A Study on the Financial Performance of Kerala Financial Corporation

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Abstract

Finance is the nerve center and life of any business activity and is therefore present in every sphere of economic business life. Financial management has been regarded as an integral part of overall management. Financial analysis refers to the purpose of examining and evaluating the financial results of operations (i.e., the performance) of a business enterprise. In other words, financial analysis is an in-depth study of a firm's financial position and its financial performance over a period of time. Financial Statements which in fact reflect a firm's financial position and performance. And a better underwriting of the financial condition and performance of a firm would lead to study and evaluation of relationships between component part of these financial statements. Kerala Financial Corporation (KFC) incorporated under the State Financial Corporation Act of 1951 is a trend setter and path breaker in the field of long term finance, playing an important role in development and industrialization of Kerala. The corporation is the first PSU in Kerala and first SFC in India in order to initiate corporate social responsibility, KFC has set up KFC-CARE (Kerala Financial Corporation- Centre for Assistance and Rehabilitation) to rehabilitate and serve the poor sections of the society. The Corporation has now emerged as a financial supermarket for providing the customers a wide range of products and services. The Corporation is one of the best State Financial Corporations in the Country with a competent team of professional at the core of services. Corporation also provides Working Capital Finance and Short Term Finance apart from schemes focused on the weaker sections of the society. The main objective of KFC is the rapid industrialization of the state by extending financial assistance to Micro, Small and medium Enterprises established under manufacturing and service sector. SFCs Act empowers KFC to form suitable loan schemes for gaining the above said objectives. Corporation can give financial assistance for establishing new units and for the expansion modernization /diversification of existing units in both manufacturing and service sectors.
KEYWORDS: Financial management, Financial analysis Financial statement, Kerala financial corporation, corporate social responsibility, industrialization, State Financial Corporation

INTRODUCTION

Kerala Financial Corporation (KFC) incorporated under the State Financial Corporation Act 1951 is a trend setter and path breaker in the field of long term finance, playing an important role in development and industrialization of Kerala. It was formed as the Travancore Cochin Financial Corporation on 01.12.1953. In November 1956 Kerala state was formed and the Travancore Cochin Financial Corporation renamed as Kerala Financial Corporation (KFC). The corporation is the first PSU in Kerala and first SFC in India to introduce corporate social responsibility. KFC has set up KFC-CARE

(Kerala Financial Corporation- Centre for Assistance and Rehabilitation) to rehabilitate and serve the poor sections of the society. The main objective of KFC is the rapid industrialization of the state by providing financial assistance to Micro. Small and medium Enterprises in manufacturing and service sector. The Corporation has now established as a financial supermarket giving the customers a wide range of products and services. The Corporation is one of the best State Financial Corporations in the Country with a competent team of professional at the core of services. Financial analysis can be defined as a process of selecting, classifying, comparing important data and information and establishing significant relationships among various items relating to financial position and performance of an enterprise and drawing proper conclusions from them. The study concentrated on analyzing the financial statements and reports of KFC.

Review of literature

Sheela Christina (2011) carried out a study on the Financial Performance of Wheels India Limited-Chennai. The study deals with Analytical type of research with the help of secondary data. For this purpose the researcher took past five years' data and also confirmed the validity and reliability before conducting the study. The researcher used the financial tool namely ratio analysis, comparative balance sheet, DuPont analysis and also statistical tools such as trend analysis and correlation. Profitability ratios shows that, there is a decrease in the profit level, utilization of fixed assets and working capital in the last financial year. Thus the company can take necessary steps to improve sales and profit. Finally, the study reveals that the financial performance is so far satisfactory.

Kirca Ahmet (2011) focuses a study on the Firm-Specific Assets, Multinationality and Financial Performance - A Meta-Analytic Review and Theoretical Integration. The meta analysis were used at 220 independent samples and examines the predictions of internalization theory in the context of the multinationality and performance relationship. The findings indicate that multinationality provides an efficient organizational form that enables firms to transfer their firm-specific assets to create higher returns in international markets. In addition, the results considers the conditions under which firm-specific assets have the strongest impact on the multinationality and performance relationship. Meta-analytic evidence also suggests that multinationality has intrinsic value beyond the intangible assets that firms possess, given analyses controlling for firms' international experience, age, size, and product diversification.

Prasanta Paul (2011) reported the Financial Performance Evaluation - A Comparative Study of Some Selected NBFCs. In this study, five listed NBFCs have been considered for evaluating comparative financial performance. Different statistical tools like, Arithmetic mean, Standard Deviation, Coefficient of Variance, Correlation and Analysis of Variance have been used. It has been used to get a constant average and it is easy to understand the results of the study. It conclude that the selected companies differ significantly in terms of their financial performance indicators which may be for the different services they provide. There are no significant differences in the last five years in the management of financial performance of each selected NBFCs, except some deviation in some cases in the year 2006-07 may be for the effect of general recession in that period.

Statement of problem

The development of Industries depends on factors such as Human, Technology, Quality, Financial and marketing among which the financial aspect assumes a significant role in determining the growth of Industries. The success or failure of any organization largely depends on the efficiency with which it works and achieves its objectives. Thus there arises a need to evaluate the performance of the organization. The study will give an insight into the concept of performance appraisal of Kerala Financial Corporation with respect to various financial indicators. The premier industrial financing institution in the State, namely, the Kerala Financial Corporation is facing a slowdown in its function. Over the years, the volume of financial assistance provided by the Corporation has been declined considerably. There is an aversion from the part of the prospective as well as the existing entrepreneurs to approach the KFC for fulfilling their financial requirements. Moreover, the non cordial 'loaner-loanee' relationship between the Corporation and its borrowers has made a negative impact of the Corporation in the minds of its customers. With this view, Evaluating Performance is necessary to understand its strengths and weaknesses to know the risks and rewards and to find out what changes to make, to gain higher returns and if possible with less risk. The purpose of measuring performance evaluation is not to know how the business is performing but to enable it to perform better.

Objectives

1. To measure the short term and long term financial solvency of Kerala Financial Corporation.
2. To measure the profitability of Kerala Financial Corporation.

Methodology

The proposed study will be entirely based on secondary data. The data has been collected from annual reports of the respective companies, text books, reference books, journals, articles, magazines and from the internet. For the purpose of analysis of data various ratios relating to Profitability, Liquidity, Solvency & Efficiency will be calculated.

Theoretical background

Ratio analysis: Ratio is a relationship between two figures expressed mathematically. Financial ratio provides numerical relationship between two financial data .They are computed from the balance sheet and profit and loss account. Ratio summarizes the financial data for easy understanding, comparison and interpretation. Ratios can be classified into various categories such as

1. **Short term solvency or liquidity ratios** that look at the availability of cash for operations.
2. **Asset management ratios** that, evaluate the efficient utilization of the resources.
3. **Long term solvency which** keep track of debt to be within reasonable bounds, and keep the debt level at its optimal level..
4. **Profitability ratios**, that measures the degree of accounting profits.
5. **Market value ratios** which help investors discriminate between overvalued and undervalued securities while making investment decisions.

Present study is concentrated on studying short term and long term solvency ratios and profitability ratios.

Short term solvency: These type of ratios focus on the availability of cash to manage the day to day operations of the company. In particular, we define the current ratio and quick ratio as liquidity ratios The current ratio of a company gives a quick way to look at its current assets and current liabilities. They should be nearly equal to one another.

Quick ratio gives us the cash position of the firm more accurately by removing the value of the inventories from the current assets.

Current asset ratio = current asset ÷ current liability

Quick ratio = (current asset- inventory) ÷ current liability

Long term solvency ratios: The corporations borrow money to do their business because debt capital is cheaper than the equity capital. On the other hand, excessive amount of debt can create problems for the company. To see the debt level of a company, we define its debt ratio, or leverage ratio as follows

Total liability to networth = Total liability ÷ networth

Total liability to fixed asset = total liability ÷ fixed asset

Debt ratio = total debt ÷ total asset

Profitability ratios: measures ability of a company to generate profits. These ratios are of interest to investors who would like to invest in the most profitable companies. The first ratio is the net profit margin, defined as

Operating profit ratio = operating profit / EBIT ÷ sales

Net profit margin = Net income ÷ sales

Return on capital employed = Net income ÷ total capital employed

Return on capital asset ratio = Net Income ÷ Total asset

Data Analysis and Interpretation

Table 1 : Financial Results

Highlights of performance of the Corporation are given below (Rupees in cores)

Financial Year	2016-17	2015-16	2014-1
Portfolio Size	2474.11	2400.19	2038.1
Sanctions	385.31	1025.99	947.4
Disbursements	655.27	838.36	657.0
Recovery	874.28	758.26	684.2
Total Income	364.73	308.47	287.0
Total Expenditure	356.86	261.21	218.2
Operating Profit	7.87	47.27	68.81
Net Profit	5.69	5.33	14.37
Capital Adequacy Ratio %	16.83	17.65	20.47
Gross NPA %	8.51	10.57	7.85
Net NPA %	4.25	5.93	3.71

Source: secondary data from Kerala Finance Corporation

Table 1 shows the three years performance of Kerala Finance Corporation. It reveals that the net profit is declined during 2015-16 and 2016-17. Portfolio size shows an increasing trend . size of sanctions of loan is declined considerably during 2016-17 and disbursement also declined. Total income is increased during 2016-17. But the operating income is very less during 2016-17.

In order to assess the performance of Kerala Finance Corporation, ratio have been usedseveral ratios such as long term solvency ratios, short term solvency ratios and profitability ratios were estimated and interpretations have been made based on the results.

Table 2: Short term solvency ratios

Ratios	2016	2017
Current asset ratio	1.31	1.07
Quick ratio	1.3	1.05
Inventory turnover ratio	0.02	0.04

Source: Microsoft Excel – Author's calculation

Table 2 shows the short term solvency ratio of KFC. Mainly three ratios are considered for analyzing short term solvency of the corporation. Current asset ratio and quick ratio is showing decreasing figure when compared to previous year. But inventory turnover is good in 2017 when compared to 2016.

Table 3: Long term solvency ratios

Ratios	2016	2017
Total liability to Net worth	1.2	1.19
Fixed asset to net worth	0.002	0.002

Source: Microsoft Excel – Author's calculation

Table 3 shows the long term solvency of KFC. Total liability to networth ratio and fixed asset to networth are taken as the indicators of long term solvency. The result shows that ratios are reduced in 2017 compared to 2016.

Table 4: Profitability ratios

Ratios	2016	2017
Operating profit	15.48	2.21
Net profit ratio	1.75	1.59
Return on capital employed	33.17	18.96
Return on capital asset ratio	0.21	0.26

Source: Microsoft Excel – Author's calculation

Table 4 shows the profitability ratios of KFC. Operating profit ratio is reduced constantly and other profitability ratios such as net profit ratio, return on capital employed, return on capital asset are reduced.

Findings

The findings are done through comparison of balance sheet and profit and loss account of two years.

- In case of short term solvency ratios, current asset ratio and quick ratio shows a decreasing figure and inventory turnover shows an increasing figure than previous year.
- As far as long term solvency concern, total liability to networth shows a decreasing figure and in case of fixed asset to networth, there is no change at all.
- In case of profitability ratios, Net profitability ratio shows a less amount as compared to previous year. Return on capital employed shows an increase in amount as compared to previous year. Return on total assets also shows an

increase in the current year. It means it has acquired more assets that the previous year.

Suggestions

- In the present day, financial performance is vital aspect, which ultimately decides the success of any organization. So the firm should make investments in the other segments like retail loans etc. since it will give more income to the organization.
- Reducing the operating expenditure by effective use of funds to increase the operating income. It also helps in the optimum level of net profit.
- The company is recommended to maintain profitability position.
- It is suggested that the company must maintain high amount of cash and bank balances in all financial year to meet the quick liabilities.

Conclusion

The study on the financial performance analysis of KFC mainly focused on studying the financial performance of two continuous financial years. The study has been done by using three ratios namely, long term solvency ratios, short term solvency ratios and profitability ratios. For studying long term solvency, fixed asset to net worth and total liability to net worth were taken. For analyzing short term solvency, current asset ratio, quick ratio and stock turnover ratios are considered. In case of profitability, operating profit, net profit, return on capital employed and return on capital asset ratio were analyzed. The study reveals that the overall solvency is poor when compared to previous year. In case of profitability also, all the ratios showing a decreasing figure. The study concludes by giving suggestions of redusing operating expenditure by using funds effectively, accelerate investment in other segments and also suugest that to maintain cash and bank balance to meet current liabilities.

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