A STUDY ON FINANCIAL PERFORMANCE OF SAKTHI FINANCE LIMITED

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ABSTRACT
This research paper provides the Financial Statement and also a summary of the account of a business enterprise. To understand the financial performance and condition of a firm, its stakeholders look at the financial statements, viz., the balance sheet, the profit and loss account. The analysis of the financial statement is a process of evaluating the relationship between component parts of financial statement top obtains a better understanding of the firms, position and performance. This study attempts to analyze the financial performance of Sakthi Finance Limited, by using various tools.

1. INTRODUCTION TO THE STUDY

Financial performance is a technique that attempts to determine a security’s value by focusing on underlying factors that affect a company’s actual business and its future prospects. On a broader scope, it is possible to perform financial performance on industries or the economy as a whole. The term simply refers to the analysis of the economic well-being of a financial entity as opposed to only its price movements. Balance sheet shows the financial position of the firm at the accounting. It shows how the firm performed financially over the accounting period. Sources and uses of funds statement it shows what have been the sources and uses of funds during the accounting period etc.,

2. INTRODUCTION TO THE INDUSTRY

The role of NBFC’s is not different from that of bank mobilizing money from people with the promise of repaying more. No wonder that nearly 40,000 NBFC’s set up establishments to mobilize money with a promise of high interest. The Indian economy is growing through a period of rapid “financialisation”. Today a wide range of financial institutions through customer friendly financial products is conducting the “intermediation”. Repeated evaluation of the role of NBFC’s by study group set up periodically by the Government has confirmed that “NBFC’s usefully supplement the activities of banks in the fields of both deposits mobilization and lending. NBFC’s are capable of playing a dynamic role in the economy.
3. INTRODUCTION TO THE COMPANY

Sakthi Finance Limited was incorporated in 1955, a Non-Banking financial company. The company was called as “Pollachi Credit Society” as a group in-house financial arm for TELCO Dealership. At starting stage the company mainly catered exclusively to the hire purchase business. Sakthi finance now positioned itself as a niche player and is now focusing on the commercial vehicle re-finance segment. Sakthi Finance limited is a unit of Sakthi Group promoted by Dr.N.Mahalinhgam. It has 21 branches located in TamilNadu, Kerala, Andhra Pradesh and Mahararastra with specific focus on TamilNadu and Kerala.

4. FINANCE

Sakthi Finance Limited is acknowledged as a best leader in the world of finance because it is unique in some of the service it offers. This has enabled it to efficiently disburse cheaper source of direct finance to various industries through public deposits. One of the first company to introduce finance for all kinds of needs.

5. STRENGTHS OF SAKTHI FINANCE

- Business focused executives at all levels.
- Availability of infrastructure to place funds through its wide network of branches.
- Valuable dealership network for Maruthi, TELCO and Bajaj Vehicles.

6. MAIN OBJECTS OF THE COMPANY

The main objects of the company as set out in the Memorandum of Association and Articles of Association of the company are:

- To purchase, sell, exchange, deal in or invest in shares, debentures, bonds, stock of Joint Stock Company, firms, local bodies or governments.
- To carry on the business of underwriters, sub-underwriters, brokers, managers, advisors, consultants to issue of shares, debentures, bonds, fixed deposits and other securities of syndication of loans, project finance, working capital facilities and deferred payment facilities.

7. OBJECTIVES OF THE STUDY

The study of financial performance of Sakthi Finance Ltd in India has been undertaken with the following objectives in view.

- To Study the efficiency and liquidity position of the company.
- To offer suggestions for improving the financial performance.
8. SIGNIFICANCE OF THE STUDY

- This study may be useful for future decisions.
- The study gives an idea to the public about the liquidity position of the company.

9. LIMITATIONS OF THE STUDY

The inflation rate and the time value of money were not taken into consideration for the analysis. When the new norms were analyzed with the activities of the company only data that could be collected from the annual report of the company were taken for the analysis.

10. RESEARCH DESIGN

This study is based on descriptive research. Descriptive research, also known as statistical research, describes data and characteristics about the population or phenomenon being studied. Descriptive research answers the questions who, what, where, when and how. Although the data description is factual, accurate and systematic, the research cannot describe what caused a situation. Thus, Descriptive research cannot be used to create a causal relationship, where one variable affects another. In other words, descriptive research can be said to have a low requirement for internal validity. The description is used for frequencies, averages and other statistical calculations. In short descriptive research deals with everything that can be counted and studied.

11. METHOD OF DATA COLLECTION

The study is based on secondary data. The data’s are collected from the company websites and the annual report of the company. (Source: http://money.rediff.com/companies/sakthi-finance-ltd/).

Accurate data from the Balance sheet of the company were used for the study.

12. TOOLS FOR ANALYSIS

In this study the financial performance of the company is analyzed based upon the following tools

- Ratio Analysis.
- Comparative balance sheet.
- Common size balance sheet.
- Cash Flow Statement.

Some of the ratio’s which taken for the study is stated below.

12.1 CURRENT RATIO

Current ratio may be defined as the relationship between current assets and current liabilities. This ratio, also known as working capital ratio, is a measure of general liquidity and is most
widely use to make the analysis of a short-term financial position. It is calculated by dividing the total of current assets by total of the current liabilities.

**Formula:** Current ratio = (Current Assets / Current Liabilities)

### 12.2 QUICK RATIO

Quick ratio also known as acid test or liquid ratio is a mere rigorous test of liquidity refers to the ability of pay its short-term obligation as and when they become due. Quick ratio may be defined as the relationship between quick/ liquid assets and current or liquid liabilities.

**Formula:** Quick Ratio = Liquid Assets / Current Liabilities

### 12.3 ABSOLUTE LIQUID RATIO

Absolute liquid ratio is also called as liquidity ratio. It includes cash in hand at bank and marketable securities or temporary investments. There is opinion that the absolute liquid ratio should be calculated together with current ratio and acid test ratio. This type of ratio is not widely used in practices.

**Formula:** Absolute Liquid Ratio = Absolute Liquid Assets / Current Liabilities

### 12.4 EQUITY RATIO

A variant to the debt equity ratio which is also known as equity ratio or shareholders to total equities ratio or net worth to total asset ratio. This ratio establishes the relationship between shareholders funds to total assets of the firm. The ratio of properties funds to total funds is an important ratio for determining long-term solvency of a firm.

**Formula:** Equity Ratio = Shareholders Funds / Total Assets.

**Equity Ratio** serves as an example of one such analysis of the project listed below with its table and the figure for the better understanding of the project. They are as follows:
Table 12.4

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>0.20</td>
</tr>
<tr>
<td>2005-06</td>
<td>0.25</td>
</tr>
<tr>
<td>2006-07</td>
<td>0.25</td>
</tr>
<tr>
<td>2007-08</td>
<td>0.19</td>
</tr>
<tr>
<td>2008-09</td>
<td>0.60</td>
</tr>
</tbody>
</table>

Table 12.4 Highlights the Equity Ratio of SFL. The Equity Ratio showed a constant of 0.25% in 2005-06 and 2006-07 however it showed a decrease in 2007-08. It’s indicating the better solvency position of the financial year 2008-09.

Figure No. 12.4
12.5 CURRENT ASSETS TO PROPRIETORS FUND

This ratio is calculated by dividing the total of current assets by the amount of shareholders funds. The ratio indicates the extent to which proprietors funds are invested in current assets. There is no rule of thumb for different firms.

**Formula:** Current Assets to Proprietors Fund = Current Assets / Shareholders Funds

Current Assets to Proprietors Fund serves as an example of one such analysis of the project listed below with its the table and the figure for the better understanding of the project. They are as follows:

### Current Assets to Proprietors Fund

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>4.59</td>
</tr>
<tr>
<td>2005-06</td>
<td>3.76</td>
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<tr>
<td>2006-07</td>
<td>3.71</td>
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<tr>
<td>2007-08</td>
<td>5.01</td>
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<tr>
<td>2008-09</td>
<td>5.74</td>
</tr>
</tbody>
</table>

Table 12.5 Evident the current Assets to Proprietors funds ratio of SFL. The ratio of current asset to proprietor’s funds was increasing from 4.59 in 2004-05 to 5.74 in 2008-09. It influences that the current assets are more in the year 2008-09.
CURRENT ASSETS TO PROPRIETERS FUND

![Bar Chart]

**Figure No. 12.5**

**12.6 ANALYSIS OF COMMON SIZE BALANCE SHEET**

Only the Interpretation given being the sheet is in huge size for both of the ANALYSIS OF COMMON SIZE BALANCE SHEET and COMPARATIVE CASH FLOW STATEMENT too.

**INTERPRETATION**

Assumed total income as 100 sales shows a fluctuating trend it was low 96.76 during the period 2004 – 2005 and high 100.79 during the period 2007-2008. The total Expenditure was high 99.85 during the period 2003 – 2004 and low 94.16 during the period 2007 – 2008, it shows that the company has started reducing the expenses. The net profit was low 0.15 during the period 2003 - 2004 and high 5.84 during the period 2007-2008; it shows that the net profit has an increasing trend during the period of study.

**12.7 COMPARATIVE CASH FLOW STATEMENT**

**INTERPRETATION**

- It is inferred that, in the financial year 2007-08, Rs. 367.28 Lakhs respectively had been debited to the profit and loss account as provision for Income-tax earlier years, which are pertaining to the financial years prior to the financial year 2004. Also in the financial year 2009, Rs.1.70 lakhs had been credited to the Profit and Loss Account on account of withdrawal of earlier year income tax provision, which is pertaining to financial years prior to financial year 2004.
- The above analysis is an evident that the company has better liquidity positions.
The assets of the company found to be handled well.

Profits have increased. Net Profit and cash profit ratios shows that company’s profit and assets has been increased.

The efficiency of the company found high, since the assets also handled well.

Return on investment also good since the company financial position found to be good.

13. FINDINGS AND SUGGESTIONS

13.1 Findings

- The current and quick ratios were found to be satisfactory.
- The Absolute liquid and equity ratio found to be in good solvency position
- The Return on Gross Capital Employed shows an increasing trend. The profitability and the liquidity position of the company were good.
- The assets were very well handled and the efficiency of the company being higher.
- The Return on Equity Capital was found to be Fluctuating and Expenses Ratio of Interest and Bank Charges were found to be decreasing.
- The cash Profit Ratio shows an increasing trend.
- The company has better return on investment since profit is high.
- In the common size statement the Assets side, Stock-on-Hire showing an increasing trend in the Current Assets. In the Liabilities side Secured Loan found to be shown with an increasing trend.
- The trend percentage of the various components of profit and loss account of the SFL from 2004-05 to 2008-09. Interest earned and operating expenses shows an increasing trend over the period of study. In the case of other income and interest expended shows a varying trend over the years. In the case of net profit it shows an increasing trend up to 2008-09.
- The net profit was low 0.69 during the period 2004 -2005 and high 14.62 during the period 2008 -2009; it shows that the net profit has an increasing trend during the period of study. The Company can provide fair rate of return to retain their Equity Shareholders.

13.2 Suggestions

- The Company can introduce a new attractive scheme for the depositors.
- The Company should reduce the Administration and Office Expenses to increase their Net Income.
The programme of the SFL should be analyzed every time to time by some financial experts, so that heavy changes in financial performance can be reduced.

The company can concentrates more on reserves for the expansion of the business in the future.

Deposits are to be increased for the purpose of expanding total business cost of the deposit should be moderate.

In the current ratio it seems to be good strength. But when compared to the previous years it seems to be decreasing, so the company has to keep an eye on this ratio.

CONCLUSION

The financial performance of the company is better. Though the NBFC’s are very old concept in India, but it has developed with added strength during 1990’s of 20th Century. Many NBFC’s have failed in their businesses that lead to social unrest among the public. The Government of India has introduced regulatory norms to regulate the NBFC’s since it is in unorganized setup. Sakthi Finance is one among those successful companies. Hence, the researcher has made an attempt to analyze the performance of Sakthi Finance. In general, Sakthi Finance has showed very good performance, in the past Five Years. But the researcher has also found many short falls, after a careful analysis, researcher has offered many valuable suggestions to the company and which would be very useful to them.

CITATIONS

Books

Journal Article
2. Gary Kirk and Shabnam Beth Nolan (2005), Non profit management and leadership. San Francisco: Vol. 20, Iss. 4; pg. 473

Websites
1. www.sakthifinancelimited.com
2. www.money.rediff.com/sakthifinancelimited/