 respectively. The process of registration of 37,478 NBFCs, more than 9000 of which have Net Owned Funds (NOF) of Rs.25 lakh and above, is being attended to on top priority basis.

On January 2, 1998 the RBI issued detailed guidelines regarding norms of deposits acceptance, prudential norms, etc. for various categories of the NBFCs. These were later reconsidered and revised guidelines were issued on January 31, 1998: deposit entitlement limits were raised in certain cases to minimize hardship without endangering the interest of depositors. According to these guidelines an NBFC will have to obtain the minimum prescribed investment rating before accepting public deposits. The limit of

acceptance of public deposits has been linked to the NBFCs and its rating .Furthermore, NBFCs with NOF of less than Rs.25 lakh have been prohibited from accepting public deposits with immediate effect.

**Financial Structure:**

The Indian financial system comprises the following institutions:

1. Commercial banks
  - Public sector
  - Private sector
  - Foreign banks
  - Cooperative institutions
    1. Urban cooperative banks
    2. State cooperative banks
    3. Central cooperative banks
2. Financial institutions
  - All- India financial institutions(AIFIs)
  - State financial corporations(SIDCs)
  - State industrial development corporations(SIDCs)
3. Nonbanking financial companies(NBFCs)
4. Capital market intermediaries .

**MICRO ANALYSIS:**

NBFCs are those of companies which are not banking companies but engaged in the business activities related to loan, finance, investment, leasing, hire-purchase and other fund based activities. These companies are required to comply with the provisions of RBI Act and the rules and directions thereof, in addition to the provisions of Companies Act, 1956.

Statutory definition of NBFCs under the RBI Act:

NBFC is defined under sec 45-I (f) 1 as under Sec.45-I (f) "non-banking financial company" means-

1. A financial institution which is a company
2. A non banking institution which is a company and which has as its principal business the receiving of deposits, under any scheme or arrangement or in any other manner, or lending in any manner;
3. Such other non – banking institution or class of such institutions, as the bank may with the previous approval of the Central Government and by notification in the Official Gazette, specify.

The Act defines " Financial Institution" (FI) 45-I(c) as financial institution means any non-banking institution which carries on as its business or part of its business any of the following activities, namely:-

1. The Financing, whether by way of making loans or advances or otherwise, of any activity other than its own.
2. The acquisition of shares, stocks, bonds, debentures, or securities issued by a government or local authority or other marketable securities of a like nature.
3. Letting or delivering of any goods to a hire under HIRE PURCHASE agreement;
4. The carrying on of any class of insurance business;
5. Managing , conducting or supervising , as foreman, agent or in any other capacity, of chits or kuries as defined in any law which is for the time being in force in any state, or any business, which is similar thereto;
6. Collecting, for any purpose or under any scheme or arrangement by whatever name called monies in lump sum or otherwise, by way of subscriptions or by sale of units, or other instruments or in any other manner and awarding prizes or gifts.

whether in cash or kind, or disbursing monies in any other way, to persons from whom monies are collected or to any other person,

Under section 45-I(a) of the RBI Act, 1934 “business of non banking financial institution”, is defined in terms of the business of a financial institution and NBFC. Sec: 45-I(a) :”business of a non-banking financial institution” means carrying on the business of a financial institution referred to in clause (f). An analysis of forgoing provisions reveals that except for specifically notified categories, a company that is a FI, or a NBI receiving deposits, alone would qualify as NBFC. A further reading of the definitions of FI and NBI reveals that for a company to be an NBFC it should either carry on any of the businesses as enumerated in (1) to (6) of Sec.45-I (c) or it should otherwise receive public deposits in any manner.

NBFCs with good track record to become private sector banks based on the following criteria:

1. The NBFC should have a minimum net worth of Rs.200 crore as per latest balance sheet, which will increase to Rs.300 crore within the three years from the date of conversion.
2. The NBFC should not have been promoted by a large Industrial House or owned/controlled by public authorities, including Local, State, or Central Governments.
3. The NBFC should have acquired a credit rating of not less than AAA rating (or its equivalent) in the previous year.
4. The NBFC should have an impeccable track record in compliance with RBI regulations/directions and in repayment of public deposits
5. The NBFC should have capital adequacy of not less than 12 percent and its net NPAs should not be more than 5 percent.

**GROWTH FACTORS OF NBFC's:**

Several factors have contributed to the rapid growth of NBFCs in India. Comprehensive regulation of the banking system and the absence or relatively lower degree of regulation of NBFCs on the other hand has a significant contribution to this development.

Further a high level of customer orientation, fewer pre-sanction and post – sanction requirements, faster sanctions and simple and speedy tailor made services assure them a loyal clientele notwithstanding higher costs. Besides the higher returns offered by NBFCs drew a large number of small depositors to them. They work like quasi banks and provide funds to sectors where a credit gap exists. NBFCs have become an accepted and integral part of the Indian financial system which did experiment with the direct finance to the transport to this sector, withdrew and settled for indirect finance to this sector through NBFCs which had a better recovery machinery or experience. Finance companies offer a broad range of services to meet the needs of corporate and individuals. Some of them have, through subsidiaries, taken up stock broking and mutual fund business. This has also effect of increasing the share of unsecured deposits in the portfolio of NBFCs.

**FUNCTIONS OF NBFCs:**

More specifically, an NBFC is a company registered under the companies act 1956, and obtained a certificate of registration U/s.45-1A (5) of the Reserve Bank of India Act, 1934 and is engaged in the business very much similar to banks and also deals in shares/stocks/bonds/debenture/securities issued by Government or local authority or other securities of like marketable nature, leasing, hire purchasing, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, sales/purchase/construction of immovable property. A non-banking institution which is a company and which has its principal business of receiving deposits under any scheme or arrangement or any other manner, or lending in any manner is also a non-banking financial company.

**FORMATION OF NBFC:**

An NBFC can be either a private limited company or a public limited company. Section 12 (1) of the companies Act, 1956 provides for the mode of forming incorporated company. The persons who intend to incorporate an NBFC are required to fill in the concerned box in the appropriate form for incorporating their company as an NBFC thereby complying with the other requirements of the Companies Act, 1956 like drafting of Memorandum of Association, Articles of Association etc.

***DATA ANALYSIS AND INTERPRETATION***

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## CHAPTER - 4

**4. DATA ANALYSIS & INTERPRETATION****4.1 FINANCIAL PERFORMANCE SAKTHI FINANCE LTD**

Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account. There are various methods or techniques used in analyzing financial statements, the ratio analysis being the most powerful tool of financial analysis being the most powerful tool for analysis. "A ratio is an expression of the quantitative relationship between two numbers".

*"Ratios are not ends in themselves rather on a selective basis. they may help answer significant questions". -Erich.A.Helfert*

**PROFITABILITY RATIOS:**

1. Return on shareholder's investment or net worth
2. Return on equity capital
3. Earnings per share
4. Dividend pay – out ratio

**ANALYSIS OF LONG TERM FINANCIAL POSITION:**

1. Debt – Equity ratio
2. Proprietary ratio
3. Fixed Assets to Net worth ratio
4. Interest coverage ratio

**ANALYSIS OF SHORT-TERM FINANCIAL POSITION:**

1. Current ratio

**ANALYSIS OF CAPITAL STRUCTURE:**

1. Ratio of current liabilities to proprietor's fund.
2. Ratio of reserves to equity capital.

## 4.2 PROFITABILITY RATIO

### 4.2.1. RETURN ON SHAREHOLDER'S INVESTMENT OR NETWORTH:

Return on shareholder's investment, popularly known as ROI is the relationship between net profits (after Interest and tax) and the proprietor's funds. As this ratio reveals how well the resources of a firm are being used, higher the ratio, better are the results.

$$\text{ROI} = \frac{\text{Net profit (after interest and tax)}}{\text{Shareholders' fund}} * 100$$

Particulars	2002-03 (In Rs)	2003-04 (In Rs)	2004-05 (In Rs)	2005-06 (In Rs)	2006-07 (In Rs)
NP after interest and taxes	400.06	507.50	535.14	382.59	98.14
Shareholders' fund	2224.32	3745.45	3786.01	3495.82	3546.89
ROI	17.98	13.54	14.13	10.95	2.76

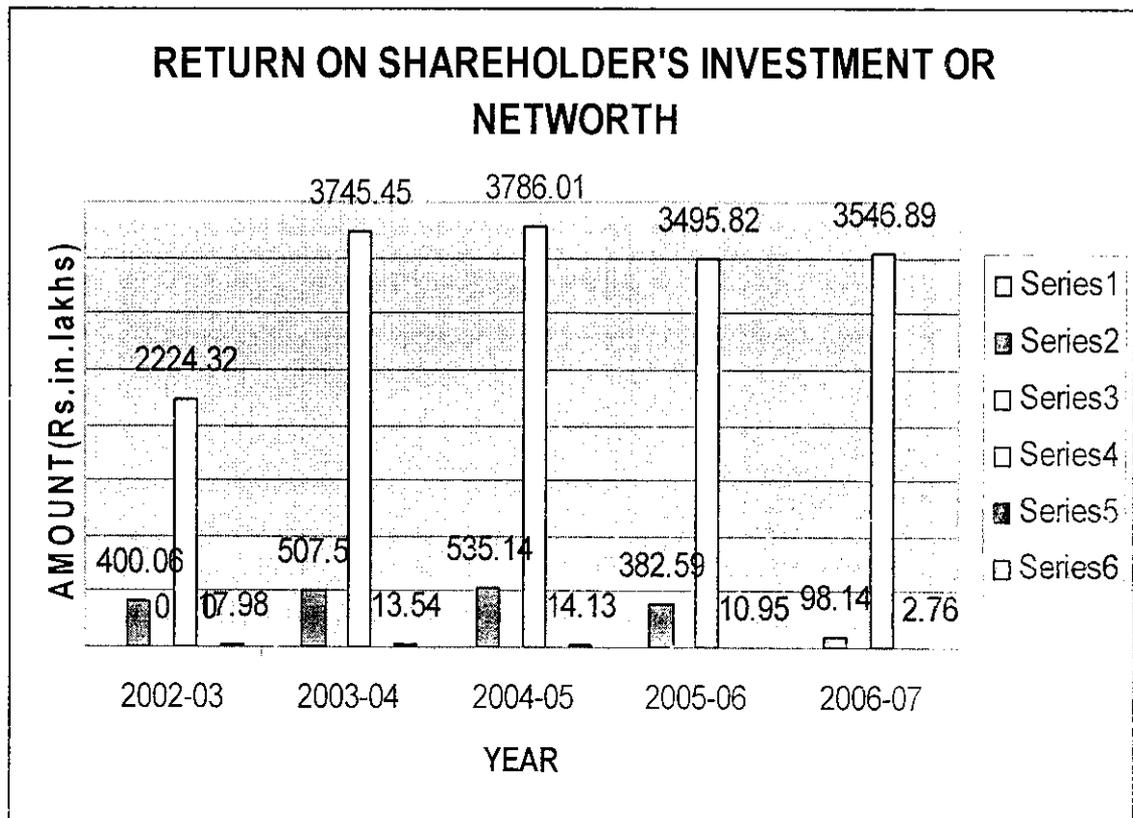
\* Amount (in lakhs)

### INTERPRETATIONS:

The return on shareholder's investment ratio of the firm has been decreasing from 2002-03 to 2006-07. The ROI ratio for the year 2002-03 to 2002-03 is 17.98 which was decreased to 10.95 % in 2005-06 is mainly due to the decrease in net profit after interest and taxes by 4% and the increase in shareholder's funds by 71%. The ratio decreases to 2.68 % during 2006-07 which is due to the step decreases in the net profit after interest and taxes by 75%.

The ratio indicates that the profitability position of the firm is not satisfactory. The return on shareholder's investment in Sakthi Finance Ltd, is very less.

FIGURE 4.1



#### 4.2.2. RETURN ON EQUITY CAPITAL:

Return on equity capital, which is the relationship between profits of a company and its equity capital. Here also higher the ratio better are the results.

$$\text{Return on equity capital} = \frac{\text{Net profit after-tax preference dividend}}{\text{Equity share capital (paid up)}} * 100$$

Particulars	2002-03 (In Rs)	2003-04 (In Rs)	2004-05 (In Rs)	2005-06 (In Rs)	2006-07 (In Rs)
NP (after tax and preference dividend)	400.06	403.94	485.83	382.50	91.14
Equity Share capital	617.06	617.06	990.12	990.12	990.12
Return on equity capital	64.83	65.46	49.06	38.63	9.20

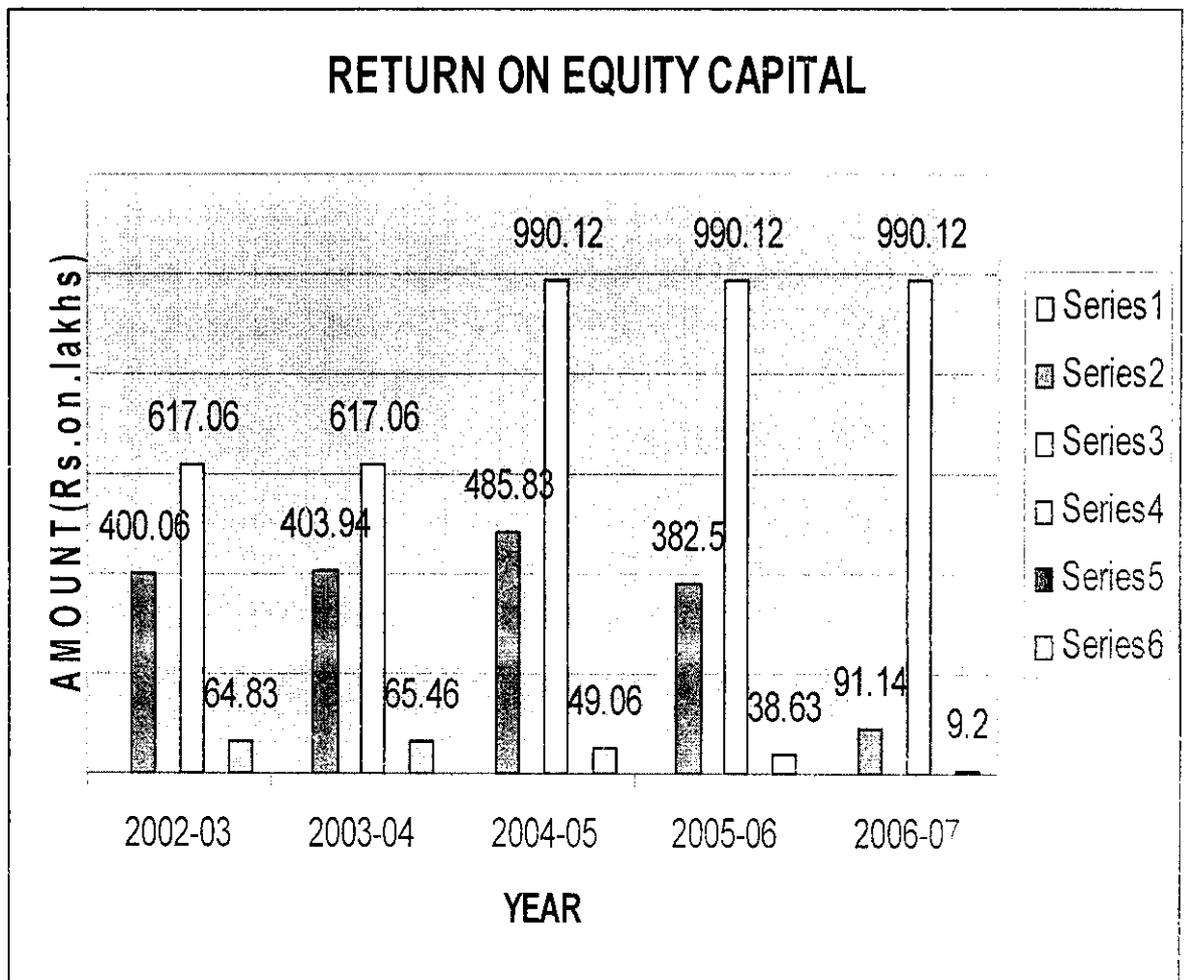
\* Amount (in lakhs)

#### INTERPRETATIONS:

The return on equity capital ratio of the firms shows a fluctuating trend. The return on equity capital ratio which was 64.77% during 2002-03 increases in net profit after tax and preference dividend by 9.5%. The ratio decreases by 25% in 2004-05 due to an increase in equity share capital by 61%. In 2005-06 the ratio decreases by 21% due to decreases in net profit after tax and preference dividend by 21%. The ratio decreases very steeply by 75% in 2006-07 due to decreases in net profit after tax and preference dividend by 75%.

In real sense, ordinary shareholders are the real owners of the company. The above analysis shows that the return to shareholder's of the company are steeply decreasing, which affects the image of the firm in the minds of the shareholders'.

FIGURE 4.2



**4.2.3. EARNINGS PER SHARE:**

Earnings per share is a good measure of profitability.

**Net profit after tax – preference dividend**

**EPS = -----**

**No. of equity shares**

<b>Particulars</b>	<b>2002-03 (In Rs)</b>	<b>2003-04 (In Rs)</b>	<b>2004-05 (In Rs)</b>	<b>2005-06 (In Rs)</b>	<b>2006-07 (In Rs)</b>
<b>Profit after taxes and Pref dividend</b>	400.06	403.06	485.83	382.50	97.14
<b>No.of.Equity shares</b>	61.77	61.77	99.21	99.21	99.21
<b>EPS</b>	6.48	6.54	4.90	3.86	0.98

\* Amount (in lakhs)

**INTERPRETATIONS:**

The EPS shows an increasing trend during 2002-03 and 2003 – 04 and shows decreasing trend during the remaining periods. The EPS which was 6.48 during 2002-03 have increased to 6.54 in 2003-04 due to an increase in the profit after tax and preference dividend. The ratio has fallen by 25% during 2004-05 due to an increase in the number of equity shares by 61%. The ratio has again fallen by 21% during 205-06 due to a decrease in net profit after tax and preference dividend by 21%. In the year 2006-07 the EPS has fallen drastically by 75% because of the decrease in the profit by 75%.

The decrease in EPS affects the profitability position of the firm.

#### 4.2.4. DIVIDEND PAY – OUT RATIO:

Dividend pay-out ratio is calculated to find the extent to which earnings per share have been used for paying dividend and to know what portion of earnings has been retained in the business.

$$\text{Dividend pay-out ratio} = \frac{\text{Dividend per equity share}}{\text{Earnings per share}} \times 100$$

Particulars	2002-03 (In Rs)	2003-04 (In Rs)	2004-05 (In Rs)	2005-06 (In Rs)	2006-07 (In Rs)
Dividend per Equity share	2.5	2.5	2.5	2.5	0
EPS	6.48	6.54	4.90	3.86	0.98
Pay-out ratio	38.58	38.23	51.02	64.77	0

\* Amount (in lakhs)

#### INTERPRETATIONS:

The dividend pay-out ratio of the firm shows a fluctuating trend. In the year 2002-03 the dividend pay-out ratio was 38.58 which decreased to 38.23 due to an increase in EPS. In 2004-05 the ratio increased by 33% due to a decrease in EPS by 25%. In the 2006-07 the ratio was 64.77% because of the decrease in EPS by 21%. The company didn't declare dividend in the year 2006-07 due to decrease in the net profit to a greater level. As a result the dividend pay-out of the firm is nil in the year 2006-07.

### 4.3. ANALYSIS OF LONG TERM FINANCIAL POSITION:

#### 4.3.1. DEBT – EQUITY RATIO:

Debt – equity ratio also known as External-Internal equity ratio. This is calculated Measure the extent to which debt financing has been used in a business.

$$\text{Debt – equity ratio} = \frac{\text{Outsider's funds}}{\text{Share holder's funds}}$$

Particulars	2002-03 (In Rs)	2003-04 (In Rs)	2004-05 (In Rs)	2005-06 (In Rs)	2006-07 (In Rs)
Outsider's funds	16367.02	2095.3	23208.17	25436.44	24583.68
Shareholder's funds	2224.81	3374.32	3745.45	3786.01	3495.82
Debt-equity ratio	7.36	6.21	6.20	6.72	7.03

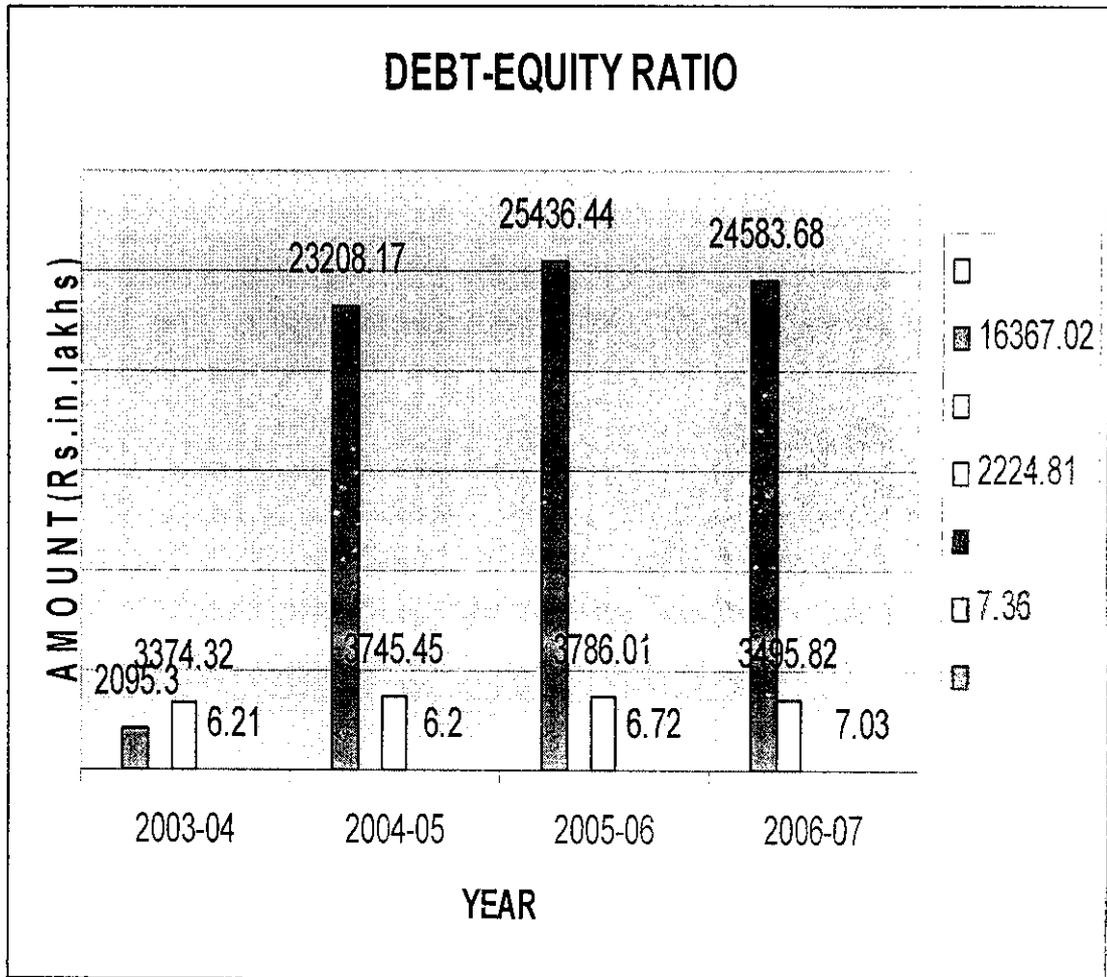
\* Amount (in lakhs)

#### INTERPRETATIONS:

The ratio which was 7.36 in 2002-03 decreases to 6.2 in 2003-04 and 2004-05 due to the proportional increases in outsiders' funds and shareholders' funds. In 2005-06 the ratio again increases to 6.72 due to an increases in outsiders' funds by 10%. During 2006-07 the ratio increases to 7.03 due to a decreases in shareholders' funds( This happened because of decreases in the reserves and surplus of the firm).

The ratio 1:1 or 2:1 may be usually considered to be satisfactory ratio. But in the Business of money and raising more debt resources indicates an ability to raise resources and the willingness of the firm to accepts the risk associates with the debt.

FIGURE 4.4



### 4.3.2. PROPRIETARY RATIO OR EQUITY RATIO:

This ratio establishes the relationship between shareholders' funds to total asset of the firm. This is an important ratio for determining long term solvency of a firm.

#### Shareholders' Funds

$$\text{Proprietary ratio} = \frac{\text{Shareholders' Funds}}{\text{Total assets} - \text{miscell expenses}}$$

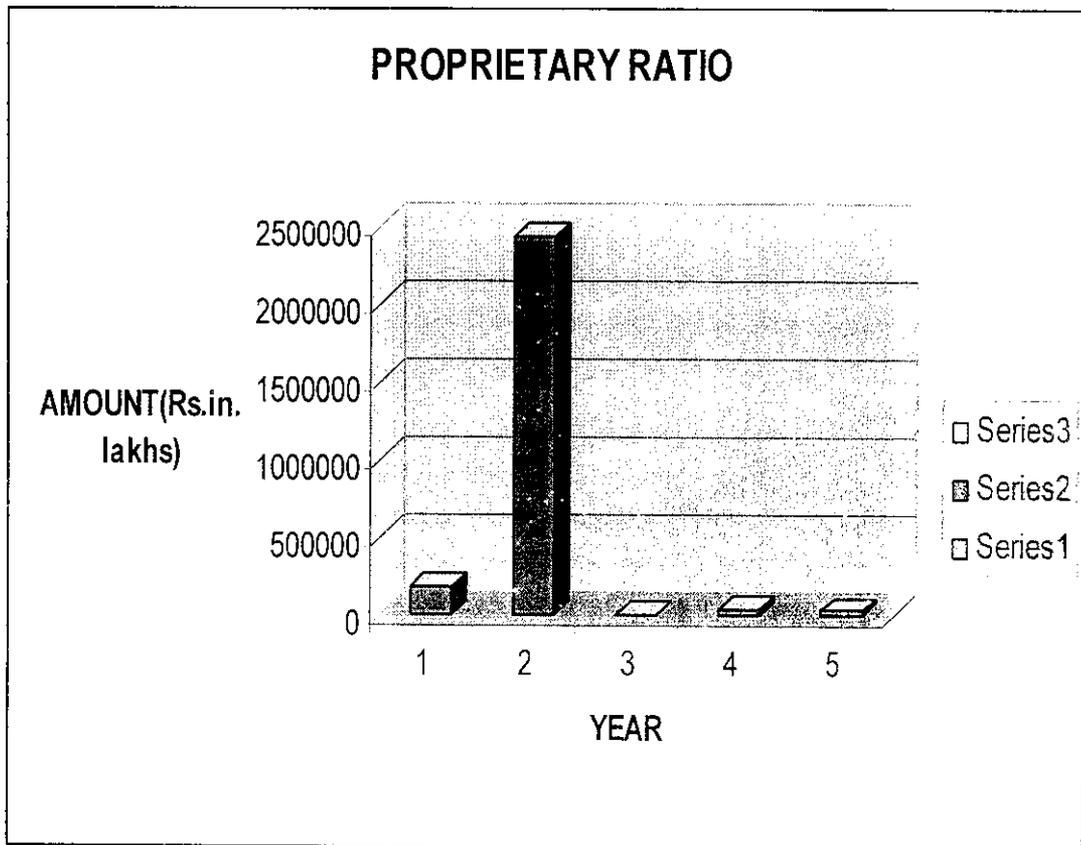
Particulars	2002-03 (In Rs)	2003-04 (In Rs)	2004-05 (In Rs)	2005-06 (In Rs)	2006-07 (In Rs)
Share holders' funds	2224.81	3374.32	3745.45	3786.01	3495.82
Total Assets Miscell Expenses	185557.26	2429659	2690.24	29177.7	28041.38
Proprietary Ratio	11.99	13.89	13.92	12.98	12.47

\* Amount (in lakhs)

#### INTERPRETATIONS:

The proprietary ratio of the firm shows a fluctuating trend. It is very clear that the firm is using very less amount of shareholders' funds to purchase assets for the company. In 2006-07 the ratio is only 12.47%. So the long term solvency position of the company is not satisfactory.

FIGURE 4.5



### 4.3.3. FIXED ASSETS TO NET WORTH:

The ratio establishes the relationship between fixed assets and shareholders' funds. The ratio of fixed asset to net worth indicates the extent to which shareholders' funds are sunk into the fixed assets.

$$\text{Fixed Asset to Net worth} = \frac{\text{Fixed Assets (after depreciation)}}{\text{Share holders' funds}} * 100$$

Particulars	2002-03 (In Rs)	2003-04 (In Rs)	2004-05 (In Rs)	2005-06 (In Rs)	2006-07 (In Rs)
Fixed Asset	3233.97	3740.67	4058.20	3881.50	3491.31
Shareholders' funds	2224.81	3374.32	3745.45	3786.01	3495.82
Fixed assets to net worth	145.36	110.86	108.35	102.52	102.73

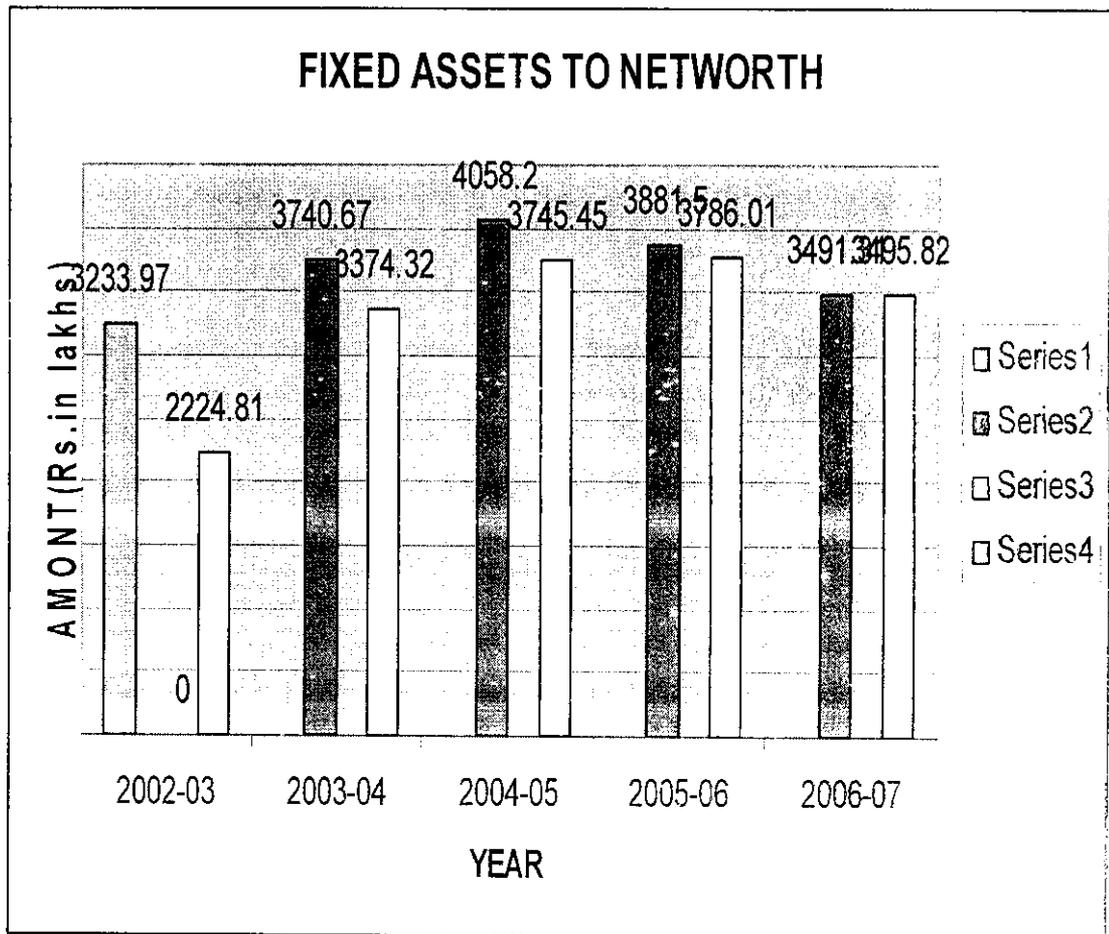
\* Amount (in lakhs)

### INTERPRETATIONS:

The ratio of fixed assets to net worth shows a decreasing trend from 2002-03 to 2006-07. Here for all the years the ratio is more than 100%, it implies that owners funds are not sufficient to finance the fixed assets and firm has to depend upon outsiders' to finance the fixed assets. The ratio which was 145.36% during 2002-03 decreases to 110.86 due to an increases in shareholders' funds by 52% during 2006-07 the ratio was 10.27% which was more than 0.20% when compared with the previous year.

This ratio shows that the financial soundness of the firm is not satisfactory.

FIGURE 4.6



#### 4.3.4. DEBT SERVICE RATIO OR INTEREST COVERAGE RATIO

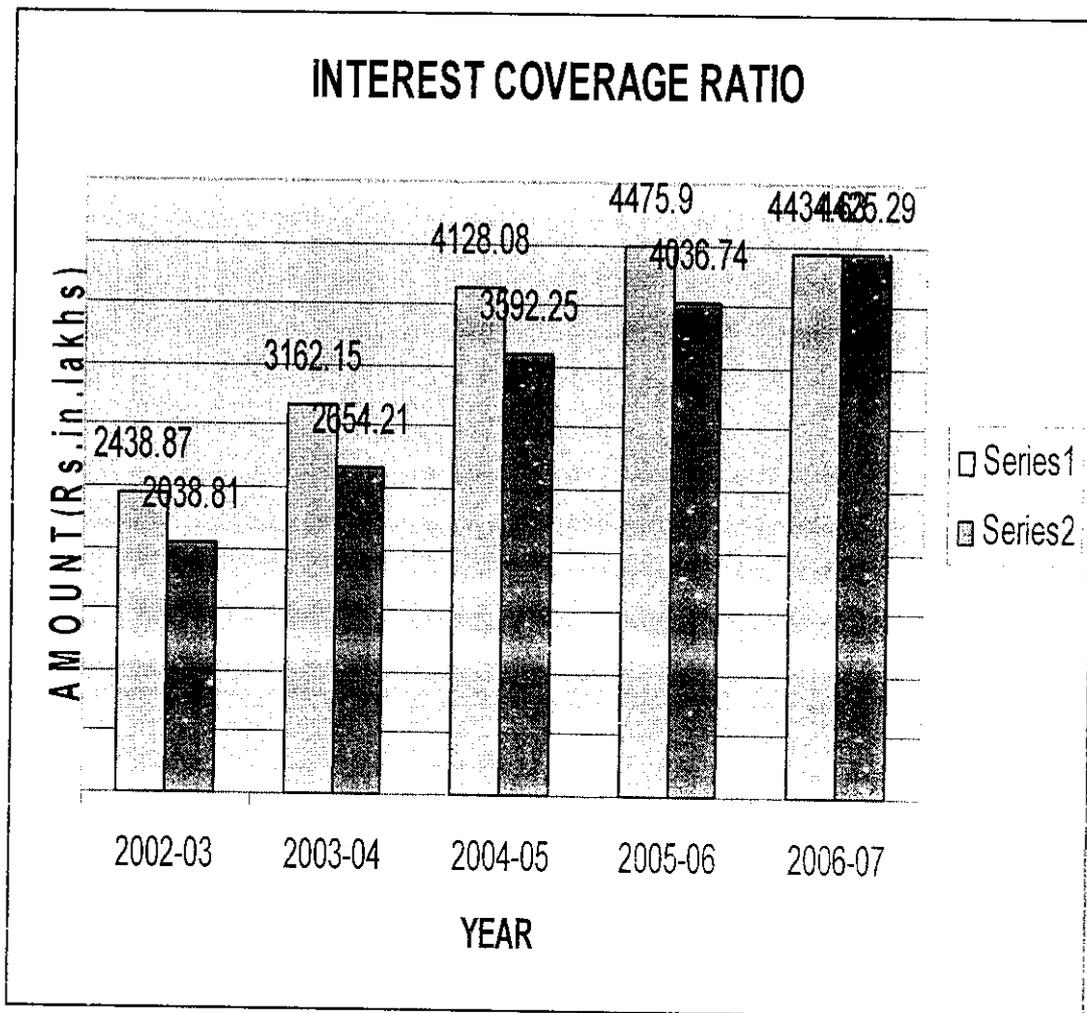
Debt service ratio is used to test the debt-servicing capacity of a firm. This ratio is also known as Interest Coverage ratio. It indicates the number of times interest is covered by the profits available to pay the interest charges. Generally, higher the ratio, more safe are the long-term creditors because even if earnings of the firm fall, the firm shall be able to meet its commitment of fixed interest coverage ratio may not be good for the firm because it may imply that firm is not using debt as a source of finance so as to increase the earnings per share.

$$\text{Debt service Ratio} = \frac{\text{Net profit (before interest and taxes)}}{\text{Fixed Interest charges}}$$

Particulars	2002-03 (In Rs)	2003-04 (In Rs)	2004-05 (In Rs)	2005-06 (In Rs)	2006-07 (In Rs)
NP (before Interest and taxes)	2438.87	3162.15	4128.08	4475.90	4434.63
Fixed interest charges	2038.81	2654.21	3592.25	4036.74	4425.29
Debt service ratio or Interest coverage ratio	1.2	1.2	1.1	1.1	1.02

\* Amount (in lakhs)

FIGURE 4.7



#### 4.4 ANALYSIS OF SHORT-TERM FINANCIAL POSITION:

##### 4.4.1. CURRENT RATIO:

The current ratio is the ratio of total current assets to total current liabilities. Its used as a measured of general liquidity to analyses short-term financial position. This ratio is known as working capital ratio. As a conventional rule, a current ratio of 2:1 is considered to be satisfactory.

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

Particulars	2002-03 (In Rs)	2003-04 (In Rs)	2004-05 (In Rs)	2005-06 (In Rs)	2006-07 (In Rs)
Current Assets	16430.80	23059.90	25582.58	27599.99	25476.69
Current Liabilities	2238.77	4157.95	5066.19	4868.85	4022.20
Current Ratio	7.34	5.55	5.01	5.67	6.33

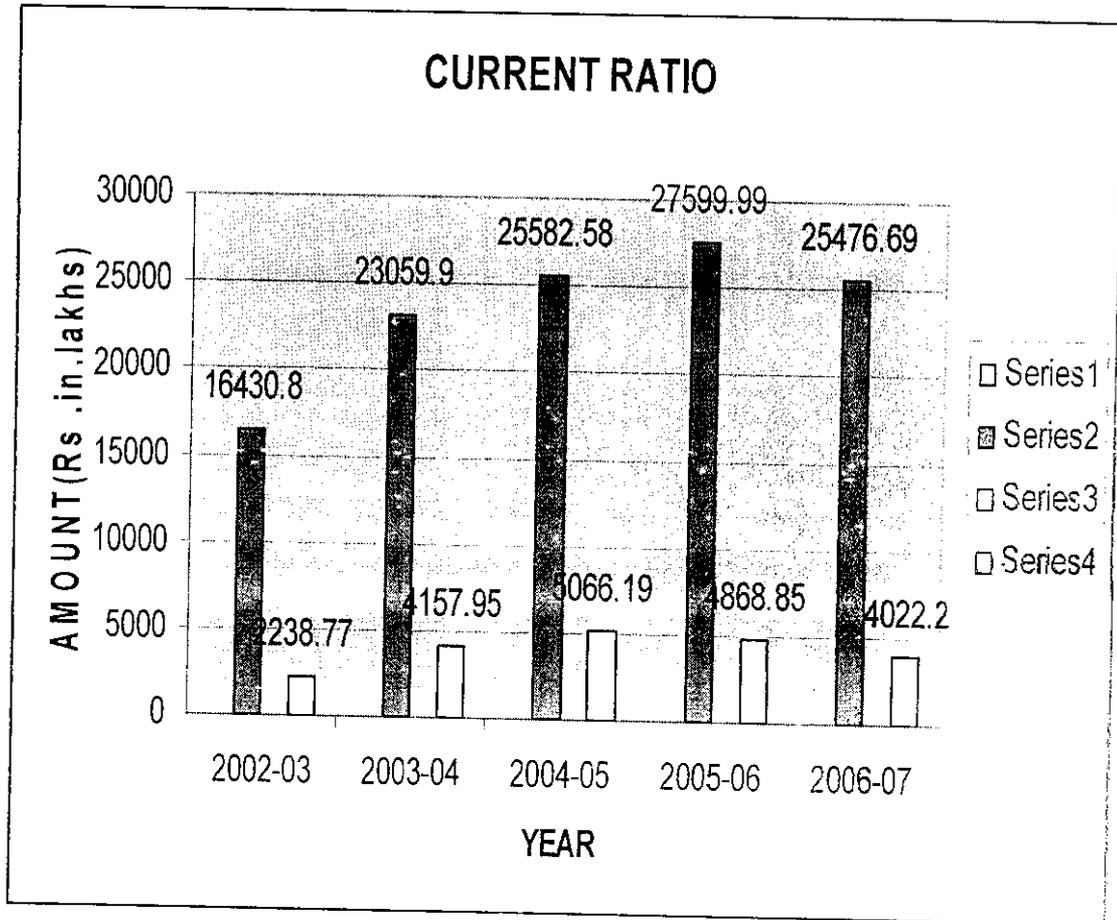
\* Amount (in lakhs)

#### INTERPRETATIONS:

The current ratio of the firm shows a fluctuating trend. The current ratio for the year 2002-03 is 7.34 which was decreased to 5.55 in 2003-04 is mainly due to an increases in current liabilities by 86% whereas increases in current assets is only 40%. The ratio is decreased to 5.01 in 2004-05. During 2005-06 this ratio has increased to 5.67 due to an increase in current asset by 8%. The ratio again increases to 6.33 in 2006-07 which is mainly due to decreases in current liabilities by 17% and a decrease in current assets is merely 8%.

A relatively high ratio is an indication that the firm is liquid and has the ability to pay its current obligations in time as and when they become due.

FIGURE 4.8



#### 4.5 ANALYSIS OF CAPITAL STRUCTURE:

##### 4.5.1. RATIO OF CURRENT LIABILITIES TO PROPRIETORS' FUND:

The ratio of current liabilities to proprietors' funds establishes the relationship between current liabilities and the proprietors' funds and indicates the amount of long-term funds raised by the proprietors as against short-term borrowings.

$$\text{Current Liabilities to Proprietors fund ratio} = \frac{\text{Current Liabilities}}{\text{Shareholders' funds}} * 100$$

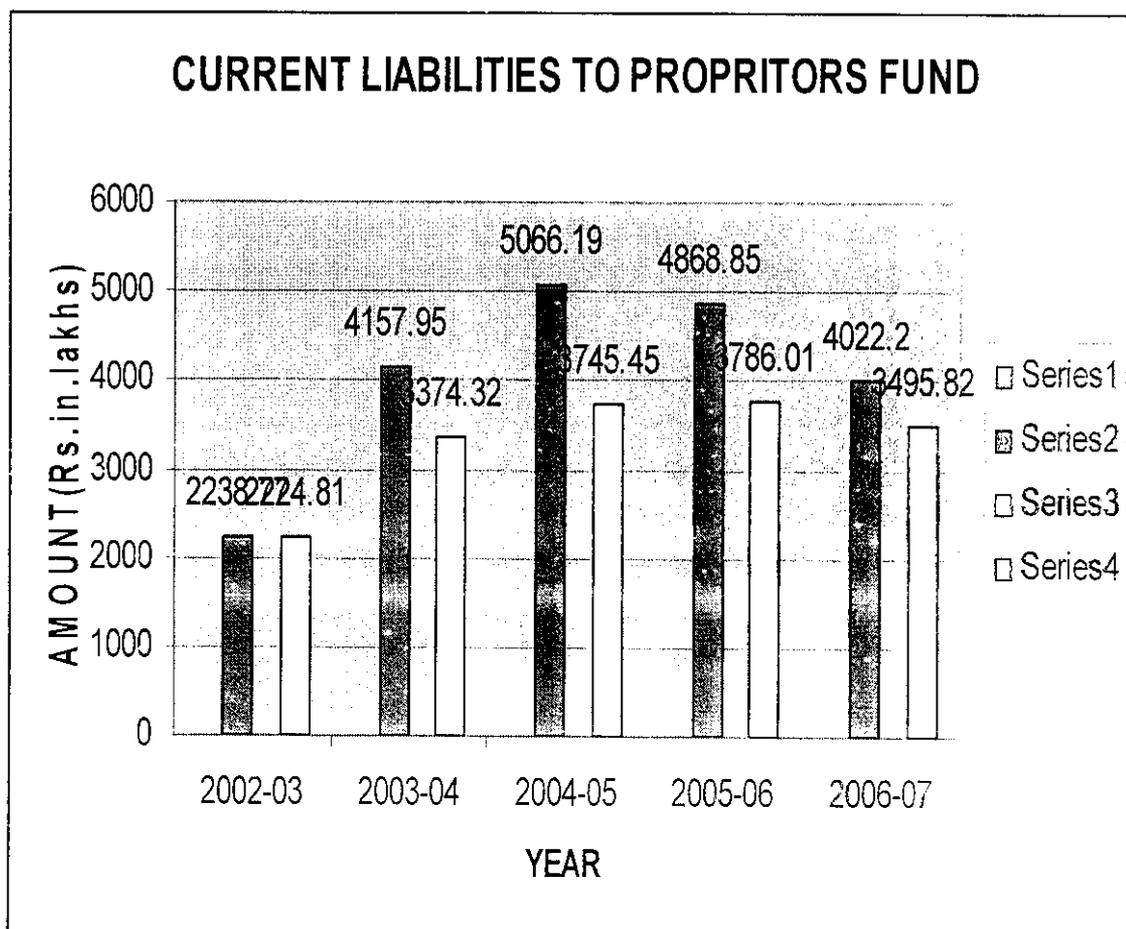
Particulars	2002-03 (In Rs)	2003-04 (In Rs)	2004-05 (In Rs)	2005-06 (In Rs)	2006-07 (In Rs)
Current Liabilities	2238.77	4157.95	5066.19	4868.85	4022.20
Shareholders' funds	2224.81	3374.32	3745.45	3786.01	3495.82
Current Liabilities to proprietors fund	100.63	123.44	135.26	128.6	115.06

\* Amount (in lakhs)

##### INTERPRETATIONS:

The ratio is showing a fluctuating trend generally the lesser ratio preferable for the firm. During 2002-03 this ratio is 100.63%. This is increased by 34% in 2004-05 due to the increase in current liabilities by 12.6%. From 2005-06 financial years onwards it is showing a decreasing trend. It is better for the firm to reduce the short term liabilities in their capital structure.

FIGURE 4.9



#### 4.5.2. RATIO OF RESERVES TO EQUITY CAPITAL:

The ratio establishes relationship between reserves and equity share capital. The ratio indicates that how much profits are generally retained by the firm for further Growth, higher the ratio, generally, better is the position of the firm.

$$\text{Ratio of reserves of equity capital:} = \frac{\text{Reserves}}{\text{Equity share capital}}$$

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
	(In Rs)				
Reserves	1607.15	1856.66	2753.32	2793.88	2503.69
Equity share capital	617.66	617.66	992.13	992.13	999.13
Ratio	2.6	3.01	2.78	2.82	2.52

\* Amount (in lakhs)

#### INTERPRETATIONS:

Reserves to equity capital ratio of the firms show a fluctuating trend. During the year 2002-03 it shows an increasing trend. In 2004-05 this ratio fallen by 8% due to the 61% increase in the share capital. In 2005-06 it increased to 2.82 times. This ratio has again fallen to 2.52 in the 2006-07 financial year because of the decrease in the reserves by 10%.

#### 4.6 FINANCIAL SEGMENT (2002-2007)

	WORKING FUNDS WF		WORKING FUNDS GROWTH WF-G		REPORTED NETPROFIT RNP		GROWTH RNP-G		TOTAL DEPLOYMENT ASSETS TDA		GROWTH TDA-G		BUSINESS VOLUME BV		GROWTH BV-G		OPERATING PROFIT OP		GROWTH OP-G	
	Rs.	cr	%	Rs.	cr	%	Rs.	Cr	%	Rs.	cr	%	Rs.	cr	%	Rs.	cr	%		
1.	156.88		8.26	4.40		-15.38	128.96		8.12	41.59		23.89	4.95		-4.44					
2.	1166.86		30.57	34.43		-1.88	1118.41		28.21	274.33		22.22	38.75		10.43					
3.	522.58		26.36	22.10		7.59	512.78		25.83	139.26		37.07	24.14		3.52					
4.	1655.27		21.09	68.67		5.78	1604.31		20.42	420.07		26.04	70.08		9.05					
5.	292.22		8.41	3.82		-28.73	279.91		8.67	65.36		13.02	4.76		-19.87					

#### COMPANY'S:

1. Annamalai Finance
2. Ashok Leyland
3. Cholamandalam
4. Sundaram Finance
5. Sakthi Finance

FIGURE 4.11

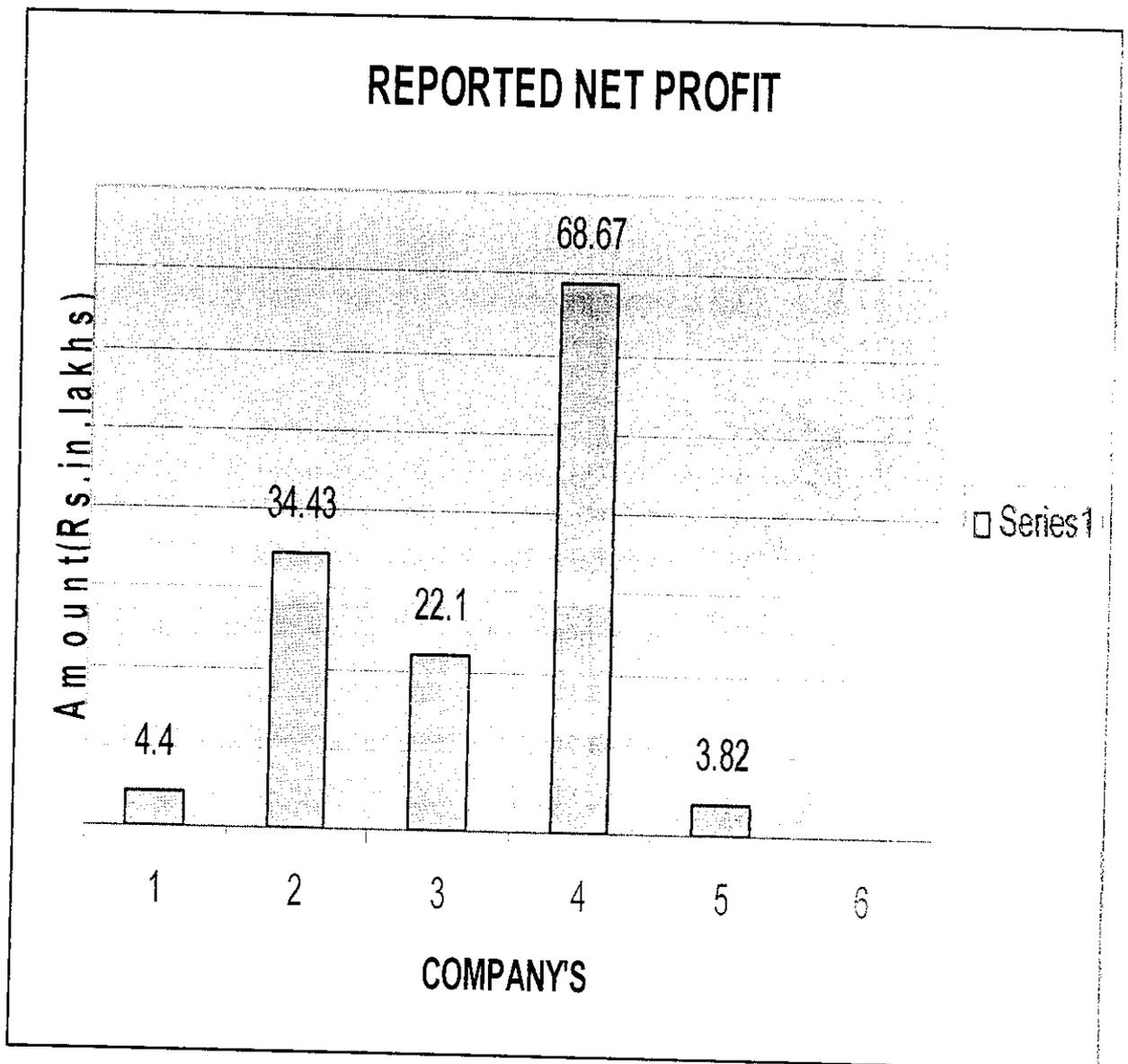


FIGURE 4.12

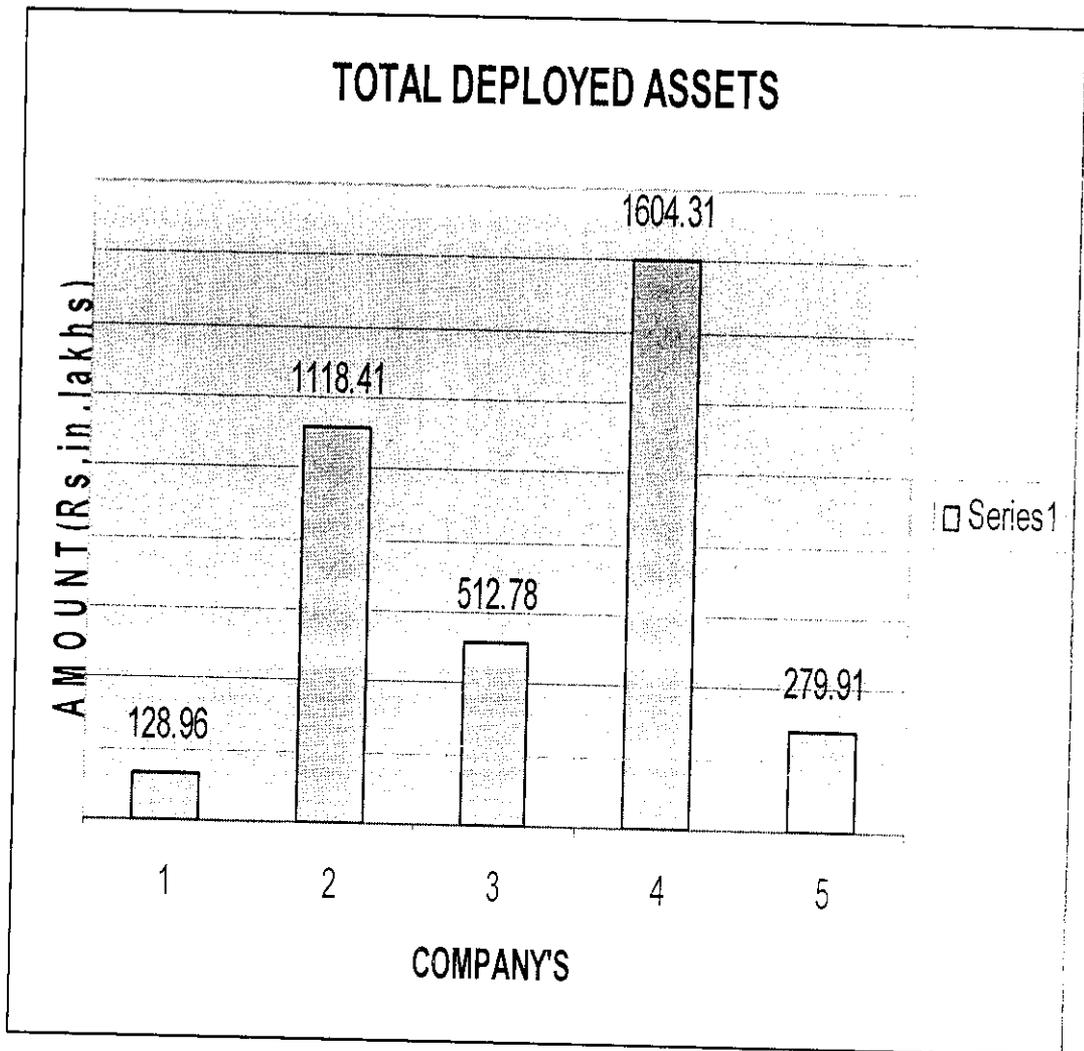


FIGURE 4.13

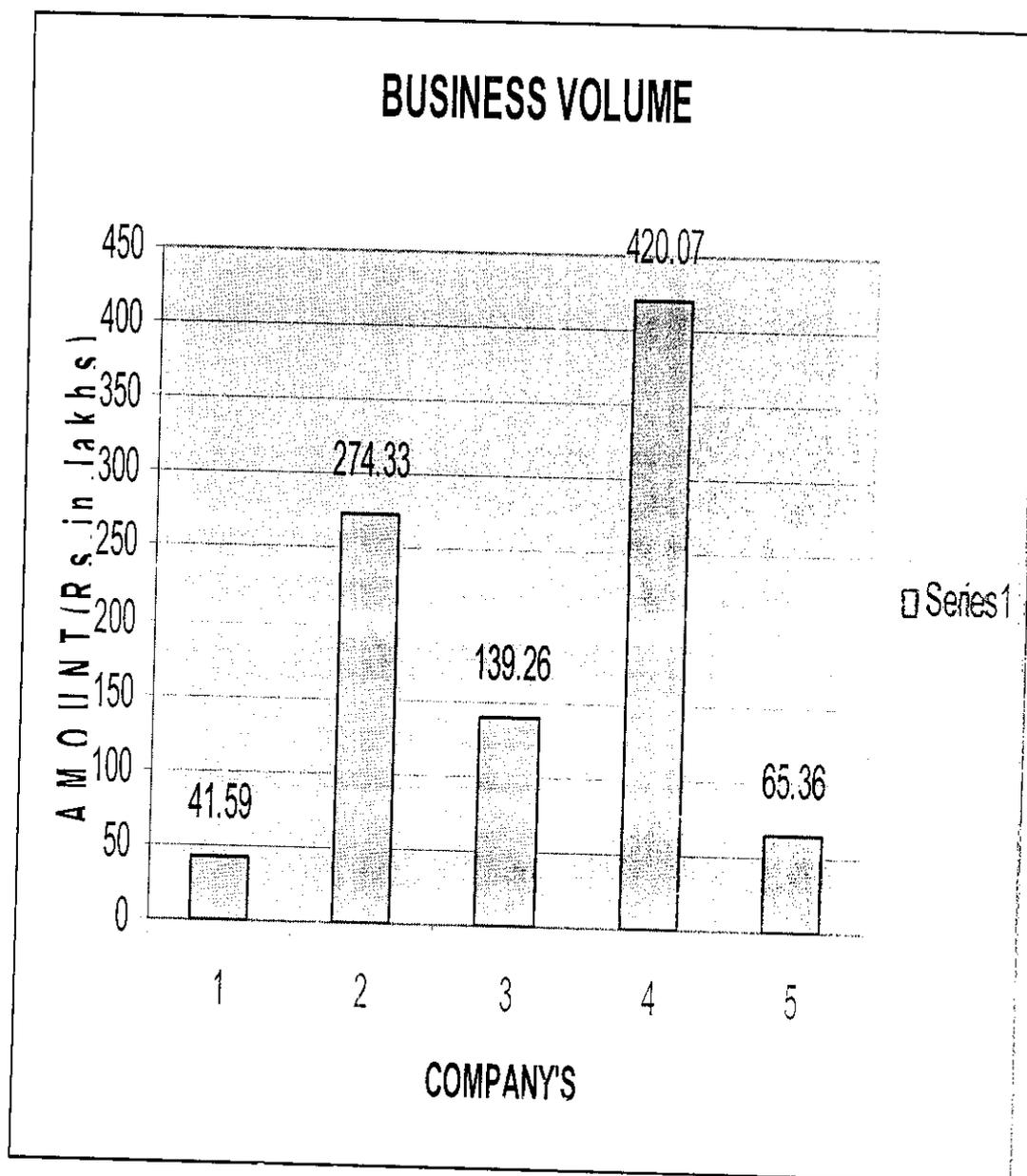
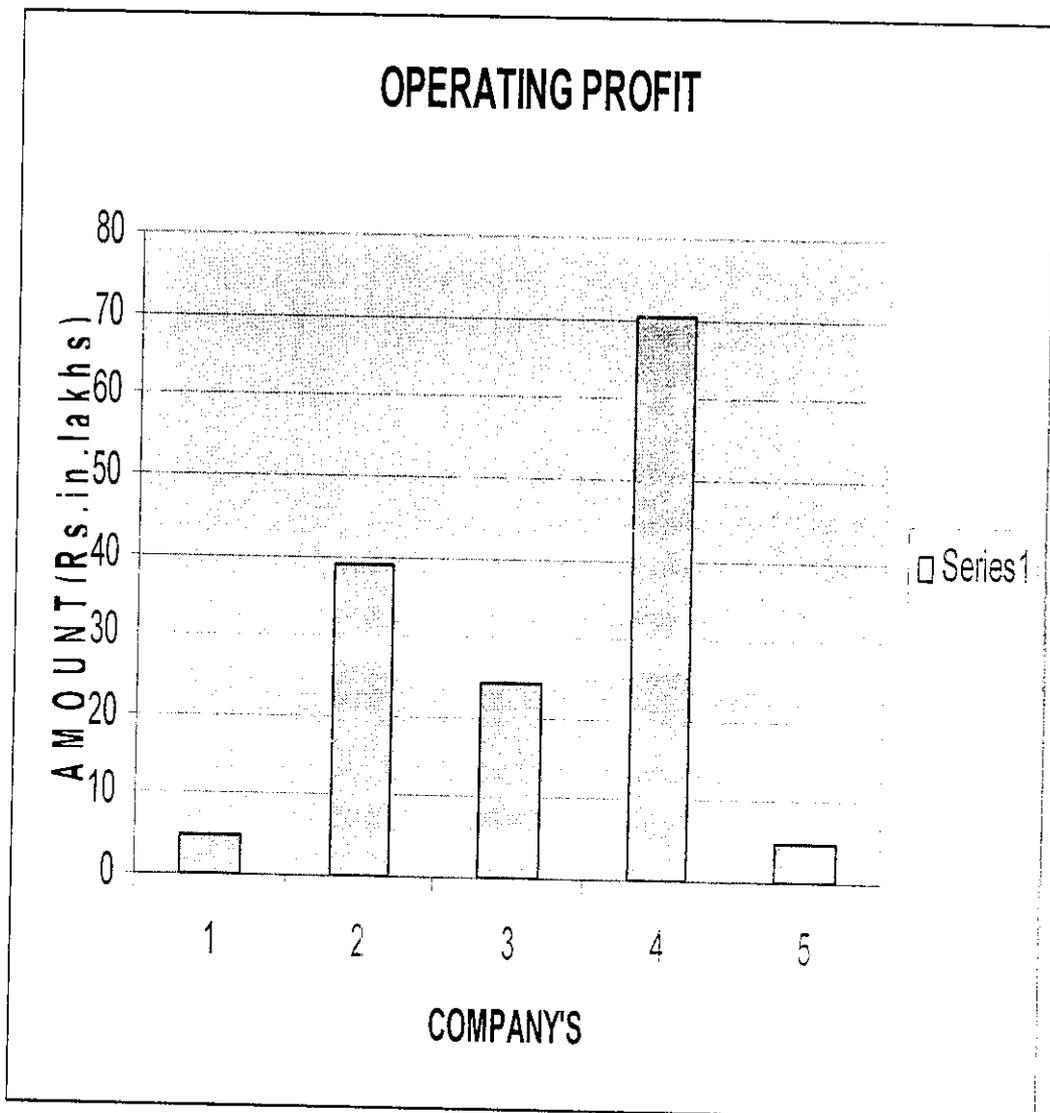


FIGURE 4.14



#### 4.7 OPERATIONAL SEGMENT (2006-07)

	TD/RNW TIMES	TD/RNW-G %	BL/OF %	BL/OF-G %	AR/BV %	AR/BV-G %	TDP/WF %	TDP/WF - G %	BV/WF %	BV/WF-G %
1.	2.85	7.55	25.70	-25.55	31.86	-11.38	49.60	10.03	26.31	14.42
2.	6.14	14.13	149.277	25.22	36.82	-21.84	31.52	65.37	23.51	-6.41
3.	2.90	18.85	62.24	3.65	101.06	-9.05	47.3	18.43	26.65	8.47
4.	4.81	-3.61	167.65	-10.96	40.98	-11.24	44.05	9.39	25.86	4.10
5.	6.8	8.28	73.7	-4.34	44.86	-2.29	74.87	3.08	22.37	4.24

TD – TOTAL DEBT

RNW – REPORTED WORTH

BL – BANK LOANS

OF – OWNED FUNDS

AR – ACCOUNT RECEIVABLE

BV – BUSINESS VOLUME

TDP – TOTAL DEPOSIT

WF – WORKING FUNDS

BV – BUSINESS VOLUME

#### INTERPRETATIONS:

##### 1. TOTAL DEBT/ REPORTED NET WORTH:

This ratio expressed as a number. The corresponding ratio in a manufacturing concern is termed as the debt – equity ratio. Traditionally a low ratio fetches a high rank for a company. But the researcher feels that since the finance companies are in the business of money and raising more debt resources indicates an ability to raise resources. As a result the higher ratio is beneficial for them. Debt – equity ratio is high in Sakthi Finance Ltd., Cholamandalam finance and Annamalai Finance is using less debt. Although for the finance companies, using more debt is beneficial, they should be in position to bear the risk associated with debt financing.

## **2. BANK LOANS /OWNED FUNDS:**

A high ratio indicates a finance company's borrowing and bargaining power with the banks. In his case, Sundaram finance limited ranks first, for them the ratio is 167.65% and for Ashok Leyland finance it is 149.27%. It reveals that these companies are very successful in getting loans and advances from banks. For Shakthi Finance Limited this ratio is satisfactory when compared with other companies (73.7%).

## **3. ACCOUNT RECEIVABLE/BUSINESS VOLUME:**

This ratio indicates the proportion of business volume locked up account receivable. A low ratio indicates better accounts receivables planning and management. The ratio for Annamalai Finance Limited is only 31.86%, this how's their better account receivables planning and management . But in the case of Cholamandalam Finance it is 101.06% . This shows that the receivable turnover of the co., is poor, which will affect the short term financial position of the company to a greater extent. For Sakthi Finance also it is comparatively high (44.86).

## **4. TOTAL DEPOSIT/WORKING FUNDS:**

A high ratio indicates a finance company's ability to mobilize deposits. In a sense, the ratio mirrors the strength of the finance company's brand equity. For Shakthi Finance limited, this ratio is 74.87% .In this ratio Sakthi ranks first. It shows Sakthi's ability to mobilize money from the public and the brand equity is also very strong. This ratio is very low for Ashok Leyland Finance it is only 31.52.

## **5. BUSINESS VOLUME/WORKING FUNDS:**

This ratio helps to find out whether a finance company generated enough business volume in relation to its working funds. This ratio is good detector of ideal funds and a reflector of slackness in operations. Thus ratio is more or less uniform for all the companies. For Sakthi it is 22.37% it is the lowest when compared with other companies.

#### 4.8 PRODUCTIVITY SEGMENT (2006-07)

	TD/RNW TIMES	TD/RNW-G	BL/OF	BL/OF-G	AR/BV	AR/BV- G	TDP/WF	TDP/WF-G	BV/WF	BV/WF-G
1.	2.85	7.55	25.70	-25.55	31.86	-11.38	49.60	10.03	26.51	14.42
2.	6.14	14.13	149.27	25.22	36.82	-21.84	31.52	65.37	23.51	-6.41
3.	2.90	18.85	62.24	3.65	101.65	-9.05	47.3	18.43	26.65	8.47
4.	4.81	-3.61	167.65	-10.96	40.98	-11.24	44.05	9.39	25.38	4.10
5.	6.8	8.28	73.7	-4.34	44.86	-2.29	74.87	3.08	22.37	4.24

TD – TOTAL DEBT

RNW – REPORTED NET WORTH

BL – BANK LOANS

OF – OWNED FUNDS

AR – ACCOUNT RECEIVABLE

BV – BUSINESS VOLUME

TDP- TOTAL DEPOSIT

WF- WORKING FUNDS

BV - BUSINESS VOLUME

#### INTERPRETATIONS:

##### 1. FINANCIAL CHARGES/ WORKING FUNDS:

This ratio helps us to know the active finance operations of a firm. Higher the ratio better are the performance. After comparing Sakthi and Annamallai Finance in the year 2006-07 Sakthi's performance is good.

##### 2. FINANCIAL CHARGES/ BUSINESS VOLUME:

This ratio indicates a finance company's ability to source cheap funds. Lower the ratio, higher at their ability to mobilize funds for cheaper cost for Sakthi Finance this ratio is 71.05% ie, out of the total income they are paying 71.05% as Finance Charges . But in the case of Annamallai it is 61.64% this indicates their ability to source cheap funds.

### **3. TAX SHELTER:**

This is calculated by a company for the purpose of tax planning. A high ratio indicates a larger scope for a company for bottom line improvements in future. In the year 2006-07 tax shelter pf Annamallai Finance Ltd ., is when high compared to Sakthi Finance Ltd, which indicates better quality of profits for Annamallai which are secured by tax payments . With their help of this ratio a firm can decide about rationalization of corporate taxes.

#### 4.9 PROFITABILITY SEGMENT (2006-07)

	RNP/WF %	RNP/WF- G %	OP/WF %	OP/WF- G %	RNP/OF %	RNP/OF- G	OP/OF %	LI/GB %	LI/GB- G %	LI/GLA %
1.	2.80	-22.01	3.16	-11.4	10.81	-17.67	12.16	23.33	26.72	25.44
2.	2.95	-24.94	3.32	-15.5	21.08	-15.78	23.72	16.73	-12.9	17.94
3.	4.23	-14.89	4.62	-18.0	16.5	-3.51	18.03	24.87	12.21	7.56
4.	4.15	-12.63	4.28	-9.89	24.09	-15.03	24.84	20.4	12.21	21.32
5.	1.31	-34.17	1.63	-25.9	10.21	-29.63	-20.9	18.87	38.34	40.01

RNP- REPORTED NET PROFIT

WF – WORKING FUNDS

OP – OPERATING PROFIT

OF – OWNED FUNDS

GB- GROSS BLOCK

GLA – GROSS LEASED ASSETS

LI – LEASE INCOME

#### INTERPRETATIONS:

##### 1. REPORTED NET PROFIT/WORKING FUNDS:

A high ratio is a good indicator of profitability. For Cholamandalam Finance it is 4.23%, i.e reported net profit is 4.23% of working funds. Sakthi Finance is showing a Lower ratio when compared with other companies. This shows their inability to make good profits. Another important point is that for all the companies this ratio is showing a Negative growth rate. It was mainly due to the overall economic recession that prevailed in the country.

##### 2. OPERATING PROFIT/WORKING FUNDS:

This ratio is a good indicator of profitability at the operating level. This ratio is also very high for Cholamandalam and Sundaram Finance. For Sakthi Finance this is merely 1.63%, it shows that the operating expenses of Sakthi Finance Ltd. is high. In this case also, the growth rate is negative for all the companies.

### **3. REPORTED NET PROFIT/OWNED FUNDS:**

This ratio is the equivalent of the return on net worth ratio used in other industries. It is a good indicator of profitability and return on shareholder's funds. Sakthi Finance gives only 10.21% return on share holder's funds, but its competitor, Sundaram Finance gives 24.09%.

### **4. LEASE INCOME/GROSS BLOCK:**

A high ratio indicator how active is the leasing division and how profitable are the divisions operations. Gross block means gross value of fixed assets. Cholamandalam and Clif's performance is very good when compared with other companies, this shows their strength and profitability in the leasing division. For Sakthi Finance this ratio is 18.87% . but the growth rate of this ratio is high in Sakthi Finance Ltd.

### **5. LEASE INCOME /GROSS LEASED ASSETS:**

A high ratio indicates not only the health of the leasing divisions, but more importantly reflects the divisions competitiveness with in the industry. For Ashok Leyland finance this ratio is 17.94 % more over the growth rate is also negative. This shows the leasing activities if the firm are not satisfactory when compared with other competitors . IN the case of clif this is 31.4% this indicates their strength in this area. For Sakthi the growth rate is 40.01% this depicts that now they are concentrating more on profitable leasing activities.

#### 4.10 PRODUCTIVITY SEGMENT (2006-07)

	FC/WF %	FC/WF-G %	FC/BV %	FC/BV-G
1.ANNAMALAI FINANCE	15.31	29.09	57.75	12.77
2.ASHOK LEYLAND	15.09	-0.85	64.18	5.89
3.CHOLAMANDALAM & FIN .CO	12.28	19.92	46.08	10.53
4.SUNDARAM FINANCE	13.75	6.18	54.17	2.02
5. SAKTHI FINANE	14.62	5.56	65.38	1.25

FC – FINANCE CHARGES    WF – WORKING FUNDS

BV – BUSINESS VOLUME

#### INTERPRETATIONS:

##### 1. FINANCE CHARGES/WORKING FUNDS:

A high ratio indicates how active and a live are the finance company's operations. This ratio is higher for Annamalai's Finance Ltd.(15.31%).It shows that they are very active in business with a less amount of working funds. But in the case of Cholamandalam Finance, this ratio is only 12.28%, 14.62 of sakthi ratio is comparatively satisfactory.

##### 2. FINANCE CHARGES/BUSINESS VOLUME:

Business Volume is nothing but gross revenue or total income. This ratio indicates a finance company's ability to source cheap funds and also its ability to strike the right balance between the need for the need for funds and the cost of funds. Here the companies have been ranked in the descending order. For Cholamandalam Finance this ratio is only 46.08% ie. out of the total income they are spending only 46.08% as finance charges. This shows their ability to source cheap funds. In the case of Ashok Leyland Finance and Sakthi Finance this ratio is 64.18% and 65.38% respectively. These companies are spending majority of their income for finance charges. This exhibits their inability to mobilize funds at a cheaper rate.

## COMPARATIVE ANALYSIS FO THE FINANCIAL YEAR 2006-07

### SAKTHI Vs ANNAMALAI:

***“NOTHING IS GOOD OR BAD BUT BY COMPARSION”***

- THOMAS FULLER

This comparative study tries to evaluate the performance on 2 four-dimensional dynamic grid covering Financial, Operational Profitability and productivity parameters. The researcher took Annamallai Finance Ltd. For comparison because of the following:

Both the companies are operating under the Medium Category.

1. Both are Coimbatore based companies.
2. Both the companies enjoy the same credit rating.  
(Sakthi MA+ ,Annamalai FA+)
3. Moreover, the 2006-07 data are available for both the companies.

#### 4.11 FINANCIAL SEGMENT (2006-07)

	WORKING FUNDS		WORKING FUNDS GROWTH		REPORTED NETPROFIT		GROWTH		TOTAL DEPLOYED ASSETS		GROWTH		BUSINESS VOLUME		GROWTH		OPERATING PROFIT		GROWTH	
	Rs.	Cr	Rs.	Cr	Rs.	Cr	Rs.	Cr	Rs.	Cr	Rs.	Cr	Rs.	Cr	Rs.	Cr	Rs.	Cr	Rs.	Cr
1. SAKTHI FINANCE	280.80		-3.91		0.97		-74.61		269.34		-3.77		65.21		-0.37		5.26		10.50	
2. ANNAMALLAI FINANCE Ltd	170.57		8.73		1.60		-63.64		152.07		17.92		40.64		-2.28		4.26		-13.94	

#### INTERPRETATION:

##### 1. WORKING FUNDS (WF):

Working funds are total resources of a finance company. Here the working funds of both the companies as on 31.03.07 are depicted. The Working Funds of Sakthi Finance Ltd is 39% higher than the Annamallai Finance Ltd. This shows Sakthi's total resources strength over Annamallai. But in the case of the growth of working funds, Sakthi Finance has negative growth rate (-3.91), where as Annamallai has a positive growth rate (8.73%).

##### 2. REPORTED NET PROFIT (RN):

Reported net profit is the basic indicator of financial company's profitability. Here performance of Sakthi is poor when compared with Annamallai's. The RNP is 65% lesser than Annamallai's. In the case of growth rate both the companies show a decreasing trend. However Sakthi's growth rate is lesser (-74.61).

##### 3. TOTAL DEPLOYED ASSETS (TDA):

Total deployed assets of Sakthi Finance Ltd. is higher by about 44% mainly due to the high working funds. But when we compare the growth rate for sakthi it is -3.77% & for Annamallai it is 17.92%. This shows Annamallai is improving their total deployed capabilities, while Sakthi's deployment capabilities are decreasing.

**4. BUSINESS VOLUME (BV):**

A high Business Volume reflects the ability of a finance company to deploy its funds and generate constant streams of income. BV is nothing but the gross revenue. The Business Volume of Sakthi Finance Ltd. is RS 12 crore which is higher than Annamalai's by 38%.

**5. OPERATING PROFIT:**

This shows a finance company's operating efficiency. Operating profit of Sakthi Finance Ltd. is higher by 1.00 crore rupees, while its growth rate is 10.50%.

#### 4.12 OPERATIONAL SEGMENT (2006-07)

	TD/RNW TIMES	TD/RNW- G %	BL/OF %	BL/OF-G %	TDP/WF %	TDP/WF-G	BV/WF	BV/WF-G
1.SAKTHI FINANCE	7.03	3.38	81.28	10.28	74.14	-0.93	23.19	3.67
2. ANNANALLAI FINANCE LTD	3.14	10.18	52.16	102.96	49.5	-0.20	23.83	-10.11

TD – TOTAL DEBT

RWW – REPORTED NET WORTH

BL – BANK LOANS

OF – OWNED FUNDS

AR – ACCOUNT RECEIVABLE

BV – BUSINESS VOLUME

TDP – TOTAL DEPOSIT

WF – WORKING FUNDS

BV – BUSINESS VOLUME

#### INTERPRETATION:

##### 1. TOTAL DEBT/REPORTED NET WORTH:

This ratio is a proof of a company's ability to leverage its net worth effectively. For Sakthi it is higher by 55% But the company will have to bear risk when using more debt in business.

##### 2. BANK LOANS /OWNED FUNDS:

This ratio reflects the finance company's dependence on the banking sector for resources. A high ratio indicates a finance company's borrowing and bargaining owner with the banks. In the case of Sakthi Finance, this ratio is 85.28% while in the case of Annamalai it is only 52.16% But when we consider the growth rate it is 102.96% for Annamalai and only 10.28% for Sakthi.

**3. TOTAL DEPOSIT/WORKING FUNDS:**

This ratio mirrors the strength of the finance company's brand equity. Out of the total working funds in Sakthi Funds Ltd. 74.17% constitutes of total deposit. This ratio is more than Annamalai's. So we can say that the brand equity is more for Sakthi Finance Ltd.

**4. BUSINESS VOLUME / WORKING FUND:**

The business volume for both the companies is more or less the same. The two firms were able to make only 23% of working funds as business volume. But it seems of growth rate Annamalai's is far behind Sakthi.

#### 4.13 PROFITABILITY SEGMENT:

	RNP/WF %	RNP/WF-G %	OP/WF %	OP/WF-G %	RNP/OF %	RNP/WF-G %	OP/OF %	OP/OF-G %	LI/GB %	LI/GB-G %
1.SAKTHI FINACNE	0.34	-74.05	1.87	14.72	2.70	-73.56	14.63	15.02	18.20	-3.55
2.ANNAMALLAI FINANCE	0.93	-66.73	2.50	-20.89	3.88	-64.11	10.33	-15.05	20.24	-113.24

RNP – REPORTED NET PROFIT

WF – WORKING FUNDS

OP – OPERATING PROFIT

OF – OWNED FUNDS

GB – GROSS BLOCK

GLA – GROSS LEASED ASSETS

LI – LEASE INCOME

#### INTERPRETATION:

##### 1. REPORTED NET PROFIT/WORKING FUNDS:

A high ratio is a good indicator of profitability .the table .This ratio is a fool roof indicator of excellent utilization of resources. From the table we can find that, for both the companies this ratio is below 1%, this shows their working funds. But comparatively Annamalai”s performance is better. Another important point is that both the companies showing a higher negative growth rate in this ratio mainly due to the new RBI regulations and over all economic recessions prevailing in the country.

##### 2. OPERATING PROFIT/WORKING FUNDS:

This ratio is a good indicator of profitability at the operating level. For Sakthi Finance Ltd, this ratio is 1.8%, but in the case of Annamallai it is 2.50% .This shows operating expenses of Sakthi Finance Ltd, is high. At the operating level also Annamalai’s performance is comparatively better.

### **3. REPORTED NET PROFIT/OWNED FUNDS:**

This ratio is also called as reported net profit to reported net worth (RNP/RNW). It is a good indicator of return on shareholder's funds. Here Annamalai's RNP/OF ratio is higher by 43.7% than Sakthi's. The growth rate for this shows a greater decreasing trend for both companies.

### **4. OPERATING PROFIT/OWNED FUNDS:**

This ratio is an indicator of shareholder's return at the operating level. Shareholders' return at the operating level in Sakthi is 14.63% and for Annamalai 10.33%. This shows that for the year 2006-07 shareholders' return at the operating level is higher for Sakthi Finance Ltd.

### **5. LEASE INCOME TO GROSS BLOCK:**

A high ratio indicates how active is the leasing division and how profitable are the divisions operations. Gross block is nothing but gross value of fixed assets. For Sakthi Finance Ltd. This ratio 18.20% for Annamalai it is 20.24%. This shows that Annamalai's leasing operations are active and profitable than Sakthi's.

#### 4.14 PRODUCTIVITY SEGMENT (2006-07)

	FC/WF %	FC/WF-G %	FC/BV %	FC/BV-G %	TAX SHELTER IN CRORES
Sakthi finance	16.48	12.72	71.05	8.67	0.13
Annamalai finance	14.69	61.64	61.64	6.74	0.19

FC – Finance charges

WF – Working Funds

BV - Business Volume

#### INTERPRETATIONS:

##### 1. FINANCIAL CHARGES/WORKING FUNDS:

This ratio helps us to know the active finance operations of a firm. Higher the ratio better are the performance. After comparing Sakthi and Annamalai in the year 2006-07 Sakthi's performance is good.

##### 2. FINANCE CHARGES/ BUSINESS VOLUME:

This ratio indicates a finance company's ability to source cheap funds. Lower the ratio, higher as the ability to mobilize funds for cheaper cost for Sakthi Finance this ratio is 71.05% as finance charges. But in the case of Annamalai's it is 61.68% this indicates their ability to source cheap funds.

##### 3. TAX SHELTER:

This is calculated by a company for the purpose of tax planning. A high ratio indicates a large scope for a company for bottom line improvements in future. In the year 2006-07 tax shelter of Annamalai finance Ltd. is when high compared to Sakthi Finance Ltd, which indicates better quality of profits for Annamalai which are secured by tax payments, with the help of this ratio a firm can decide about rationalization of corporate taxes.

*CONCLUSION*

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## **CHAPTER - 5**

### **5. CONCLUSION**

The working capital of the Sakthi Finance Limited is in a good and acceptable position. The study reveals that the firm has increased sales, which results in the increased profitability. Though there was slight increase in the financial year 2004-05, still the overall market capitalization was high, which shows that the company has a good growth trend. Thus the company ensures the shareholders wealth maximization, which is the major objective of the company.

## 5.1 FINDING

Net worth of the company has increased substantially in period of 5 years that was compared from 2002-06, The market capitalization of the company has increased tremendously from 2002-06, Efficient inventory management was revealed through the inventory turnover ratio.

1. It is found that after all these years of existence, Non-banking finance companies(NBFCs) are having an identity crisis. The role which NBFCs are expected to play in the country's financial system is now a matter of intense debate, and no clear-cut solutions have yet emerged.

2. The Reserve Bank of India had on January 2, 2007 announced a set of guideline for the NBFCs sector and linked deposit mobilization to credit rating which severely hampered the growth prospects of the industry. The Central Bank however, relaxed some of these guidelines on January 31<sup>st</sup> 2007.

3. According to the new RBI regulations – NBFCs with net owned funds of less than Rs.25 Lakhs are prohibited from accepting public deposits.

4. The NBFCs are subjected to maximum interest rate ceiling of 16% on deposits.

5. It is found that NBFCs accepting public deposits compulsorily are required to Submit to RBI half-yearly / annual statutory return and financial statements.

6. The AAA rated leasing / hire purchase companies can raised deposits up to 4 times of their Net-Owned Funds (NOF). those rated AA 2.5 of their net-owned funds and those rated A up to 1.5 times of their net-owned funds.

There are four credit rating agencies giving rating to NBFCs in India CRISIL, ICRA, CARE, and DUFF and Phelps credit rating (p) ltd.,

1. It is found that difference in opinion are existing among credit rating agencies.(E.g: Cholamandalam – MAAA by ICRA , and FAA+ by CRISIL). It is found that the sluggishness in the automobile industry affected the performance of NBFCs.
2. The study shows that the profitability position of Sakthi Finance Ltd., in terms of return on shareholder's investment , return on equity capital. earnings per share is not satisfactory . It shows a decreasing trend.
3. It is found that the financial soundness of Sakthi Finance Ltd. Is good on the basis of debt-equity ratio , current ratio and reserves to equity capital ratio.
4. It is found that the major are of application of funds of Sakthi Finance Ltd., is the loans on hire purchase and leasing of assets.
6. The study of the financial segment of all companies under consideration Shows that working funds, total deployed assets and business volume exhibits a positive growth trend where as the reported net profit and operating profit exhibits a negative growth trend.
7. The growth rate of the RNP/WF, OP/WF, RNP/OF.OP/OF ratios of all companies in the profitability segment is showing a decreasing trend . The performance of Sakthi Finance Limited in this segment is not satisfactory.
8. The comparative study with Annamallai Finance Ltd., for the financial year 2006-07 reveals that,
  - a. In the financial segment Sakthi's position is very strong
  - b. In the operational segment too they have a strong position but the comparative growth rate is less.
  - c. In the profitability segment Sakthi is so good.
  - d. In the productivity segment Sakthi's performance is not satisfactory
9. The Internal Rate of Return (IRR) under which Sakthi Finance is operating is higher than its competitors in the market.

## 5.2 RECOMMENDATIONS:

- The debtors turnover was found to have a decreased trend which was mainly due to the increase in the price of the product.
- The sales which were declined in the last year due to rise in the price could be increased by decreased the price of the product.

### SUGGESTIONS:

#### GENERAL:

- The government and RBI should take initiative for starting deposit insurance scheme for the deposits of NBFCs.
- The RBI should educate the public about the new regulations on NBFCs through different media.
- NBFCs with a net worth below Rs. 5 crore should be exempted from credit rating.
- The association of leasing and financial services companies (ALFS) should take quick steps to start a self-regulatory organization (SRO) for hire purchase and leasing companies. The state governments should set-up cells at the state capital and district centres to disseminate information on redressal of the grievances of NBFC deposit holders.
- The Reserve Bank of India should take steps to standardize the balance sheet structure for non banking companies.

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