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A STUDY ON ASSET LIABILITY MANAGEMENT IN SAKTHI FINANCE LIMITED

By

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A PROJECT REPORT

Submitted

In partial fulfilment of the requirements

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Of

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BONAFIDE CERTIFICATE

Certified that this project report titled, "A Study on Asset Liability of The Sakthi finance Limited" is the bonafide work of S. DineshSundaram, who carried out the project 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.

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ternal Examiner

External Examiner

DECLARATION

I affirm that the project work titled "**A Study on Asset Liability Management in Sakthi Finance Limited**" being submitted in partial fulfillment for the award of master of business administration is the original work carried out by me. It has not found the party other project work submitted for award of any degree or diploma, either in this or any other university.

Signature of the Candidate

S.DINESH SUNDARAM

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SAKTHI FINANCE

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SFL: HO: HRD: 006/2012 - 2013 **12.05.2012**

To Whomsoever It May Concern

This is to certify that **Mr. Dinesh Sundaram S (Reg No. 1020400014)** student of Kumaraguru College of Technology, Coimbatore has undergone his Project Work in our company under the topic of **"A Study on Asset Liability Management in Sakthi Finance Limited, Coimbatore"** during the period from **01st February 2012 to 30th April 2012.**

During this period his character and conduct were found good.

We wish him all success in future endeavor.

Regards,

P. Maragatham 12/5/12

P.Maragatham

Deputy Manager – HR

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Executive summary

Asset-liability management basically refers to the process by which an institution manages its balance sheet in order to allow for alternative interest rate and liquidity scenarios. Banks and other financial institutions provide services which expose them to various kinds of risks like credit risk, interest risk, and liquidity risk. Asset liability management is an approach that provides institutions with protection that makes such risk acceptable. Asset-liability management models enable institutions to measure and monitor risk, and provide suitable strategies for their management.

Asset Liability Management 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.

CAMEL analysis is a powerful tool for asset liability management study. It is defined as "an acronym of capital adequacy, asset quality, management, earning ability, liability. CAMEL is basically a ratio-based model for evaluating the performance of banks". In asset liability management, a CAMEL analysis is used as a benchmark for evaluating the performance of a firm. The absolute accounting figures reported in the financial statements do not provide a meaningful understanding of the performance and financial position of a firm.

The study aims at comparing the five years performance of The Sakthi Finance Limited.

The objectives of the study is to know the risk management, to evaluate the efficiency and to assess the efficient utilization of assets of The Sakthi Finance Limited. It helps to know whether the performance of the firm is improving or not.

Correlation is used to know about the solvency position of The Sakthi Finance Limited.

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CHAPTER 1

1.1 Introduction to the study:

A risk management technique designed to earn an adequate return while maintaining a comfortable surplus of assets beyond liabilities. Takes into consideration interest rates, earning power, and degree of willingness to take on debt also called surplus management. Every Financial Institute irrespective of its size is generally exposed to market liquidity and interest rate risks in connection with the process of Asset Liability Management. Failure to identify the risks associated with business and failure to take timely measures in giving a sense of direction threatens the very existence of the institution. It is, therefore, important that the strategic decision makers of an organization assume special care with regard to the Balance Sheet Risk management and should ensure that the structure of the institute's business and the level of Balance Sheet risk it assumes are effectively managed, appropriate policies and procedures are established to control the direction of the organization. The whole exercise is with the objective of limiting these risks against the resources that are available for evaluating and controlling liquidity and interest rate risk.

1.2 Industry profile:

Non banking financial companies (NBFCs) are fast emerging as an important segment of Indian financial system. It is an heterogeneous group of institutions (other than commercial and co-operative banks) performing financial intermediation in a variety of ways, like accepting deposits, making loans and advances, leasing, hair purchase, etc. They raise funds from public, directly or indirectly and lend them to ultimate spenders. They advance loans to the various wholesale and retail traders, small-scale industries and self –employed persons. Thus they have broadened and diversified the range of products and services offered by a financial sector. Gradually, they are being recognized as complementary to the banking sector due to their customer-oriented services, simplified procedures and attractive rates on deposits, flexibility and timeliness in meeting the credit needs of specified sectors etc.

The working and operation of NBFCs are regulated by the reserve bank of India

directions issued by it under the Act. As per the RBI Act, a Non-Banking financial company is defined as:

- A financial institution which is a company.
- A Non Banking institution which is a company and which has its principal business the receiving of deposits ,under any scheme , arrangement or in any other manner or lending in any manner.
- Other Non Banking institution as the bank may with the previous approval of the Central Government and by notification in the Official Gazette Specify.

Under the Act, it is mandatory for a NBFC to get itself registered with the RBI as a deposit taking company. This registration authorizes it to conduct its business as an NBFC. For the registration with the RBI, a company incorporated under the Companies Act,1956 and desirous of commencing business of non –Banking financial institution, should have a minimum net owned fund (NOF) of Rs.25 lakh (raised to Rs 200 lakh W.E.F April 21, 1999). The term 'NOF' means, owned funds (paid-up capital and free reserves, minus accumulated losses, deferred revenue expenditure and other intangible assets) less, (i) Investments in shares of subsidiaries/companies in the same group /all other NBFCs and (ii) the book value of debentures/bonds/outstanding loans and advances, including hire purchase and lease finance made to and deposits with subsidiaries /companies in the same group, in excess of 10% of the owner funds.

The funding to small –scale industry is mainly for plant and machinery, industrial equipments, computer system etc. 70% of the activities of NBFCs are in leasing Equipment and Hire Purchase. There is some exposure in Bill Discounting and Factoring. The main strength of NBFCs is that they can devise innovative financing schemes and tailor-made schemes according to the specific requirement of the client. The NBFI sector in India comprises various types of financial institutions with each one of them having its roots at a particular stage of development of the financial sectors. All –Indian Financial Institutions (AIFIs) largely an offshoot of development planning in India, were created for long-term financing with some of

Non Banking financial companies (NBFCs), on the other hand, are mostly private sector units, which have carved their niche in the Indian Financial system. As of June 2006, there was in all 13,014 NBFCs registered with RBI of which 428 accepted deposits. NBFCs are an integral part of the country's financial system because of their complimentary as well as competitive role. They act as a critical link in the overall financial system catering to a large market of niche customers. As a result of consolidation and restructuring in the financial sector and liberalization and globalization of markets only a few strong NBFCs now remain in business. However, competition continues to be intense, as the Indian and foreign banks have entered the retail lending business in a big way, thereby exerting pressure on margins. All the prudential norms for assets classification, income recognition, provisioning requirements etc. are applicable to NBFCs.

The registration process involves submission of an application by the company in the prescribed format along with the necessary documents for RBI's consideration. If the bank is satisfied that the conditions enumerated in the RBI Act, 1934 are fulfilled, it issues a "Certificate of Registration" to the company. Only those NBFCs holding a valid Certificate of Registration" can accept/hold public deposits. The NBFCs accepting public deposits should comply with the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998, as issued by the bank. Some of the important regulations relating to acceptance of deposits by the NBFCs are:

- They are allowed to accept/renew public deposits for a minimum period of 12 months and maximum period of 60 Months.
- They cannot accept deposits repayable on demand.
- They cannot offer interest rates higher that the ceiling rate prescribed by RBI from time to time.
- They cannot offer gift/incentives or any other additional benefit to the depositors.
- They should have minimum investment grade credit rating.
- Their deposits are not insured.
- The repayment of deposits by NBFCs is not guaranteed by RBI.

1.3 Company profile:

Sakthi Finance Ltd. was incorporated in the year 1955 as a Non-banking finance company [NBFC] initially towards catering the hire purchase financial requirements of the group's TELCO dealership units. This captive hire purchase business eventually transformed the company into a major player in this sector.

The able leadership of the Group's visionary Chairman, Dr. N. Mahalingam together with the combined strength of the group in multifarious fields has helped Sakthi Finance Ltd. to become an edifice of mutual trust and faith among the public.

Today, Sakthi Finance is one of the leading non-banking finance companies with over 33 branches in Tamil Nadu, Kerala, Karnataka and Andhra Pradesh.

Sakthi Finance has positioned itself as a niche player by introducing refinancing for commercial vehicles and construction equipments. The company offers various financing schemes to cater to the funding requirements of commercial vehicle operators.

Capital structure:

The authorized capital for a company from 2006-2010 is Rs.40 cr and for 2010-2011 is Rs.55 cr. The issued capital is increased between 2006-2010 for same authorized capital. The face values for those years are Rs.10. The issued capital and shares for 2006-2007 is Rs.20.07 Cr and 20071321. The issued capital and shares for 2007-2008 is Rs.30.11 Cr and 30106981. The issued capital and shares for 2008-2009 is Rs.30.11 Cr and 30106981. The issued capital and shares for 2009-2010 is Rs.30.11 Cr and 30106981. The issued capital and shares for 2010-2011 is Rs.30.11 Cr and 30106981.

VISION

- Be amongst the top three re-financers of commercial vehicles in the country.
- Be an organization of profitable growth with 10% net margin.
- Be the most preferred service supplier of the customer choice.
- Be a competent organization with people competency index of 95%
- Be an organization with process efficiency to the level of six sigma

MISSION

- To behave like marvai.inc.., a culture of act like owner.
- To partner through progress of small and medium road transport operator.
- To provide end to end service leading to total customer solution with
    i. Speed
    ii. Flexibility
    iii. Integrity

1.4 Company Highlights:

BOARD OF DIRECTORS

S.NO	NAME	DESIGNATION
1	M. Manickam	Chairman
2	M .Balasubramaniam	Managing director
3	S .Venkatesh	Company secretary
4	A. Selvakumar	Director
5	M.Srinivasan	Director
6	A. Shanmugasundaram	Director
7	S.A.Murali Prasad	Director
8	P .S.Gopalakrishnan	Director
9	S .Ragothaman	Director

MAJOR MILE STONES

YEAR	EVENTS
1955	Company was incorporated
1967	Name of the company changed to Sakthi Finance Limited
1979	Commenced Financing of Commercial vehicles
1984	Launched first ever public issued for Rs.75 lakhs
1986	Right issue of Rs.5,25,000 equity shares of Rs.10 each
1988	Right issue of Rs10,38,320 equity shares of Rs.10 each
1991	Public Deposits crossed Rs.100 crs
1993	Right Issued of Rs.30,38,320 equity shares of Rs.10 each at Rs.30 pe share
1995	Right Issued of Rs.37, 44,681 equity shares of Rs.10 each at Rs.30 pe share. Total assets crossed Rs.200crs
1996	Stock on hire crossed Rs.200crs. Credit rating for fixed Deposits obtaine for the first time.
1998	Obtained Certificate of Registration from RBI.
2001	Allotment of shares on preferential Basis to ABT Limited
2003	Allotment of shares on preferential Basis to an OCB

VARIOUS DEPARTMENTS IN SAKTHI FINANCE

- HRD – Human Resource Development
- CARE – Customer Acquisition And Retention
- CAP – Credit Appraisal Process
- CAMP – Customer Asset Management Process
- CARP - Customer Asset risk performance
- FIRE – Financial Resources
- EWS - Enterprise Wide Solution
- OSM -Office of strategic Management.

HUMAN RESOURCE DEPARTMENT (HRD)

Sakthi Finance Limited currently has total manpower of 317 persons. Human resource process is one of the seven core processes in the company. Human resource department is strengthened with qualified Human resource Professional and the department consists of 7 members.

FUNCTIONS OF HR DEPARTMENT

- S-Selection & recruitment of right candidates.
- T-Training and development for existing employees and new entrants.
- Appraisal and retirement through compensation, career growth and separation.
- R-Retention and retirement through compensation, career growth and separation.

CUSTOMER ACQUSITION AND RETENTION (CARE)

The term indicates planning the marketing function in a systematic focused manner for customer requisition & retention.

FUNCTIONS

- To formulate CRM strategies for generation volume of customers, satisfy their need, maintain & retain them in such a way that they bring in new customers.
- To translate, strategic objectives targets & goals of the organization as planned relating 5 prospects & customer to branches.
- To co-ordinate with branches on target fixing & achievement of target.
- To build & maintain a customer database and keeping them informed about the new schemes formulated.

CUSTOMER APPRAISAL PROCESS (CAP)

This process team takes care of appraising the profiles of all intended borrowers, who have the capacity and intention to repay the loan. The appraisal process is centralized and handled by head office. All the branches are linked internally hence

CUSTOMER ASSET MANAGEMENT PROCESS (CAMP)

The critical success factor of an NBFC vests ability to manage the advance portfolios and recovery the money lent on due. Thus this team at Head office continuously monitors the recovery and officers support to branches on exceptional accounts which pose collection problems.

CUSTOMER ASSET RISK PERFORMANCE (CARP)

The primary purpose of the field investigation and assets inspection program is to identify and manage any risk associated with customer assets and to ensure the remedial works are identified and properly prioritized. Asset inspection and field investigation out puts are essential to identify any faults that might undermine the business or represent a threat to health and safety of our asset financed to customers.

FINANCE AND ACCOUNTS

FUNCTIONS

- To monitor all the financial activities.
- To provide secretarial assistance to function supervision & heads.
- To render required secretarial assistance to functional supervision & heads.
- In charge for safe custody of all files, assets, documents etc.
- Maintaining and updating files, records & documents.
- Funds transfer information.
- Contribution statement.
- Accounting statement for receipts & payments.

ENTERPRISE WIDE SOLUTION (EWS)

- Increased operational efficiency.
- Improved customer satisfaction.
- Enables better decision making and forecasting.
- Scalable and flexible solutions providing for future changes.
- Better tracking of inventory

OFFICE OF STRATEGIC MANAGEMENT (OSM)

This program includes the administrative function necessary to support the program activities of OMS. The specific function included in four organization areas: administration, HR, Administrative financial Management and IT.

SWOT ANALYSIS OF THE COMPANY

Strengths

- Company belongs to reputed "Sakthi Group" of companies.
- Company has been in this line of business for about five decades. Hence the knowledge of the market and customers is excellent.
- Company has well established systems required for this line of business.
- Company has loyal and dedicated man power to handle the business at all levels.

Weaknesses

- The credit rating of the company is MA-, which means adequate safety. With this rating, the company is unable to tap more resources from Banks.

Opportunities

- With the higher level of economic development, the demand for commercial vehicle and consequently the demand for commercial vehicle finance will increase.

Threats

- Entry of more organized players into refinancing segment will intensify the competition.

1.5 Statement of the problem:

- Financial statements by themselves do not give the full-fledged picture about the different facts of the company's financial position.
- The company is running in profit but still it would not take any steps for expansion activity. So the researcher have taken up this study to know whether the profitability position of the company is sufficient to make any expansion or not.
- During the course of the project work, the financial details were analyzed to

1.6 Objectives of the study:

Primary objective:

To study the Asset Liability Management in Sakthi Finance Limited.

Secondary objective:

1. To study the risk management in Sakthi Finance Limited.
2. To evaluate the efficiency of Sakthi Finance based on CAMEL analysis.
3. To assess the efficient utilization of assets.
4. To give findings and recommendation for the improvement of financial performance of the bank.

1.7 Scope of the study:

Asset Liability Management is the powerful tool of financial analysis. The investors, shareholders, and non-banking financial institutions make use of CAMEL analysis to know about the efficiency of the institution. The Asset Liability Management is also used as a decision making tool, forecasting the future efficiency etc. It helps to know whether the performance of the firm is improving or not. Correlation and multiple regression show the companies effectiveness in the utilization of assets and its growth over the year.

CHAPTER 2

REVIEW OF LITERATURE

CHAPTER 2

2.1 Review of literature:

According to "cess L.Devt, Geraldine teagwater"

Asset liability management in since 2007, the board of trustees of the ABN AMRO pension fund has applied innovative approach to determine its strategic investment policy. The strategies asset allocation is selected implicitly by choosing the pension fund's set of rist reward characteristics, without knowing the underlying investment policy. This process ensures an effective separation between the decision about risk trade-offs on one hand and investment beliefs and means to achieve those trade-offs. Such as the investment policy o the other hand. This decision making process respectably has led to the choice of dynamic asset allocation strategies in which level of risk depends on the pension funds similar expected return would have led to a significantly lower funded ratio.

According to "Maried Briere", Asset Liabilities Management I this paper sets out a new approach to soveright wealth and risk management, based on the theory of contingent claim analysis (CCA). To manage sovereign risk. It is essential to analyse the sovereign's balance sheet. The state has to solve an asset and liabilities management (ALM) problem between its sources of income and its expenditure. The analytical frame work for its expenditure. The analytical frame work for this approach covers all public entities, not only the state budget, and includes implicitly guarantees to the private sector. It has a Number of essential applications for sovereign wealth funds (SWFs) and foreign exchange reserves. We present the conceptual frame work, tools and data needed to carry out this type of analysis. We then focus on chile to provide a practical example of sovereign balance sheet estimation and severing ALM. Cees L.Derd, Geradine Leegwater.

A study on Asset liabilities management in ABN AMRO pension fund for the Decision Making and solvency based on Asset Allocation. Marie Briere, A study on Asset liability management is sovereign wealth and risk management.

According to "Shyam Laldev pandiy, sureshkumar pandey" "Asset liability management" the success of any organization depends upon the fact that how efficiently it use its assets maintains sound, solvency position. This is possible only with help of effective asset and liability management (ALM). Asset Liability Management models enables institutions to measure and monitor risk and provide suitable strategies for their management. It is therefore, appropriate for institutions (banks, finance companies, leasing companies, insurance companies and others) to focus of asset liability management when they face financial risk of different types. Asset liability management includes not only a formalization of understanding, but also a way to quantity and manage these risks. Present paper is an attempt to analyse various component of ALM based on accounting ratios in Indian banking industry during the period of 2003 to 2005. As the respective of banking industry SBT, PNB, ICICI and HDFC have been selected.

Shyam Laldev pandiy, sureshkumar pandey, "Asset liability management in India banking industry" for an analysis of financial position and various elements

According to "Jacek Gondzio, Roy Kowwen Berg" "Asset liability management". financial institutions require sophisticated tools for risk management. For company's wide risk management, both sides of the balance sheet should be considered, resulting in an integrated asset liability management approach. Stochastic programming models suit these needs well and have already be applied in the field of asset liability management to prove financial operations and risk management. The dynamic aspect of the financial planning problem inevitably leads multiple decision stages (wading dates) in the stochastic program and results in an explosion of dimensionality.

In this paper we show that dedicated model generation, specialized solution techniques based on decomposition and high performance. Computing are the essential elements to tackle these large scale financial planning problems. It turns out that memory management is a major bottleneck when solving very large problems, given an efficient solution approach and a parallel computing facility.

He reports on the solution of an asset liability managements model for an actual Dutch pension fund with 4,826,809 scenarios 12,469,250 constinants 24,938,502 variables. which is the largest stochastic liner program ever solved. A closer look at the optimal decision reveals that the initial asset mix is more stable for larger models, demonstrating the potential benefits of the high performance computing approach of asset liability management.

Jacek Gondzio, Roy Kowwen Berg" "A study on Asset liability management in high performance computing.

According to M.I.Kusy and W.T.Ziemba "Asset Liability management" in managing its assets and liabilities is light of uncertainties in cash flows, cost of funds and return on investments, a bank must determine its optimal trade off between risk, return and liquidity. In this paper we develop a multi period stochastic linear programming model (ALM) that includes the essential institutional, legal, financial and bank-related policy considerations, and their uncertainties, yes is computationally tractable for realistically sized problems. A version of the model was developed for the vancocurer city savings credit union for a 5 years planning period. The results indicate that ALM is theoretically and operationally superior to a corresponding determined linear programming mode, and that the effort required for the implementation of ALM, and its computational requirement, are comparable to those of the deterministic model. Moreover, the qualitative characteristics of the solutions are sensitive to the models stochastic elements. Such as the asymmetry of cash flow distributions. We also compare ALM with the stochastic decision tree (SDT) model developed by S.P. Bradley and D.B. Crane. ALM is computationally more tractable on realistically sized problems than SDT and simulation results indicate that ALM generates superior policies.

According to Jerome Detemple and Marcel Rindisbacher

"Asset Liability management" in a dynamic asset allocation problem in the presence of liabilities is considered. The fund manager has ron Neumnn Morgestern preference with terminal utility function defined over the excess of expenditures over liability cash flows. Preferences incorporate a parameter controlling the tolerance for a shortfall in the funding ratio at the terminal date. The optimal asset allocation rule is derive and it sensitivity with respect to the parameters of the model is analyzed.

M.I.Kusy and W.T.Ziemba "A study on Asset Liability management" in bank.

Jerome Detemple and Marcel Rindisbacher "A study on Asset Liability management" in tolerance for limited short falls for the insurance mathematics and economics.

According to Laureano F.Eswde Araceli Gari Maria Meno and Gloria Perez. Liability management in we present a model for optimizing a mean-risk function of the terminal wealth for a fixed income asset portfolio restructuring with uncertainty in the interest rate path and the legalities along a given time horizon. Some logical constraints are considered to be satisfied by the assets portfolio. Uncertainly is represented by a scene tree and is dealt with by a multistage stochastic mixed 0-1 model with complete recourse. The problem is modelled as a splitting variable representation of the deterministic equivalent model for the stochastic model. Where the 0-1 variable and the continuous variables appear at any stage. A branch and fix coordination approach for the multistage 0-1+ program solving is proposed. Some computational experience is reported.

According to Noel Amenc, Lionel martellini, Vincent milhau, Volker Zeeman "Asset liability management" in the objective of this article is to shed light on the potential benefits of Asset liability management techniques. Originally developed for institutional money management in a private wealth management context. The authors show that much of the complexity of optimal asset allocation decisions for private investors can be captures through the addition of a single state variable liability value. Which account in a parsimonious way for investor's specific constraints and objectives. An asset liability management approach to private wealth managements has a direct impact on the selection of asset classes because it requires a consideration of the liability hedging properties of various asset classes that would, by definition, be absent from an asset only perspective. As asset-liability perspective also leads to the use of the liabilities portfolio as a bench mark or enumerative, acknowledging that for private investors, terminal wealth parses is not as important as the investor's ability to achieve goals, such as preparing the retirement or buying property.

F.Eswde Araceli Gari Maria Meno and Gloria Perez "A study on Asset Liability management" in multistage stochastic integer programming for incorporating logical constraints.

Noel Amenc, Lionel martellini, Vincent milhau, Volker Zeeman "A study on Asset Liability management" in private wealth management.

According to pingchen, Hailiang yang, Geroge yin "Asset liability management in this paper considers an asset liability management problem under a continuous time Markor regime switching model by adopting the technique of (2hour x y, yin G/2003. Markowitz's Mean variance portfolio selection with regime switching A continuous-time model. SI Am J.Control optim 42.1466-1452), we investigate the feasibility, obtain the optional strategy, delineate the efficient frontier, and establish the associated mutual fund theorem.

According to the Robert Deyoung and chirwon yom "Asset liability Management" in Traditional asset liability management techniques, limit bank's abilities to structure their balance sheets but more recently, financial innovations have allowed banks the chance using cannonica correlation analysis. We examine how the relationship between asset and liability accounts at U.S commercial banks that are intensive users of risk-mitigation strategies such as interest rate swaps and adjustable loans. Perhaps surprisingly, we find that Asset liability linkages are stronger at large banks than at small banks, although these size-based have diminished overtime, both because of increased asset liability linkages at small banks and decreased linkages at large banks.

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pingchen, Hailiang yang, Geroge "A study on Asset Liability management" in regime switching on Markowitz's Mean-variance.

Robert Deyoung and chirwon yom "A study on Asset Liability management" on the independence of the Evidence from U.S commercial banks.

CHAPTER 3

RESEARCH METHODOLOGY

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Research design:

The research design adopted in the study is descriptive in nature as the information used is the existing data. Descriptive statistics tell what is, while inferential statistics try to determine cause and effect. Descriptive research involves gathering data that describe events and then organizes, tabulates, depicts, and describes the data collection

Descriptive research is used to obtain information concerning the current status of the phenomena.

3.2 Method of data collection:

The data used for the study are secondary in nature.

The information was taken from the company's annual reports, accounting records and websites.

The data is collected over the period of last ten years for 2006-2010.

3.3 Tools used:

To analyze the data, the statistical tool is used.

Statistical tools:

- CAMEL analysis.
- Correlation.
- Regression.

Capital adequacy ratio:

The objective of the capital adequacy analysis is to measure the financial solvency.

Asset quality:

The analysis of asset quality is divided into three components: portfolio quality, portfolio classification system, and fixed assets.

Management:

Management's five qualitative indicators make up this area of analysis: governance, human resources, processes, controls, and audit.

Earnings:

Earnings include adjusted return on equity, operational efficiency, adjusted return on assets, and interest rate policy.

Liability:

Indicators in this area are liability structure, availability of funds to meet credit, demand, cash flow projections, and productivity of other current assets.

3.4 Limitations of the study:

1. The study has the following limitations.
2. The analysis has been done based on the published financial statements of the companies. The limitation of the financial statement will also apply to interpretation of the study.
3. The interpretation of the study was based on the past data changes in price structures and market situations, which also can affect the accuracy of the interpretations.

CHAPTER 4

THEORETICAL BACK GROUND

CAMEL ANALYSIS:

The acronym "CAMEL" refers to the five components of a bank's condition that are assessed.

CAMEL is basically a ratio-based model for evaluating the performance of banks.

4.1 C-capital adequacy:

Capital Adequacy Ratio (CAR) is a ratio that regulators in the banking system use to watch bank's health, specifically bank's capital to its risk. Regulators in the banking system track a bank's CAR to ensure that it can absorb a reasonable amount of loss. Regulators in most countries define and monitor CAR to protect depositors, thereby maintaining confidence in the banking system.

Capital adequacy ratio is the ratio which determines the capacity of a bank in terms of meeting the time liabilities and other risk such as credit risk, market risk, operational risk, and others. It is a measure of how much capital is used to support the banks' risk assets. It comprises followings,

a) Debt-equity ratio.
b) Ratio of net worth to total asset.
c) Ratio of total advance to total asset.
d) Ratio of security to total investments.

a) Debt- equity ratio:

This ratio indicates the degree of leverage of a bank. It indicates how much of the bank business is financed through debt and how much through equity. This is calculated as the proportion of total asset liability to net worth. 'Outside liability' includes total borrowing, deposits and other liabilities. 'Net worth' includes equity capital and reserve and surplus. Higher the ratio indicates less protection for the creditors and depositors in the banking system.

$$\text{Debt equity ratio} = \frac{\text{Total debt}}{\text{Net worth}}$$

b) Ratio of net worth to total asset:

The net worth of a firm, also known as owner's equity or net assets is the total assets minus total liabilities. This ratio relates the shareholder's funds to total assets. It indicates the long-term or future solvency position of the business.

$$\text{Ratio of net worth to total asset} = \frac{\text{Net worth}}{\text{Total asset.}}$$

c) Ratio of total advance to total asset:

This is the ratio of the total advanced to total asset. This ratio indicates banks aggressiveness in lending which ultimately results in better profitability. Higher ratio of advances of bank deposits (assets) is preferred to a lower one. Total advances also include receivables. The value of total assets is excluding the revolution of all the assets.

$$\text{Ratio of total advance to total asset} = \frac{\text{Total advance}}{\text{Total asset}}$$

d) Ratio of securities to total investment:

The percentage of investment in government securities to total investment is a very important indicator, which shows the risk taking ability of the bank. It indicates a bank's strategy as being high profit high risk or low profit low risk. It also gives a view as to the availability of alternative investment opportunities. Government securities are generally considered as the most safe debt instrument, which, as a result, carries the lowest return. Since government securities are risk free, the higher the government security to investment ratio, the lower the risk involved in a bank's investments.

$$\text{Ratio of securities to total investment} = \frac{\text{Securities}}{\text{Total investment.}}$$

4.2 A- Asset quality:

Asset quality determines the healthiness of financial institutions against loss of value in the assets. The weakening value of assets, being prime source of banking problems, directly pour into other areas, as losses are eventually written-off against capital, which ultimately expose the earning capacity of the institution. With this backdrop. the asset quality is gauged in relation to the level and severity of non-performing assets, adequacy of provisions, recoveries, distribution of assets etc. Popular indicators include non performing loans to advances, loan default to total advances, and receveries to loan default ratios. The solvency of financial institutions typically is at risk when their assets become impaired, so it is important to monitor indicators of the quality of their assets in terms of over exposure to specific risks, trends in nonperforming loans, and the health and profitability of bank borrowers— especially the corporate sector. It comprises the

e) Ratio of market value to book value.

f) Gross NPA.

g) Net NPA.

e) Ratio of market value to book value:

The Market-to-Book Ratio relates the firm's market value per share to its book value per share. Since a firm's book value reflects historical cost accounting, this ratio indicates management's success in creating value for its stockholders. This ratio is used by "value-based investors" to help to identify undervalued stocks.

$$\text{Market to book ratio} = \frac{\text{Market value per share}}{\text{Book value per share}}$$

f) Gross NPA:

This ratio is used to check whether the bank's gross NPAs are increasing quarter on quarter or year on year. If it is, indicating that the bank is adding a fresh stock of bad loans. It would mean the bank is either not exercising enough caution when offering loans in terms of following up with borrowers on timely repayments.

$$\text{Gross NPA} = \frac{\text{Gross NPA}}{\text{Total loan}}$$

g) Net NPA:

Net NPAs reflect the performance of banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and also wear down the value of the asset. Loans and advances usually represent the largest asset of most of the banks. It monitors the quality of the bank's loan

$$\text{Net NPA} = \frac{\text{Net NPA}}{\text{Total loan}}$$

4.3 M-Management quality:

Management of financial institution is generally evaluated in terms of capital adequacy, asset quality, earnings and profitability, liquidity and risk sensitivity ratings. In addition, performance evaluation includes compliance with set norms, ability to plan and react to changing circumstances, technical competence, leadership and administrative ability. Sound management is one of the most important factors behind financial institutions' performance. Indicators of quality of management, however, are primarily applicable to individual institutions, and cannot be easily aggregated across the sector. Furthermore, given the qualitative nature of management, it is difficult to judge its soundness just by looking at financial accounts of the banks. Nevertheless, total advance to total deposit, business per employee and profit per employee helps in gauging the management quality of the banking institutions. Several indicators, however, can jointly serve—as, for instance, efficiency measures do—as an indicator of management soundness. It comprises the followings,

h) Asset turnover ratio.

i) Ratio of earning asset to total asset.

j) Ratio of total advance to total deposit.

h) Asset turnover ratio:

It is a measure of how efficiently a company uses its assets to generate sales. The ratio is computed by dividing net sales by the company's total assets. It is a measure of the rupees of sales generated by Rs. 1 of the firm's assets. Generally, the more efficiently assets are used, the higher a firm's profits. The size of the ratio is significantly influenced by characteristics of the industry within which the firm

$$\text{Total assets turnover ratio} = \frac{\text{Sales}}{\text{Total assets}}$$

i) Ratio of earning asset to total asset:

It is the ratio between the assets which generate income for the business to total assets owned by the business. If the ratio is higher, that shows business is in good position.

$$\text{Ratio of earning asset to total asset} = \frac{\text{Earning asset}}{\text{Total asset}}$$

j) Ratio of total advance to total deposit:

This ratio measures the efficiency and ability of the banks management in converting the deposits available with the banks (excluding other funds like equity capital, etc.) into high earning advances. Total deposits include demand deposits, saving deposits, term deposit and deposit of other bank. Total advances also include the receivables.

$$\text{Total advance to total deposit ratio} = \frac{\text{Total advance}}{\text{Total deposit}}$$

4.4 E-Earning ability:

Earnings and profitability, the prime source of increase in capital base, is examined with regards to interest rate policies and adequacy of provisioning. In addition, it also helps to support present and future operations of the institutions. The single best indicator used to gauge earning is the Return on Assets (ROA), which is net income after taxes to total asse ratio.

ability profile of banks reflects the ability to support preser

finance its expansion, pay dividends to its shareholders, and build up an adequate level of capital. Being front line of defence against erosion of capital base from losses, the need for high earnings and profitability can hardly be overemphasized. Although different indicators aroused to serve the purpose, the best and most widely used indicator is Return on Assets (ROA).However, for in-depth analysis, another indicator Interest Income to Total Income another income to Total Income is also in used. Compared with most other indicators. trends in profitability can be more difficult to interpret—for instance, unusually high profitability can reflect excessive risk taking. The following ratios try to assess the quality of income interms of income generated by core activity – income from landing operations. It comprises the followings,

k) Return on asset.

l) Return on equity.

m) Ratio of operating profit to average working fund.

k) Return on asset:

Net profit to total asset indicates the efficiency of the banks in utilizing their assets in generating profits. A higher ratio indicates the better income generating capacity of the assets and better efficiency of management in future. An indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings.

$$\text{Return on asset} = \frac{\text{Net profit}}{\text{Total asset}}$$

l) Return on equity:

The return on equity measures the return that shareholders earned on their equity invested in the firm. The return on equity is measured as the firm's net income divided by stockholder's equity. It is the rate of return that owners receive on their investment.

$$ROE = \frac{\text{Earnings after tax}}{\text{Net worth}}$$

m) Ratio of operating profit to average working fund:

This ratio indicates how much a bank can earn from its operations net of the operating expenses for every rupee spent on working funds. Average working funds are the total resources (total assets or total liabilities) employed by a bank. It is daily average of total assets/ liabilities during a year. The higher the ratio, the better it is. This ratio determines the operating profits generated out of working fund employed. The better utilization of the funds will result in higher operating profits. Thus, this ratio will indicate how a bank has employed its working funds in generating profits.

$$\text{Operating profit to average working fund ratio} = \frac{\text{Operating profit}}{\text{Average working}}$$

4.5 L-Liquidity position:

An adequate liquidity position refers to a situation, where institution can obtain sufficient funds, either by increasing liabilities or by converting its assets quickly at a reasonable cost. It is, therefore, generally assessed in terms of overall assets and liability management, as mismatching gives rise to liquidity risk. Efficient fund management refers to a situation where a spread between rate sensitive assets (RSA) and rate sensitive

exposure is the Gap between RSA and RSL, while liquidity is gauged by liquid to total asset ratio. Initially solvent financial institutions may be driven toward closure by poor management of short-term liquidity. Indicators should cover funding sources and capture large maturity mismatches. The term liquidity is used in various ways, all relating to availability of, access to, or convertibility into cash. An institution is said to have liquidity if it can easily meet its needs for cash either because it has cash on hand or can otherwise raise or borrow cash. A market is said to be liquid if the instruments it trades can easily be bought or sold in quantity with little impact on market prices. An asset is said to be liquid if the market for that asset is liquid. The common theme in all three contexts is cash. A corporation is liquid if it has ready access to cash. A market is liquid if participants can easily convert positions into cash— or conversely. An asset is liquid if it can easily be converted to cash. It comprises the followings,

n) Ratio of liquid asset to total asset.

o) Ratio of securities to total asset.

n) Ratio of liquid asset to total asset:

Liquidity for a bank means the ability to meet its financial obligations as they come due. Bank lending finances investments in relatively illiquid assets, but it fund its loans with mostly short term liabilities. Thus one of the main challenges to a bank is ensuring its own liquidity under all reasonable conditions. Liquid assets include cash in hand, balance with the RBI, balance with other banks (both in India and abroad), and money at call and short notice. Total asset include the revaluations of all the assets. The proportion of liquid asset to total asset indicates the overall liquidity position of the bank.

$$\text{Liquid asset to total asset ratio} = \frac{\text{Liquid asset}}{\text{Total asset}}$$

o) Ratio of securities to total asset:

Government Securities are the most liquid and safe investments. This ratio measures the government securities as a proportion of total assets. Banks invest in government securities primarily to meet their SLR requirements, which are around 25% of net demand and time liabilities. This ratio measures the risk involved in the assets hand by a bank.

$$\text{Securities to total asset ratio} = \frac{\text{Securities}}{\text{Total asset}}$$

4.6 Correlation:

Correlation is a statistical tool that helps to measure and analyze the degree of relationship between two variables. Correlation analysis deals with the association between two or more variables.

Correlation denotes the interdependency among the variables for correlating two phenomenons, it is essential that the two phenomenons should have cause-effect relationship, & if such relationship does not exist then the two phenomenons cannot be correlated.

If two variables vary in such a way that movement in one are accompanied by movement in other, these variables are called cause and effect relationship.

Significance of correlation:

1. Most of the variables show some kind of relationship. For instance, there is relationship between price and supply, income and expenditure etc. With the help of correlation analysis we can measure in one figure the degree of relationship.

2. Once we know that two variables are closely related, we can estimate the value o

3. Correlation analysis contributes to the understanding of economic behavior, aids in locating the critically important variables on which others depend.

4. Progressive development in the methods of science and philosophy has been characterized by increase in the knowledge of relationship. In nature also one finds multiplicity of interrelated forces.

5. The effect of correlation is to reduce the range of uncertainty. The prediction based on correlation analysis is likely to be more variable and near to reality.

Karl Pearson co-efficient of correlation:

To compare and find the relationship between the variables, Karl Pearson method is used. Here simple correlation is used and measured by Karl Pearson co-efficient.

Pearson's correlation reflects the degree of linear relationship between two variables. It ranges from +1 to -1. A correlation of +1 means that there is a perfect positive linear relationship between variables. A correlation of -1 means that there is a perfect negative linear relationship between variables. A correlation of 0 means there is no linear relationship between the two variables. Correlations are rarely if ever 0, 1, or -1. If you get a certain outcome it could indicate whether correlations were negative or positive.

Mathematical Formula:--

The quantity r, called the linear correlation coefficient, measures the strength and the direction of a linear relationship between two variables. The linear correlation coefficient is sometimes referred to as the Pearson product moment correlation coefficient in honour of its developer Karl Pearson.

$$r = \frac{\sum XY - \frac{\sum X \sum Y}{N}}{\sqrt{\left(\sum X^2 - \frac{(\sum X)^2}{N}\right)\left(\sum Y^2 - \frac{(\sum Y)^2}{N}\right)}}$$

$\sum X$= sum of the independent variables (investment)

...stent variables (collections)

$\sum X^2$ = sum of the independent variables (investment)

$\sum Y^2$ = sum of the independent variables (investment)

N = number of values

4.7 Regression:

Definition:

A statistical measure that attempts to determine the strength of the relationship between one dependent variable (usually denoted by Y) and a series of other changing variables (known as independent variables).

Regression analysis:

Given a data set $\{y_i,\ x_{i1}, \ldots, x_{ip}\}_{i=1}^{n}$ of n statistical units, a linear regression model assumes that the relationship between the dependent variable y_i and the p-vector of regressors x_i is linear. This relationship is modelled through a disturbance term or error variable ε_i — an unobserved random variable that adds noise to the linear relationship between the dependent variable and regressors. Thus the model takes the form

$$y_i = \beta_1 x_{i1} + \cdots + \beta_p x_{ip} + \varepsilon_i = \mathbf{x}_i^{\mathrm{T}}\boldsymbol{\beta} + \varepsilon_i, \qquad i = 1, \ldots, n,$$

where $^{\mathrm{T}}$ denotes the transpose, so that xiTβ is the inner product between vectors ***xi*** and ***β***.

Often these n equations are stacked together and written in vector form as

$$\mathbf{y} = \mathbf{X}\boldsymbol{\beta} + \boldsymbol{\varepsilon},$$

Where

$$y = \begin{pmatrix} y_1 \\ y_2 \\ \vdots \\ y_n \end{pmatrix}, \quad \mathbf{X} = \begin{pmatrix} \mathbf{x}_1^{\mathrm{T}} \\ \mathbf{x}_2^{\mathrm{T}} \\ \vdots \\ \mathbf{x}_n^{\mathrm{T}} \end{pmatrix} = \begin{pmatrix} x_{11} & \cdots & x_{1p} \\ x_{21} & \cdots & x_{2p} \\ \vdots & \ddots & \vdots \\ x_{n1} & \cdots & x_{np} \end{pmatrix}, \quad \boldsymbol{\beta} = \begin{pmatrix} \beta_1 \\ \vdots \\ \beta_p \end{pmatrix}, \quad \boldsymbol{\varepsilon} = \begin{pmatrix} \varepsilon_1 \\ \varepsilon_2 \\ \vdots \\ \varepsilon_n \end{pmatrix}.$$

CHAPTER 5

ANALYSIS AND INTERPRETATION

CHAPTER 5

DATA ANALYSIS AND INTERPRETATIONS

5.1 CAMEL Analysis:

Capital Adequacy Ratio:

Debt-Equity ratio:

Table no: 5.1.1

Table showing the Debt-Equity ratio of The Sakthi Finance Limited.

Amt in Rs. Cr

Year	Total debt	Networth	Ratio
2005-2006	161.26	51.88	3.10
2006-2007	181.06	53.90	3.36
2007-2008	239.10	55.77	4.28
2008-2009	330.78	65.13	5.07
2009-2010	425.41	76.42	5.56

Source: Secondary data

Interpretation:

The debt-equity ratio of The Sakthi Finance Limited was increasing in the last five years. It has maintained the lower ratio in the year 2005-2006.

It has maintained the ratio 3.10 in that year. It shows that there was decreasing in current liability.

The firm has maintained the higher ratio in the year 2009-2010. It has maintained the ratio 5.56 in that year. It shows that there was increasing in reserves and surplus.

There was continuous increasing in reserves and surplus between the years 2005-2010.

Ratio of net worth to total asset:

Table no: 5.1.2

Table showing the net worth to total asset ratio of The Sakthi Finance Limited.

Amt in Rs. Cr

Year	Networth	Total asset	Ratio
2005-2006	51.88	213.14	0.24
2006-2007	53.90	234.97	0.17
2007-2008	55.77	294.87	0.15
2008-2009	65.13	395.91	0.16
2009-2010	76.42	501.81	0.19

Source: Secondary data

Interpretation:

The ratio of net worth to total asset of The Sakthi Finance Limited was fluctuating in the last five years. It has maintained the lower ratio in the year 2007-2008.

It has maintained the ratio 0.15 in that year. It shows that there was normal increase in net worth and abnormal increase in total asset.

The firm has maintained the higher ratio in the year 2005-2006. It has maintained the ratio 0.24 in that year. It shows that there was normal increase in net worth and normal decrease in total asset.

Ratio of total advance to total asset:

Table no: 5.1.3

Table showing the Ratio of total advance to total asset of The Sakthi Finance Limited.

Amt in Rs. Cr

Year	Total advance	Total asset	Ratio
2005-2006	26.41	213.14	0.12
2006-2007	23.74	234.97	0.10
2007-2008	29.42	294.87	0.09
2008-2009	29.45	395.91	0.07
2009-2010	28.42	501.81	0.05

Source: Secondary data

Interpretation:

The ratio of total advance to total asset The Sakthi Finance Limited was decreasing in the last five years. It has maintained the lower ratio in the year 2009-2010.

It has maintained the ratio 0.05 in that year. It shows that the capital was not managed properly.

The firm has maintained the higher ratio in the year 2005-2006. It has maintained the ratio 0.12 in that year.

Between the years 2005-2010, the capital was not managed properly.

Ratio of security to total investments:

Table no: 5.1.4

Table showing the Ratio of security to total investments The Sakthi Finance Limited.

Amt in Rs. Cr

Year	Security	Total investments	Ratio
2005-2006	14.50	17.6	0.82
2006-2007	12.41	15.32	0.81
2007-2008	11.13	13.93	0.80
2008-2009	10.01	12.81	0.78
2009-2010	9.02	11.82	0.76

Interpretation:

The ratio of securities to total investment of The Sakthi Finance Limited was decreasing in the last five years. It has maintained the lower ratio in the year 2009-2010.

It has maintained the ratio 0.76 in that year. It shows that the quick fund of bank which is difficult to convert in to cash at any point of time.

The firm has maintained the higher ratio in the year 2005-2006. It has maintained the ratio 0.82 in that year.

Between the years 2005-2010, the quick fund of the bank which is difficult to convert in to cash at any point of time.

Asset quality:

Ratio of market value to book value:

Table no: 5.1.5

Table showing the Ratio of market value to book value of The Sakthi Finance Limited.

Amt in Rs. Cr

Year	Market value	Book value	Ratio
2005-2006	16.84	15.06	1.12
2006-2007	14.75	12.58	1.17
2007-2008	13.16	13.55	0.97
2008-2009	11.36	12.42	0.94
2009-2010	11.37	11.44	0.99

Source: Secondary data

Interpretation:

The ratio of market value to book value of The Sakthi Finance Limited was decreasing in the last five years. It has maintained the lower ratio in the year 2008-2009.

It has maintained the 0.94 in that year.

The firm has maintained the higher ratio in the year 2005-2006. It has maintained the ratio 1.12 in that year.

But in the year 2009-2010 the ratio was 0.99 which is high when compared to the previous year 2008-2009.

Gross NPA:

Table no: 5.1.6

Table showing the Goss NPAof The Sakthi Finance Limited.

Amt in Rs. Cr

Year	Gross NPA	Total advance	Ratio
2005-2006	3.09	21.23	0.15
2006-2007	2.33	23.74	0.09
2007-2008	2.19	29.42	0.07
2008-2009	2.79	29.45	0.09
2009-2010	3.47	28.42	0.12

Source: Secondary data

Interpretation:

The gross NPA of the Sakthi Finance Limited was fluctuating in the last five years. It has maintained the lower ratio in the year 2007-2008.

It has maintained the ratio 0.07 in that year. It shows that the bank was performing well and it was able to recover its debt.

The firm has maintained the higher ratio in the year 2005-2006. It has maintained the ratio 0.15 in that year.

Net NPA:

Table no: 5.1.7

Table showing the Net NPA of The Sakthi Finance Limited.

Amt in Rs. Cr

Year	net NPA	Total advance	Ratio
2005-2006	0.96	21.13	0.05
2006-2007	1.27	23.74	0.05
2007-2008	1.13	29.42	0.03
2008-2009	1.28	29.45	0.04
2009-2010	2.04	28.42	0.07

Source: Secondary data

Interpretation:

The net NPA of the Sakthi Finance Limited was fluctuating in the last five years. It has maintained the lower ratio in the year 2007-2008.

It has maintained the ratio 0.05 in that year.

The firm has maintained the higher ratio in the year 2009-2010. It has maintained the ratio 0.07 in that year. It shows that the bank's asset quality was best.

Management:

Asset turnover ratio:

Table no: 5.1.8

Table showing the asset turnover ratio of The Sakthi Finance Limited.

Amt in Rs. Cr

Year	Sales	Total asset	Ratio
2005-2006	27.13	213.14	0.13
2006-2007	31.79	234.97	0.31
2007-2008	40.79	294.87	0.14
2008-2009	56.60	395.91	0.14
2009-2010	78.50	501.81	0.15

Source: Secondary data

Interpretation:

The asset turnover ratio of The Sakthi Finance Limited was fluctuating in the last five years. It has maintained the lower ratio between the years 2007-2009.

It has maintained the ratio 0.14 in those years.

The firm has maintained the higher ratio in the year 2006-2007. It has maintained the ratio 0.31 in that year. It shows that the firm's efficiency in using its asset to generate the high revenue.

Ratio of earning asset to total advance:

Table no: 5.1.9

Table showing the earning asset to total asset ratio of The Sakthi Finance Limited.

Amt in Rs. Cr

Year	Earning asset	Total asset	Ratio
2005-2006	178.86	213.14	0.84
2006-2007	196.37	234.97	0.83
2007-2008	253.04	294.87	0.85
2008-2009	343.59	395.91	0.86
2009-2010	437.23	501.81	0.87

Source: Secondary data

Interpretation:

The ratio of earning asset to total asset of The Sakthi Finance Limited was fluctuating in the last five years. It has maintained the lower ratio in the 2006-2007.

It has maintained the ratio 0.83in that year.

The firm has maintained the higher ratio in the year 2009-2010.

It has maintained the ratio 0.87 in that year.

Ratio of total advance to total deposit:

Table no: 5.1.10

Table showing the Ratio of total advance to total deposit of The Sakthi Finance Limited.

Amt in Rs. Cr

Year	Total advance	Total deposit	Ratio
2005-2006	21.23	81.71	0.26
2006-2007	23.74	81.86	0.29
2007-2008	29.42	64.36	0.46
2008-2009	29.45	36.92	0.80
2009-2010	28.42	52.39	0.54

Source: Secondary data

Interpretation:

The ratio of total advance to total deposit of The Sakthi Finance Limited was increasing in the last five years. It has maintained the lower ratio in the year 2005-2006.

It has maintained the ratio 0.26 in that year. It shows that the firm has fewer amounts of liquid cash to meet its withdrawals.

The firm has maintained the higher ratio in the year 2008-2009. It has maintained the ratio 0.80 in that year.

But in the 2009-2010 the ratio (0.54) is less when compared to the previous year 2008

Efficiency:

Return on asset:

Table no: 5.1.11

Table showing the return on asset of The Sakthi Finance Limited.

Amt in Rs. Cr

Year	Net after tax	Total asset	Ratio
2005-2006	0.96	213.14	0.005
2006-2007	3.16	234.97	0.013
2007-2008	3.26	294.87	0.011
2008-2009	5.21	395.91	0.013
2009-2010	6.28	501.81	0.012

Source: Secondary data

Interpretation:

The return on ratio of The Sakthi Finance Limited was fluctuating in the last five years. It has maintained the lower ratio in the year 2005-2006.

It has maintained the ratio 0.005 in that year.

The firm has maintained the higher ratio in the year 2006-2007 and 2008-2009.

It has maintained the ratio 0.13 in those years.

Return on equity:

Table no: 5.1.12

Table showing the return on equity of The Sakthi Finance Limited.

Amt in Rs. Cr

Year	Net after tax	Equity share fund	Ratio
2005-2006	0.96	51.88	0.02
2006-2007	3.16	53.91	0.06
2007-2008	3.26	55.77	0.06
2008-2009	5.21	65.13	0.08
2009-2010	6.28	76.42	0.08

Source: Secondary data

Interpretation:

"The ratio measures the return that shareholders earned on their equity invested in the firm."

The return on equity ratio of The Sakthi Finance Limited was increasing in the last five years. It has maintained the lower ratio in the year 2005-2006.

It has maintained the ratio 0.02 in that year.

The firm has maintained the higher ratio in the year 2008-2010. It has maintained the

Ratio of operating profit to average working fund:

Table no: 5.1.13

Table showing the Ratio of operating profit to average working fund of The Sakth Finance Limited.

Amt in Rs. Cr

Year	Operating profit	Average working fund	Ratio
2005-2006	19.48	41.58	0.46
2006-2007	20.36	38.39	0.53
2007-2008	27.18	38.46	0.70
2008-2009	43.45	41.74	1.04
2009-2010	61.69	41.03	1.50

Source: Secondary data

Interpretation:

The ratio of operating profit to average working fund of The Sakthi Finance Limited was increasing in the last five years. It has maintained the lower ratio in the year 2005-2006.

It has maintained the ratio 0.46 in that year. It shows that there was decreasing in profitability.

The firm has maintained the higher ratio in the year 2009-2010. It has maintained the ratio 1.50 in that year. It shows that there was increasing in profitability.

Liquidity:

Ratio of liquid asset to total asset:

Table no: 5.1.14

Table showing the Ratio of liquid asset to total asset of The Sakthi Finance Limited.

Amt in Rs. Cr

Year	Liquid asset	Total asset	Ratio
2005-2006	7.39	213.14	0.03
2006-2007	9.99	234.97	0.04
2007-2008	13.95	294.87	0.04
2008-2009	15.03	395.91	0.05
2009-2010	24.51	501.81	0.06

Source: Secondary data

Interpretation:

The liquid to total asset ratio of The Sakthi Finance Limited was increasing in the last five years. It has maintained the lower ratio in the year 2005-2006.

It has maintained the ratio 0.03in that year. It shows that there was decreasing liquidity of the bank.

The firm has maintained the higher ratio in the year 2009-2010. It has maintained the ratio 0.06 in that year. It shows that there was better liquidity in the bank.

Ratio of securities to total asset:

Table no: 5.1.15

Table showing the Ratio of securities to total asset of The Sakthi Finance Limited.

Amt in Rs. Cr

Year	Securities	Total asset	Ratio
2005-2006	14.50	213.14	0.07
2006-2007	12.41	234.97	0.052
2007-2008	11.13	294.87	0.037
2008-2009	10.01	395.91	0.025
2009-2010	9.02	501.81	0.018

Source: Secondary data

Interpretation:

The ratio of securities to total asset of The Sakthi Finance Limited was fluctuating in the last five years. It has maintained the lower ratio in the year 2009-2010.

It has maintained the ratio 0.18 in that year. It shows that the quick asset of the bank which was difficult to encashed easily.

The firm has maintained the higher ratio in the year 2006-2007. It has maintained the ratio 0.052 in that year.

5.2 Karl Pearson co-efficient of correlation:

Table no: 5.2.1

Table showing the Karl pearson co-efficient of The Sakthi Finance Limited.

Year	Liquidity risk (X)	Credit risk (Y)	x	y	x2	y2	xy
2005-2006	10	76	-19.4	-5	373.36	25	97
2006-2007	15	77	-14.4	-4	207.36	16	57.6
2007-2008	24	81	-5.4	0	29.16	0	0
2008-2009	47	84	17.6	3	309.76	9	52.8
2009-2010	51	85	21.6	4	466.56	16	86.4
Total	29.4	81	0	-2	1386.2	66	293.8

$$r = \frac{\sum XY - \frac{\sum X \sum Y}{N}}{\sqrt{(\sum X^2 - \frac{(\sum X)^2}{N})(\sum Y^2 - \frac{(\sum Y)^2}{N})}}$$

r = 0.9713

Interpretation:

A correlation will always between +1 to -1. If the correlation is positive, then it has positive relationship. If it is negative, then the relationship is negative. Here the correlation

5.2 Regression analysis:

Table no: 5.2.2

Table showing the Regression of The Sakthi Finance Limited.

Variables	Co-efficients	Standard error	T-test	Significant level
(constant)	-44.3883	2.744	-0.667	0.951018
Liquid asset	3.005998	0.388997	7.727553	0.004506
Fixed asset	1.843958	0.147267	12.52119	0.001098
Investments	-8.46376	2.205033	-3.83838	0.031183
Total deposit	-0.85155	0.387366	-2.19831	0.115354
Loans & advances	4.013153	1.767552	2.270458	0.107873

Source: Secondary data

Independent variable:

Liquid asset

Fixed asset

Investments

Total deposits

Loans & advances

Dependent variable:

Operating income

Interpretation:

All assets have a position relation in generating the profit for the year with t exception of investment and total deposit which is found to be negative. Total deposit w decreasing year by year. This shows that the firm has fewer amounts of liquid cash to me its cash withdrawals. Total deposit and investment shows a negative relationship to t profits generated by the bank.

Variables	Co-efficients	Standard error	T-test	Significant leve
(constant)				
Liquid asset	-0.00298252	0.00414	-0.720377018	0.523349279
Fixed asset	-0.00752843	0.050607	-0.148578745	0.891311274
Investments	-0.02003443	0.017164	-1.1672115602	0.327461312
Total deposit	0.03764683	0.027117	1.38835152	0.259170465
Loans & advances	-0.0637678	0.046028	-1.388419757	0.259960724

Source: Secondary data

Independent variable:

Liquid risk

Capital risk

Credit risk

Investment/total asset

Fixed asset

Dependent variable:

Return on asset

Interpretation:

Investment/total asset has a positive relationship with return on asset. Liquidity risk, capital risk, credit risk, fixed asset have negative impact on the profit by the bank.

CHAPTER 6

Findings & Conclusion

CHAPTER 6

CONCLUSION

6.1 Results and discussions:

CAMEL analysis:

C- Capital adequacy ratio:

It is found that the debt-equity ratio of The Sakthi Finance Limited was high in all five years especially in the year 2009-2010 i.e., 5.56. It represents higher the ratio indicates less protection for the creditors and depositors in the banking system.

It is found that the net worth to total asset ratio of The Sakthi Finance Limited was decreasing in all five years especially in the year 2007-2008 i.e., 0.15. It represents the lower the ratio the higher amount of debt that institution has.

It is found that the total advance to total asset ratio of The Sakthi Finance Limited was low in all five years especial in the year 2009-2010 i.e., 0.05. It represents the lower the ratio indicates the bank's lending results in lower profitability.

It is found that the securities to total asset ratio of The Sakthi Finance Limited was decreasing in all five years especially in the year 2009-2010 i.e., 0.76. It represents the lower the ratio indicates the higher the risk involved in bank's investments.

A-Asset quality:

It is found that the market to book value ratio of The Sakthi Finance Limited was low in all five years especially in the year 2008-2009 i.e., 0.94. It represents that the management's responsibility in creating value for its stock holders.

It is found that the gross NPA ratio of The Sakthi Finance Limited was fluctuating in all five years. It was low in the year 2007-2008 i.e., 0.007. It represents that the management has to avoid the stock of bad loans.

It is found that the net NPA ratio of The Sakthi Finance Limited was fluctuating in all five years. It was low in the year 2007-2008 i.e., 0.003. It represents that the managemen

M-Manangement:

It is found that the asset turnover ratio of The Sakthi Finance Limited was low in the al five year especially in the year 2008-2009 i.e., 0.14. It represents that the company's usage of asset is inefficient.

It is found that the earning asset to total asset ratio was fluctuating in all five years. I was low in the year 2006-2007 i.e., 0.83. It represents that the business is in not good position.

It is found that the total advance to total deposit ratio of The Sakthi Finance Limited was high in the all five years especially in the year 2008-2009 i.e., 0.80. It represents that the efficiency of company in conversion of deposits in to high earning advances.

E-Earning ability:

It is found that the return on asset ratio of The Sakthi Finance Limited was fluctuating in all the five years. It was high in the year 2008-2009 i.e., 0.013. It represents that the higher ratio indicates the better income generating capacity of the assets and better efficiency of management in future.

It is found that the return on equity ratio of The Sakthi Finance Limited was high in the all five years. It was high in the year 2008-2009 i.e., 0.08. It represents that the higher ratio indicates the the return that shareholders earned on their equity invested in the firm.

It is found that the operating profit to average working fund ratio of The Sakthi Finance Limited was high in all the five years especially in the year 2009-2010 i.e., 1.50. It represents that the higher ratio indicates the efficiency of bank's earnings from its operations net of the operating expenses for every rupee spent on working funds.

L-Liquidity:

It is found that the liquid asset to total asset ratio of The Sakthi Finance Limited was high in all the five years especially in the year 2009-2010 i.e., 0.06. It represents that the higher ratio indicates the overall liquidity position of the bank.

It is found that the securities to total asset ratio of The Sakthi Finance Limited was fluctuating in all the five years. It was high in the year 2006-2007 i.e., 0.52. It represents the higher ratio measures the risk involved in the assets hand by a bank.

Correlation:

It is found that the correlation i.e., r=0.9713. It represents that the mentioned variables have positive relationship.

Regression:

It is found that the total deposit was decreasing year by year. This shows that the firm has fewer amounts of liquid cash to meet its cash withdrawals.

6.2 Findings:

Based on capital adequacy ratio the financial solvency on The Sakthi Finance Limited is moderate.

Based on asset quality The Sakthi Finance Limited meets both the staffs and clients needs.

Based on management ratio The Sakthi Finance Limited plan is updated as needed and used in the decision-making process.

Based on earnings the ability of the institution to maintain and increase its net worth through earnings from operations is satisfactory.

Based on liability the liquidity position of The Sakthi Finance Limited is good.

6.3 Recommendations:

Company tries to increase the debt-equity ratio. It is important to realize that, if the rati is greater than 1, the majority of assets are financed through debt.

Company's net worth to total asset ratio was decreasing in all the five years. Higher th ratio or the share of shareholders in the total capital of the company better is the long-tern solvency position of the company. A low proprietary ratio will include greater risk to th creditors. So the company should increase the share of share holders in the total capital.

Total advance to the total asset was in decreasing trend. Company should maintain th bank loan and liquidity position at a same level.

Securities to the total investment were decreasing every year. It shows that it wa difficult to convert in to cash at any point of time. Company should try to increase th securities to total investment ratio.

The company should use the fixed assets effectively for increasing the Total Asse Turnover ratio

Return on asset was gone down every year. The company should try to use the asset i most profitable way.

Return on equity was good in all the five years. The company can try to increase th profit by increasing the sales to get efficient return.

Liquid asset to total asset ratio was high in all the five years. The company can try t increase the cash to get more solvency position.

6.4 Conclusion:

The Sakthi Finance Limited is playing a major role in the non banking financia industry, the firm in its growth stage which has its own strong customer and employe force in the last few years that drives the firm to achieve its vision.

On studying the asset liability management of The Sakthi Finance Limited for period of five years from 2006 to 2010, the study reveals that the management of asset an liability is generally satisfied. It could be concluded that the company is performing wel and has earned adequate return in last few years, but the company should take th following measures such as:

- Share holders' funds should be increased,
- It has to follow strict credit policy,
- Should increase the securities
- Try to use the assets in profitable way and
- Should enhance controlling measures to reduce cost of sales an operating expenses which would ultimately improve the financia position of the concern and helps to fetch more profit to the company i near future.

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