INTERNATIONAL JOURNAL OF RESEARCH IN COMPUTER APPLICATION & MANAGEMENT

IJRCM

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   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

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AN ANALYSIS OF INCOME STATEMENT OF A SERVICE SECTOR UNDERTAKING – A CASE STUDY OF INDUSTRIAL FINANCE CORPORATION OF INDIA LTD

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ABSTRACT

The present research work is undertaken to make an analysis of Income Statement of Industrial Finance Corporation of India Ltd (IFCI Ltd). This study helps to reveal the causes of profit or loss made by the concern and makes a detailed analysis of the performance of the concern so that fruitful suggestion could be given to improve its performance in future. Since, financial analysis is a tool for scientific evaluation of the profitability and financial strength of any business concern; the same has been used in the present research study. The techniques of financial statement analyses are used for the purpose of analysis of Income Statement of Industrial Finance Corporation of India Ltd (IFCI Ltd). Since analysis of income statement is the process of making a proper, critical and comparative evaluation of the profitability and financial soundness of a given concern, the same has been done in the present research work through the application of the techniques of financial statement analysis particularly ratio analysis.

KEYWORDS

Income Statement, operating ratio, operating profit ratio, net profit ratio, return on equity, return on assets and burden ratio.

INTRODUCTION

Analysis of income statement provides an insight into how effectively management is controlling expenses, the amount of interest earned and expended, and the taxes paid. The income statement is therefore treated as the “report card” of those earnings, which ultimately determine the price which the owner expects to pay for a business. The primary purpose of the income statement is to report a company's earnings to investors over a specific period of time. For banks and other financial institution like IFCI their major sources of revenue are interest income and its biggest operating expense is interest expenses on deposits/loans. Thus for a bank or other financial institution profitability is largely based in its capacity to earn interest on its assets (loans and advances) at the rate higher than its cost of funds. The difference between gross yield (interest income as a percentage of interest earning assets) and cost of funds (interest expenses as a percentage of interest bearing liabilities) is called the net interest margin or spread. Every bank or other financial institution should endeavour to maximise the spread.

The recent trend in banking shows that banks or other financial institution are also focussing their attention to the promising non-interest income opportunities. It may be mentioned that interest income accrues from a bank’s traditional lending business. A bank or other financial institution is primarily meant for lending money to business, farmers and individuals. However, banks or other financial institution have started venturing into non-fund based activities (e.g., corporate advisory services, treasury activities, loan appraisal and processing, merchant banking, bank guarantees, etc.). Treasury activities may not strictly be called non-fund based activities because these activities involve trading in securities. Every bank or other financial institution today, as a part of its business strategy, diversifies its income sources into interest-income and non-interest income[1]. Different profitability ratios provide different useful insights into the financial health and performance of a company. For example, gross profit and net profit ratios tell how well the company is managing its expenses. Return on capital employed (ROCE) tells how well the company is using capital employed to generate returns. Return on investment tells whether the company is generating enough profits for its shareholders.

For most of these ratios, a higher value is desirable. A higher value means that the company is doing well and it is good at generating profits, revenues and cash flows.

EXPECTED OUTCOME OF THE STUDY/SCOPE OF THE STUDY

In the present world financial institutions play an important role in economic growth and economic development of the country as it helps to provide monetary assistance to the industries. It plays a key role in financial assistance as well for financial transactions. Thus, it can be said that financial institution are backbone of any industry. Thus, this study is helpful for both private as well as for nationalized financial institutions as it helps to improve the market share and also help private institution to compete with the nationalized financial institutions. This study is also helpful for the customer or general mass, they will become aware of the facilities provided by the IFCI and thus will be benefited by availing or making use of the better facilities without any risk.

REVIEW OF LITERATURE

Myez (**1984**) says financial statement analysis is largely a study of relationship among the various financial factors in a business, as disclosed by a single set of statements, and a study of the trends of these factors, as shown in a series of statements. **Kennedy and Muller (1989)** says that the analysis and interpretation

[1] Banerjee, Ashok.,(2004): Financial Accounting-A Managerial Emphasis, Excel Books,p. 423.

of the financial statements are an attempt to determine the significance and meaning of financial statement data so that the forecast may be made of the prospects for future earnings, ability to pay interest and debt maturities (both current and long term) and profitability and sound dividend policy.

Hermason et al. (1992:846), "financial analysis relies heavily on informed judgment. Percentages and ratios are guides to aid comparison and useful in uncovering potential strengths and weaknesses. However, the financial analysis should seek the basic causes behind and established trends". **Mario W.Cardulla (1996)**282page, the **financial** analysis **techniques** that are useful to a manager are some of the major **financial appraisal techniques** and not the total set of these **techniques.** A financial statement often referred to, as the trading and profit loss account, matching revenues against expense to show the profitability or operational results of an enterprise over a period of time, such as a month or year. (**Hermanson et al.1992:25**). According to **Needles et al. (1996:770)** financial statement analysis is used to achieve two basic objectives: (1) Assessment of past performance and current position, and (2) Assessment of future potential and related risks of a business. According to **Hermanson et al (1992:824)**, "financial statement analyses consist of applying analysis tools and techniques to financial statements and other relevant data to show important relationships and obtain useful information." Therefore, financial statement analysis can be defined as the breaking down, interpretation, and translation of data contained in financial statements to provide information and show important relationships among the items of financial statements and drawing conclusion about the past performance, current financial position, and future potentials of a business. According to **Needles et al. (1996:773)**, the major sources of information about publicly held corporations are reports published by the company, SEC reports, business periodical, and credit and investment advisory services.

OBJECTIVES OF STUDY

The study fulfils the following objectives:

- To examine the profitability position of the Industrial Finance Corporation of India Ltd (IFCI Ltd).
- To study the overall financial position of the Industrial Finance Corporation of India Ltd (IFCI Ltd).
- To identify the financial strengths and weaknesses of the organization so as to suggest improvements for future

HYPOTHESIS OF THE STUDY (Ho)

In order to achieve these objectives, the following hypothesis has been framed for testing:

Ho: There is no significant difference in the profitability position of the Industrial Finance Corporation Of India Ltd during the period of study.

METHODOLOGY

For the study, statistical data has been collected from various reports published periodically by the Industrial Finance Corporation of India Ltd (IFCI Ltd). The statistical techniques like percentage, averages, coefficient of correlation, coefficient of variation, T-test have also been applied. For proper analysis and evaluation of operational performance and financial strength, the individual items of profit and loss accounts and balance sheet have also been regrouped.

LIMITATIONS OF THE STUDY

Limitations are always a part of any kind of research work, as the report is mainly based on secondary data; proper care must be taken in knowing the limitations of the required study.

1. The financial performance of the institution is shown just for the last ten years, ending 2012. Hence, any uneven trend before or beyond the set period will be the limitations of the study.
2. This analysis is based on only monetary information, analysis of the non monetary factors are ignored.
3. As per the requirement of the study some data have been grouped and sub grouped.
4. There is non availability of sufficient literature & information from the corporation.

ANALYSIS OF INCOME STATEMENT

Analysis of Income Statement has been done through Ratio analysis techniques because it is the most effective tool of analysing the profitability position of any concern. They highlight how effectively the profitability of a company is being managed. These ratios also indicate how well a company is performing at generating profits or revenues relative to a certain metric. For the evaluation of the profitability and financial soundness of Industrial Finance Corporation of India Ltd, accounting ratios like net profit ratio, operating ratio, operating profit ratio, return on equity capital ratio, return on assets, burden ratio has been calculated.

1. NET PROFIT RATIO

Net profit ratio measures the rate of net profit earned on sales. It helps in determining the overall efficiency of the business operations. Net profit ratio indicates the efficiency of management in managing its manufacturing, selling, administrative and other activities. Net profit is computed by deducting all direct costs (i.e., cost of goods sold); indirect costs (i.e., administrative, marketing expenses and finance charges); making adjustments for non-operating expenses from sales and adding non-operating incomes. The ratio is calculated as under:

$$Net\ Profit\ Ratio = \frac{Net\ Profit}{Net\ Sales\ or\ Revenue} \times 100$$

Increase in Net profit ratio shows better performance, improvement in the overall efficiency and profitability of the business. In the same way, decrease in the ratio indicates managerial inefficiency and excessive selling and distribution expenses Net profit Ratio therefore, indicates the proportion of sales revenue available to the owner's of the firm and the extent to which the sales revenue can be decreased or the cost that can be increased without inflicting a loss on the owner's. So, the net profit ratio shows the firm's capacity to face the adverse economic situation. Thus, Net profit ratio shows the overall operational efficiency of the business.

TABLE: - 1 STATEMENT SHOWING NET PROFIT RATIO (Rs. in Crores)

Year	Net Profit after Tax (Rs.)	Revenue (Rs.)	Net Profit Ratio (%)
2003	-259.70	1403.50	-18.50
2004	-3229.78	1095.72	-294.76
2005	-324.40	1293.37	-25.08
2006	-74.10	1645.69	-4.50
2007	898.02	1989.73	45.13
2008	1020.57	1963.00	51.99
2009	657.15	1402.07	46.87
2010	670.94	1657.05	40.49
2011	706.25	2332.45	30.28
2012	663.62	2729.39	24.31
Statistical Analysis			
Mean	Rs. 72.86	Rs. 1751.20	-10.38%
σ	1192.72	479.43	98.43
C.O.V	1637.07%	27.38%	-948.49%
Growth	-355.53%	94.47%	-231.40%
Average Growth	-35.55%	9.45%	-23.14%

Source: Compiled from the annual reports of IFCI Ltd. (From 2003 - 2012)

INTERPRETATION

According to table no.1, in the year2003, the net profit ratio was -18.50%. The net profit ratio was at its lowest and was -294.76% in the year 2004. The net profit ratio increased to become -25.08% in the year 2005. In the year 2006 the net profit ratio again increased and came at -4.50% but it decreased to become 45.13% in the year 2007. The net profit ratio further increased and reached to 51.99% in the year 2008. The net profit ratio then decreased to 46.87% in the year 2009 and it further decreased to 40.49% in the year 2010. It was. 30.28% in the year 2011 and then again decreased to become 24.31% in the year 2012. The standard deviation of the Net profit ratio was 98.43, with coefficient of variation as -948.49% and average annual growth as -23.14%.

2. OPERATING RATIO

Operating ratio reveals the cost content and operational expenses absorbed in the sales. Operating ratio indicates the ratio of operational cost to the sales. Operating ratio is a measurement of the efficiency and profitability of the business enterprise. In other words, it measures the cost of operations per rupees of sales. Operational efficiency of the business will be more in case of lesser operating ratio and vice versa. The ratio is calculated by dividing operating cost with the net sales and it is generally represented as a percentage. It is calculated by the following formula:

$$Operating\ Ratio = \frac{Operating\ Cost}{Net\ Sales} \times 100$$

or

$$Operating\ Ratio = \frac{Cost\ of\ Good\ Sold + Operating\ Expenses}{Net\ Sales} \times 100$$

Higher ratio indicates lower efficiency because a major part of sales is eaten up by operating cost. There is no rule of thumb for this ratio as it may differ from firm to firm, depending upon the nature of its business and its capital structure. However, 75 to 85 per cent may be considered to be a good ratio in case of a manufacturing undertaking. Operating ratio is considered to be a yardstick of operating efficiency but it should be used cautiously because it may be affected by a number of uncontrollable factors beyond the control of the firm. Every business should try to increase its net profit which is possible if the operating cost is reduced. Lower operating cost is always in the interest of the business.

TABLE: - 2 STATEMENT SHOWING OPERATING RATIO (Rs. in Crores)

Year	Operating Cost (Rs.)	Revenue (Rs.)	Operating Ratio (%)
2003	1646.27	1403.50	117.30
2004	1466.38	1095.72	133.83
2005	1027.06	1293.37	79.41
2006	814.80	1645.69	49.51
2007	794.06	1989.73	39.91
2008	980.12	1963.00	49.93
2009	888.42	1402.07	63.36
2010	1011.88	1657.05	61.07
2011	1464.18	2332.45	62.77
2012	2005.17	2729.39	73.47
Statistical Analysis			
Mean	Rs. 1209.83	Rs. 1751.20	73.06%
σ	388.73	479.43	28.67
C.O.V	32.13%	27.38%	39.25%
Growth	21.80%	94.47%	-37.37%
Average Growth	2.18%	9.45%	-3.74%

Source: Compiled from the annual reports of IFCI Ltd. (From 2003 - 2012)

INTERPRETATION

As per table no.2, the operating ratio in the year 2003 was 117.30%. The operating ratio then increased to 133.83% in the year 2004. It then decreased to 79.41% in the year 2005. The operating ratio further decreased to 49.51% in the year 2006. It was at its lowest in the year 2007 when it was 39.91%. In the next year i.e., 2008 the operating ratio increased to 49.93% and in the year 2009 the operating ratio further increased to 63.36%. After that the operating ratio again decreased to 61.07% in the year 2010. In the year 2011 it was 62.77% and then increased to 73.47% in the year 2012. The standard deviation of the operating ratio was 28.67, with coefficient of variation as 39.25% and average annual growth as -3.74%.

3. OPERATING PROFIT RATIO

This ratio measures the relationship between operating profit and sales. The main purpose of computing this ratio is to determine the operational efficiency of the management. This ratio tries to calculate an average operating margin earned on a sale of 100 and what portion of sale is left to cover non-operating expenses, to pay dividend and to create reserves. Higher the ratio, the more efficient is the operating management. This ratio is calculated by dividing operating profit by sales. Operating profit is calculated as:

$$Operating\ Profit\ Ratio = \frac{Operating\ Profit}{Net\ Sales} \times 100$$

This ratio can also be calculated as:

Operating Profit Ratio = 100-Operating Ratio.

Higher the ratio, the more efficient is the operating management.

TABLE: - 3 STATEMENT SHOWING OPERATING PROFIT RATIO (Rs. in Crores)

Year	Operating Profit (Rs.)	Revenue (Rs.)	Operating Profit Ratio (%)
2003	-208.03	1403.50	-14.82
2004	-361.62	1095.72	-33.00
2005	290.79	1293.37	22.48
2006	864.05	1645.69	52.50
2007	1252.62	1989.73	62.95
2008	1131.30	1963.00	57.63
2009	596.10	1402.07	42.52
2010	667.45	1657.05	40.28
2011	1015.93	2332.45	43.56
2012	845.03	2729.39	30.96
Statistical Analysis			
Mean	Rs. 609.36	Rs. 1751.20	30.51%
σ	518.45	479.43	29.72
C.O.V	85.08%	27.38%	97.44%
Growth	-506.21%	94.47%	-308.88%
Average Growth	-50.62%	9.45%	-30.89%

Source: Compiled from the annual reports of IFCI Ltd. (From 2003 - 2012)

INTERPRETATION

According to table no.3, the operating profit ratio was -14.82% in the year 2003 and in the year 2004 the operating profit ratio was at its lowest i.e. -33.00%. The operating profit ratio then increased to 22.48% in the year 2005. In the year 2006, the operating profit ratio again increased to 52.50% and then further increased to 62.95% in the year 2007. The operating profit ratio in the next year i.e. 2008 decreased to 57.63%. In the year 2009, the operating profit ratio again decreased to 42.52% and then further decreased to 40.28% in the year 2010. The operating profit ratio was 43.56% in the year 2011; it then decreased to 30.96% in the year 2012. The standard deviation of the operating profit ratio was 29.72, with coefficient of variation as 97.44% and average annual growth as -30.89%.

4. RETURN ON EQUITY CAPITAL RATIO

The return on equity capital examines profitability from the perspective of the equity investors by relating profits, available for the equity shareholders, with the book value of equity investment. Return on Equity Capital establishes relationship between Net Profit after tax and Preference dividend and equity capital. The purpose of computing this ratio is to find out how efficiently the funds supplied by the equity shareholder's have been used. Ratios calculated for number of years gives an idea of the prosperity, growth or deterioration in the company's profitability and efficiency. This ratio is calculated by dividing Net profit after tax and preference dividend by paid-up equity capital.

$$Return\ on\ Equity\ Capital\ Ratio = \frac{Net\ Profit\ After\ Tax\ and\ Preference\ Dividend}{Paid-up\ Equity\ Capital} \times 100$$

It also indicates as to how well the funds of the owner have been used by the firm, whether the firm has been able to earn reasonable return for the owners or not. Therefore, the equity shareholders would probably be most interested in return on equity analysis. This ratio is of great significance to the equity shareholders as this reveals how well the resources of a company are being used, higher the ratio, better are the results.

TABLE: - 4 STATEMENT SHOWING RETURN ON EQUITY CAPITAL RATIO (Rs. in Crores)

Year	Profit After Tax (Rs.)	Equity Capital (Rs.)	Return on Equity Capital (%)
2003	-259.70	1537.65	-16.89
2004	-3229.78	1522.89	-212.08
2005	-324.40	1515.37	-21.41
2006	-74.10	1510.93	-4.90
2007	898.02	1941.79	46.25
2008	1020.57	3324.87	30.70
2009	657.15	3740.76	17.57
2010	670.94	4609.8	14.55
2011	706.25	5003.4	14.12
2012	663.62	5535.75	11.99
Statistical Analysis			
Mean	Rs. 72.86	Rs. 3024.32	-12.01%
σ	1192.72	1534.44	69.46
C.O.V	1637.07%	50.74%	-578.28%
Growth	-355.53%	260.01%	-170.98%
Average Growth	-35.55%	26.00%	-17.10%

Source: Compiled from the annual reports of IFCI Ltd. (From 2003 - 2012)

INTERPRETATION

As per table no.4, in the year 2003 the return on equity capital ratio was -16.89% and further decreased to -212.08% in the year 2004.Then in the next year 2005, the return on equity raised to -21.41% and then further increased to -4.90% in the year 2006. In the year 2007 the return on equity increased to 46.25% and in the next year it again decreased to 30.70% in the year 2008. In the next year i.e., 2009 it again decreased to 17.57% and in the year 2010 the return on equity capital further decreased to 14.55%. It was 14.12% in the year 2011. In the last year of study i.e., 2012, the return on equity was 11.99%. The standard deviation of the return on equity capital ratio was 69.46, with coefficient of variation as -578.28%and average annual growth as -17.10%.

5. RETURN ON ASSETS RATIO

The return on assets (ROA) shows how profitable a company's assets are, in generating revenue. Return on Assets also known as ROA establishes relationship between net profits (after taxes) and assets employed to earn that profit. The objective of computing this ratio is to find out how efficiently the total assets have been used by the firm. The ROA basically relate the profits to the size of the firm (which is measured in terms of the assets). If a firm increases its size but is unable to increase its profit proportionately, then the return on assets will decrease. In such a case, increasing the size of the assets i.e., the size of the firm will not by itself advance the financial welfare of the owners. This ratio measures the profitability of the firm in relation to assets employed in the firm. It is calculated by dividing net profit (after taxes) by Average Total Assets.

$$Return\ on\ Assets = \frac{Net\ Profit\ (After\ Taxes)}{Average\ Total\ Assets}$$

The return on assets indicates the overall efficiency of the management in generating profits at a given level of assets at its disposal.

TABLE: - 5 STATEMENT SHOWING RETURN ON ASSETS RATIO (Rs. in Crores)

Year	Profit After Tax (Rs.)	Total Assets (Rs.)	Return on Assets (%)
2003	-259.70	21706.85	-1.20
2004	-3229.78	15914.66	-20.29
2005	-324.40	38543.56	-0.84
2006	-74.10	11435.09	-0.65
2007	898.02	15477.32	5.80
2008	1020.57	15178.81	6.72
2009	657.15	14882.57	4.42
2010	670.94	19589.21	3.43
2011	706.25	25915.31	2.73
2012	663.62	28183.8	2.35
Statistical Analysis			
Mean	Rs. 72.86	Rs. 20682.72	0.25%
σ	1192.72	7772.93	7.33
C.O.V	1637.07%	37.58%	2971.48%
Growth	-355.53%	29.84%	-296.81%
Average Growth	-35.55%	2.98%	-29.68%

Source: Compiled from the annual reports of IFCI Ltd. (From 2003 - 2012)

INTERPRETATION

According to the table no.5, return on Assets ratio showed a fluctuating trend throughout the period of study. It was -1.20% in the year 2003 and -20.29% in the year 2004. It was -0.84% in the year 2005 and was at its lowest i.e., -0.65% in the year 2006. The return on assets again increased to 5.80% in the year 2007. The return on assets was at its highest in the year 2008 when it was 6.72%. In the next year i.e., 2009 the return on assets decreased to 4.42% and further decreased to 3.43% in the year 2010. In the year 2011, the return on assets ratio decreased to 2.73% and further decreased to 2.35% in the year. The standard deviation of the return on Assets ratio was 7.33, with coefficient of variation as 2971.48% and average annual growth as -29.68%.

6. RETURN ON EQUITY RATIO (ROE)

This ratio measures the relationship between net profit (after interest and taxes) and shareholder funds. The objective of computing this ratio is to find out how efficiently the funds supplied by all the shareholders (equity and preference) have been used. This ratio is computed by dividing the net profit after interest, tax and dividend by shareholder funds. It is expressed as a percentage. This ratio is calculated as under:

$$Return\ on\ Owner's\ Equity = \frac{Net\ Profit\ (After\ Tax)}{Owner's\ Equity} \times 100$$

The shareholder equity or net worth includes paid up capital, security premium and reserve and surplus less accumulated losses. Net worth can also be determined by subtracting total liabilities from total assets. This ratio indicates the firm's ability of generating profit per rupee of shareholder's funds. A higher ratio shows more efficient management and utilization of shareholder's funds. They may also be used for declaration of dividend and creation of reserves for future growth. This ratio is very important as it tells us the value added to the owner's investment by the firm. It also helps us to tell how well the firm is able to manage its resources and profitable investment opportunities available in the external as well as internal environment.

TABLE: - 6 STATEMENT SHOWING RETURN ON EQUITY RATIO (Rs. in Crores)

Year	Profit After Tax (Rs.)	Net worth (Rs.)	Return on Net worth (%)
2003	-259.70	393.68	-0.66
2004	-3229.78	-2850	1.13
2005	-324.40	-3182.78	0.10
2006	-74.10	-3261.32	0.02
2007	898.02	1105.59	0.81
2008	1020.57	3324.87	0.31
2009	657.15	3740.76	0.18
2010	670.94	4609.8	0.15
2011	706.25	5003.4	0.14
2012	663.62	5535.75	0.12
Statistical Analysis			
Mean	Rs. 72.86	Rs. 1441.98	0.23
σ	1192.72	3338.41	0.45
C.O.V	1637.07%	231.52%	196.49%
Growth	-355.53%	1306.15%	-118.17%
Average Growth	-35.55%	130.62%	-11.82%

Source: Compiled from the annual reports of IFCI Ltd. (From 2003 - 2012)

INTERPRETATION

As per table no. 3.6, the return on net worth ratio was at its lowest in the year 2003 when it was -0.66%. The return on net worth was at its highest in the next year i.e. 2004 when it was 1.13%. The return to net worth then decreased to 0.10% in the year 2005 and further decreased to 2.02% in the year 2006, in the year 2007, it increased to 0.81% and then decreased to 0.31% in the year 2008. The return to net worth ratio decreased to 0.18% in the year 2009 and it further decreased to 0.15% in the year 2010 and to 0.14% in the year 2011. It decreased to 0.12% in the year 2012. The standard deviation of the return on net worth ratio was 0.45, with coefficient of variation as 196.49%and average annual growth as -11.82%.

7. BURDEN RATIO

Burden ratio indicates the contribution of non-interest operating income in recovering non-interest operating costs. In other words, the difference between interest income and interest expenses provides the yield spread to a financial institution to meet other expenses. If a financial institution has substantial non-interest income to bear the "Burden" of other operating costs (mainly staff costs and other administrative costs), the profitability of the financial institution improves. On the other hand, if a financial institution has lower non-interest income as compared to other operating expenses, the burden ratio would turn negative; which would imply that the net margin of the financial institution would be affected by the burden ratio. It is calculated by dividing (Non Interest Incomes- Non Interest Expenses) by Total Assets.

$$Burden\ Ratio = \frac{(Non\ Interest\ Income - Non\ Interest\ Expenses)}{Total\ Assets}$$

Where non- interest income excludes gain on sale of assets or securities.

TABLE: - 7 STATEMENT SHOWING BURDEN RATIO (Rs. in Crores)

Year	Non-Interest Incomes- Non Interest Operating Expenses (Rs.)	Total Assets (Rs.)	Burden Ratio (%)
2003	-21.21	21706.85	-0.10
2004	-92.49	15914.66	-0.58
2005	-26.74	38543.56	-0.07
2006	-9.59	11435.09	-0.08
2007	2.85	15477.32	0.02
2008	-4.16	15178.81	-0.03
2009	-8.4	14882.57	-0.06
2010	-89.44	19589.21	-0.46
2011	12.73	25915.31	0.05
2012	-1.61	28183.8	-0.01
Statistical Analysis			
Mean	Rs. -23.81	Rs. 20682.72	-0.13
σ	35.22	7772.93	0.20
C.O.V	-147.94%	37.58%	-153.07%
Growth	-92.41%	29.84%	-94.15%
Average Growth	-9.24%	2.98%	-9.42%

Source: Compiled from the annual reports of IFCI Ltd. (From 2003 - 2012)

INTERPRETATION

According to table no.7, the burden ratio was -0.10% in the year 2003. This ratio further decreased and was -0.58% in the year 2004. The burden ratio was -0.07% in the year 2005 and -0.08% in the year 2006. It was 0.02% in the year 2007 but decreased to become -0.03% in 2008, it further decreased to -0.06% in the year 2009. In the year 2010, this ratio was -0.46%. It was at its highest i.e., 0.05% in the year 2011 but it decreased to become -0.01%in the year 2012. The standard deviation of the burden ratio was 0.20, with coefficient of variation as -153.07%and average annual growth as -9.42%.

TESTING OF HYPOTHESIS

Null Hypothesis (Ho)-

There is no significant difference in the profitability position of the Industrial Finance Corporation Of India Ltd during the period of study (2003-2012).

Interpretation of t-test

$t=2.23$ &$t_{0.05}=1.86$

$t > t_{0.05}$

When degree of freedom (df) is 8 and level of significance is 5%, the critical value of $t_{0.05}$ is 1.86. Since the calculated value of t is 2.23 which is more than the table value, we conclude that there is a significant difference in profitability position of the Industrial Finance Corporation Of India Ltd during the period of study (2003-2012). Hence, null hypothesis is rejected.

Alternative Hypothesis (H_1)-

There is a significant difference in profitability position of the Industrial Finance Corporation Of India Ltd during the period of study (2003-2012).

Since, the calculated value of t is 2.23 which is more than the table value, we conclude that there is significant difference in profitability position of the Industrial Finance Corporation Of India Ltd during the period of study (2003-2012). Hence alternative hypothesis is accepted.

CONCLUSIONS

The income statement reflects the efficiency with which the activity of an institution has been undertaken; they give an idea of whether the actual performances are in conformity with the predetermined goals and objectives. These are basically prepared with the main purpose of reporting companies' earnings to the investors. Hence, a lot of care is required for preparing these statements as they are the revelation of the proper performance of a concern. The financial analysis provides a number of tools which helps to develop a better understanding of the data provided by the income statement. These tools help to establish relationship between various variables of the income statement, which seem to be as mere figures in the absence of application of the techniques of financial analysis. For this reason the tools like ratio analysis, comparative income statement, common size income statement and trend analysis of income statement have been undertaken for the purpose of the present research work.

The analysis of income statement of IFCI Ltd reveals that the profit of the institution though, was not at all satisfactory initially but later on it gives a favourable picture of the performance of the concern. The overall average of net profit after tax ratio over the period of study was -10.38 crores. The overall growth of net profit over the period of study was 231.40%, which means that the average annual growth was of 23.14%. The operating cost of an institution should always be less than its operating incomes so that it can continue to grow in near future. The study of operating cost ratio reveals a satisfactory image, since except for the two initial years, the operating cost ratio showed a favourable condition of the concern in the rest of the period of the study as the overall average was 73.06%, with a growth of -37.37%, which reflects average annual growth of -3.74%.

The operating profit is the simplest measuring rod of performance of a concern. Higher the operating profit better is the performance of the concern. As far as IFCI Ltd is concerned, the operating profit ratio also gives a favourable picture of the concern since except for the two initial years the operating profits were quite consistent and approving. The overall average of operating profit ratio was 30.51%, with growth of 308.88% and average annual growth of 30.89%. The equity investors of any concern are very valuable for the concern; since they are the major provider of capital and their continuous support is indispensable for the survival of the concern. Hence, utmost care should be taken regarding the returns provided to them. The return on equity capital ratio is such a measure which helps to examine the profitability from the perspective of the equity investors. The return on equity capital ratio of IFCI Ltd was not satisfactory in the initial years of study but later on they improved. The overall average for return on equity capital ratio was -12.01%, with growth of 170.98% and average annual growth of 17.10%.

The efficiency of any firm depends a lot on its ability to utilize its assets profitably. The return on assets ratio facilitates to know whether the assets of the concern are used justifiably, since long run survival and growth of a firm is unimaginable if its assets are not utilized properly. As far as IFCI Ltd is concerned the assets of the firm were not used judicially in the initial four years of study but later on the institution managed to utilized its assets properly. The overall average for return on assets ratio was 0.25%, with growth of 296.81% and average annual growth of 29.68%. Funds are an essential resource for undertaking any activity and its significance becomes all the more important due to the fact that it is a scarce resource particularly in a developing economy like India. The return on equity ratio is a tool to find out, how efficiently the funds supplied by the shareholders have been used. The return on equity ratio was quite favourable throughout the period of study except the first year i.e., 2003. The average return on equity ratio was 0.23%, with growth of 118.17% and average annual growth of 11.82%. A financial institution has certain non-interest operating incomes also besides its interest operating incomes. The amounts of such incomes have a significant role to play in the performance of these institutions since a substantial amount of non-interest operating incomes indicates a better profitability of the institution. The situation of IFCI Ltd shows an unfavourable picture as depicted by burden ratio except for the two years i.e., 2007 and 2011 when it was 0.02% and 0.05% respectively. The average burden ratio was -0.13%.

SUGGESTIONS

The main aim of undertaking the research work is to make an effort in developing an understanding of the performance of various correlated activities of the organization. Hence, various tools of financial analysis have been applied to fulfil this aim. But the research work does not end, only with analysis and interpretation of data. Any kind of research work is incomplete in the absence of suggestions, suggestions which are key to improvement in future. For this reason, the following suggestions could be laid down in the light of the findings:

1. The institution should try to maintain the control over its operating expenses which will otherwise going to be a major constraint on its profitability. The institution needs to maintain its present level of operating expenses in future also.
2. The institution should try to take utmost care in providing better returns to its equity shareholders since they are the major provider of capital and there continuous support is indispensable for the survival of the concern.
3. The Industrial Finance Corporation of India Ltd should try to control and enhance its non-interest operating incomes since the situation of IFCI Ltd shows an unfavourable picture as depicted by its burden ratio.
4. The institution should try to issue further share capital since borrowed capital should be used or is worthwhile only when the company's earnings are greater than its cost of capital and should reduce debt capital by reducing the amount of innate funds from outside sources.

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