

Financial Analysis of Industrial Finance Corporation of India Limited

Amit Kumar Nag

Abstract

Financial analysis is actually a process that evaluates projects, budgets, businesses and entities for analysis purpose. Usually, the main purpose of financial analysis is to analyze the profitability, liquidity, solvency and stability of a business. The process of financial analysis is carried out by professionals who work by preparing reports with the help of ratios containing information from financial statements and other similar reports. The present research work has been undertaken to analysis the financial position of Industrial Finance Corporation of India Ltd (IFCI Ltd) with the help of its income and position statement so that detailed analysis of the performance of the institution can be made and proper suggestion could be given in order to improve its performance in future. The study adopted ratio analysis particularly profitability ratios, solvency ratio and liquidity ratios to measure the financial position of the institution. Since IFCI aims at providing financial assistance to business units which plays a vital role in the economic development of a country, the analysis of its financial position is very much justified.

Keywords: *Financial Analysis, Net Profit Ratio, Operating Profit Ratio, Debt Equity Ratio, Solvency Ratio & Current Ratio.*

JEL Classification: G21 and G23.

Concept

Analysis and interpretation of financial statements refers to the process of determining the significant operating and financial characteristics from the accounting data with a view to getting an insight into the activities of an enterprise. Thus financial analysis is the systematic numerical calculation of the relationship of one financial fact with the other to measure the profitability, operational efficiency, solvency and the growth potential of the business. Analysis of financial statements serves the interest of shareholders, debenture-holders, potential investors, creditors, bankers, journalists, legislators, politicians, researchers, stock exchanges, taxation authorities and economists. The use of financial analysis is made to measure the profitability, efficiency and financial soundness of the business, to make comparative studies and effective future plans. Analysis of financial statements can be made with the previous year's performance of the same firm and also with the performance of other firms. Intra - firm analysis provides an opportunity to self appraisal, whereas inter-firm analysis presents the operational efficiency of the firm as compared to other firms. Comparison helps in detecting weaknesses of the organization and to apply corrective measures. The analysis provides sufficient information regarding the profitability, performance and financial soundness of the business and on the basis of these

information's, one can make effective forecasting, budgeting and planning. Financial statement analysis is the process of evaluating the relationship between component parts of financial statements to obtain a better understanding of the firm's position and performance.¹

Purpose of Research

Financial analysis covers a vast area and is of great practical importance. Keeping in view the importance of financial analysis and the vast area that it covers, the present research work titled "A study of financial analysis of Industrial Finance Corporation of India Ltd" has been carried out. It is concerned with an institution that offers a personalized service. This financial institution uses various indicators for measuring its financial performance. These indicators are of great importance and tell us the true financial position of the IFCI. The indicators help in identifying the strengths and weaknesses of the IFCI and suggesting improvements in its future working.

Review of Literature

One of the effective ways of communicating financial information about a business is through financial statements. Thus, the recording and summarizing of financial data are necessary part of accounting information system. However, no matter how well prepared and presented, financial statements need to be analyzed and interpreted to unveil the truths hidden in them and enhance decision-making. Interestingly, such analysis and interpretation can be made by means of ratios and comparisons. Therefore, in this part, expert opinion on the role of ratio analysis in business decisions with particular reference to financial statement analysis is reviewed.

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 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.

Hermanson 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,

¹ Metcalf, R. W. and Titard, P.L.,[1976], Principles of Accounting, W. B. Saunders,[Philadelphia], p.157.

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. Ratio analysis involves taking stats of number (or items) out of financial statements and forming ratios with them, to enhance informed judgments and decisions (**Lasher, 1997:66**). According to **Igben (1999:423)**, "Accounting {or financial} ratio is a proportion or fraction or percentage expressing the relationship between one item in a set of financial statements with another item in the financial statements. Accounting ratios are the most powerful of all tools used in analyzing and interpreting financial statements".

A financial statement containing assets, liabilities, and owner's equity or capital at a particular data or at the end of a particular period, to show the financial position of a organization. (**Akpakpan, 2002:106**). **Essien (2006:144)** observed: Financial statements carry lots of financial information that are hidden in the figures. The figures in financial statements become more useful when they are related to each other or to some other relevant financial data. Therefore, users of financial information go a further step to establish relationships (or ratios) among selected data in financial statements.

Dansby et al. (2000:845) defined ratio as "fractional relationship of one number to another". On the other hand, **Needles et al. (1996:795)** defined ratio analysis as "a technique of financial analysis in which meaningful relationship is shown between the components of financial statements". Ratio analysis is often expressed proportionately to show the relationship between figures in the financial statements. It is the core of this study. **Hermanson et al. (1992:840)** added: "standing alone, a single financial ratio may not be informative. Greater insight can be obtained by computing and analyzing several related ratios for a company".

Objectives of Study

The study fulfils the following objectives:

- i. To find out the profitability position of the IFCI Ltd.
- ii. To analyze the solvency position of the IFCI Ltd.
- iii. To measure the liquidity position of IFCI Ltd.
- iv. To study the overall financial performance of the IFCI Ltd.

Hypotheses:

In order to achieve these objectives, the following hypotheses are framed for testing:

- i. There is no significant difference in the profitability position of the Industrial Finance Corporation Of India Ltd during the period of study.
- ii. There is no significant difference in the solvency position of the Industrial Finance Corporation Of India Ltd during the period of study.
- iii. There is no significant difference in the liquidity position of the Industrial Finance Corporation Of India Ltd during the period of study.

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. Moreover, 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. As the report is produced within a short period of time, much more could not be devoted to analyze the final points. Though proper care has been taken to avoid personal bias, there is a possibility of bias due to the continuous involvement of the researcher in the study.

Financial Analysis of IFCI Ltd

The financial analysis of IFCI Ltd has been analyzed by ratio analysis techniques. For the purpose of the present research work we have used various ratios for judging the overall efficiency and profitability position of this non- banking financial institution.

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:

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

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

Year	Net Profit after Tax (Rs.)	Revenue (Rs.)	Net Profit Ratio (%)
2011	706.25	2332.45	30.28
2012	663.62	2729.39	24.31

Statistical Analysis

Mean	72.86	1751.20	-10.38%
s	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 year 2003, 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 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 = Net Sales - Operating Cost

or = Net Sales - (Cost of goods sold + Administrative and Office Expenses + Selling and Distributive Expenses)

Operating Profit can also be calculated as:

Operating Profit = Net Profit + Non-operating expenses - Non-operating income

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

This ratio can also be calculated as:

$$\text{Operating Profit Ratio} = 100 - \text{Operating Ratio.}$$

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

Table: - 2 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	609.36	1751.20	30.51%
s	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.2, 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%.

3. 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:

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

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: - 3 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	72.86	1441.98	0.23
s	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, 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%.

4. Debt-Equity Ratio

The debt-equity ratio measures the relative claims of creditor's owners in a business organization. The objective of computing this ratio is to measure the relative proportion of

debt and equity in financing the assets of the firm. The ratio indicates the proportionate claims of owners and the outsiders against the firm's assets. The purpose is to get an idea of the cushion available to outsiders on the liquidation of the firm. This ratio establishes the relationship between the external equities or the outsider's funds and the internal equities or the shareholders' funds. Thus:

$$\text{Debt Equity Ratio} = \frac{\text{Outsiders Funds}}{\text{Shareholder's Funds}}$$

or

$$\text{Debt Equity Ratio} = \frac{\text{External Equities}}{\text{Internal Equities}}$$

The two basic components of the ratio are outsiders' funds, i.e., external equities and shareholders' funds, i.e., internal equities. The outsiders' funds include all debts/liabilities to outsiders, whether long-term or short-term or whether in the form of debentures bonds, mortgages or bills. The shareholders' funds representing accumulated profits and surpluses like reserve for contingencies, sinking funds, etc. Traditionally, a debt-equity ratio of 2:1 is considered to be satisfactory. Higher debt Equity Ratio shows lesser margin for long term lenders.

Table: - 4 Statement Showing Debt Equity Ratio (Rs. in Crores)

<i>Year</i>	<i>Debt (Rs.)</i>	<i>Equity (Rs.)</i>	<i>Debt-Equity Ratio</i>
2003	20183.74	1537.65	13.13
2004	17230.17	1522.89	11.31
2005	15024.95	1515.37	9.92
2006	13678.18	1510.93	9.05
2007	12924.28	1941.79	6.66
2008	10222.99	3324.87	3.07
2009	9673.78	3740.76	2.59
2010	13562.46	4609.80	2.94
2011	17996.02	5003.40	3.60
2012	17689.39	5535.75	3.20

Statistical Analysis

Mean	14818.60	3024.32	6.55
s	3271.64	1534.44	3.80
C.O.V	22.08%	50.74%	58.04%
Growth	-12.36%	260.01%	-75.66%
Average Annual Growth	-1.24%	26.00%	-7.57%

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

Interpretation:

From table no. 4, it is clear that the debt equity ratio was at its maximum when it was 13.13:1 in the year 2002-2003. It then decreased to 11.31:1 in the year 2003-2004 and then it went on decreasing by 9.92:1 in the year 2004-2005, 9.05:1 in the year 2005-2006, 6.66:1 in the year 2006-2007, 3.07:1 in the year 2007-2008. In the year 2008-2009 the debt equity ratio showed a slight increase which was 2.94:1 and then it was 3.60:1 in the year 2010-2011 and then it was 3.60:1 in the year 2010-2011. At last it again decreased to 3.20:1 in the year 2011-2012. The standard deviation of the debt equity ratio was 3.80, with coefficient of variation as 58.04% and average annual growth as -7.57%.

5. Proprietary Ratio

Net worth to total assets ratio shows the relation between own fund and borrowed fund. Net worth to total assets is a corollary to debt ratio. It shows the amount of proprietors funds invested in the total assets of firm. A higher ratio of net worth to total assets indicates the dependence of company on its own funds. Further a high ratio is suggests a sound financial structure of the organization because of greater margin of safety for the creditor.

$$\text{Net Worth to Total Assets Ratio} = \frac{\text{Net Worth}}{\text{Total Assets}}$$

The Proprietary fund includes preference and equity share capital plus all reserves and surplus items. Total assets include all assets including goodwill. This ratio throws light on the general financial strength of the company. It has come to be regarded as a test of the soundness of the capital structure. It is of great importance to the creditors since it enables them to find out the proportion of shareholders funds in the total assets used in the business. While a high proprietary ratio indicates a relatively secure position to the creditors in the event of liquidation, a low proprietary ratio will include greater risk to the creditors. 50% is supposed to be the satisfactory proprietary ratio for the creditors. Percentage below 50% is the sign of risk for creditors.

Table: - 5 Statement Showing Proprietary Ratio (Rs.in Crores)

Year	Net Worth (Rs.)	Total Assets (Rs.)	Proprietary Ratio
2003	393.68	21706.85	0.02
2004	-2850	15914.66	-0.18
2005	-3182.78	38543.56	-0.08
2006	-3261.32	11435.09	-0.29
2007	1105.59	15477.32	0.07
2008	3324.87	15178.81	0.22
2009	3740.76	14882.57	0.25
2010	4609.8	19589.21	0.24
2011	5003.4	25915.31	0.19
2012	5535.75	28183.8	0.20

<i>Year</i>	<i>Net Worth (Rs.)</i>	<i>Total Assets (Rs.)</i>	<i>Proprietary Ratio</i>
Statistical Analysis			
Mean	1441.98	20682.72	0.06
s	3338.41	7772.93	0.18
C.O.V	231.52%	37.58%	283.63%
Growth	1306.15%	29.84%	983.00%
Average Growth	130.62%	2.98%	98.30%

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

Interpretation:

The proprietary ratio in the year 2003 was 0.02:1. Then the proprietary ratio decreased with a loss of 0.18:1. This ratio then increased but still was a loss of 0.08:1. The proprietary ratio further decreased with a loss of 0.29:1 in the year 2006. In the year 2007 the proprietary ratio then increased and was 0.07:1. The proprietary ratio further increased to 0.22:1. The proprietary ratio was to its maximum in the year 2009 by 0.25:1. After this the proprietary ratio started to decrease which was 0.24:1 in the year 2010. In the year 2011 the proprietary ratio was 0.19:1 and in the year 2012 the proprietary ratio was 0.20:1. The mean for the proprietary ratio was 0.06 and the standard deviation was 283.63 and the growth for the proprietary ratio was 983.00%. The average annual growth for the same was 93.30%.

6. Solvency Ratio

This ratio is a small variant of equity ratio. This ratio measures the relationship between the total liabilities to outsiders and the total assets of a firm. Generally, lower the ratio of total liabilities to total assets more satisfactory or stable is the long - term solvency position of the firm and vice-versa.

$$\text{Solvency Ratio} = \frac{\text{Total Liabilities to Outsider}'}{\text{Total Assets}}$$

This ratio helps in ascertaining the long term solvency of a firm which depends basically on three factors:

- I. Whether the firm has enough resources to meet its long term funds requirements;
 - II. Whether the firm has used an suitable debt equity mix to raise long term funds;
 - III. Whether the firm earns enough to pay interest and installments of long term loans in time.
- The capacity of the firm to meet the last requirement can be ascertained by computing the solvency ratio.

Table: - 6 Statement Showing Solvency Ratio (Rs. in Crores)

<i>Year</i>	<i>Total Liabilities To Outsiders (Rs.)</i>	<i>Total Assets (Rs.)</i>	<i>Solvency Ratio</i>
2003	21328.67	21706.85	0.98
2004	18770.16	15914.66	1.18
2005	16220.25	38543.56	0.42
2006	14696.44	11435.09	1.29
2007	14371.73	15477.32	0.93
2008	11853.94	15178.81	0.78
2009	11141.81	14882.57	0.75
2010	14979.41	19589.21	0.76
2011	19643	25915.31	0.76
2012	22648.05	28183.8	0.80

Statistical Analysis			
Mean	16565.35	20682.72	0.87
σ	3695.58	7772.93	0.23
C.O.V	22.31%	37.58%	26.77%
Growth	6.19%	29.84%	-18.22%
Average Growth	0.62%	2.98%	-1.82%

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

Interpretation:

The solvency ratio for the year 2003 was 0.98:1 and this solvency ratio increased in the year 2004 by 1.18:1. The solvency ratio then decreased and was to its lowest by 0.42:1 in the year 2005. The solvency then increased and reached to its maximum in the year 2006 by 1.29:1. Then the solvency ratio kept on decreasing which was 0.93:1 in the year 2007 and in the year 2008 it was 0.78:1. In the year 2009 the solvency ratio was 0.75:1 and then the solvency ratio increased to a bit in the year 2010 by 0.76: and remained the same in the year 2011 as well. In the year 2012 the solvency ratio further increased to 0.80:1. The mean for the solvency ratio was 0.87:1 and the standard deviation for the solvency ratio was 0.23:1. The coefficient of variation for this ratio was 26.77:1. The growth for the solvency ratio was a loss of 18.22:1 and the average growth for the solvency ratio was again a loss of 1.82:1.

7. Current Ratio

Current ratio is an index of the firm's financial stability, i.e., an index of technical solvency and an index of the strength of working capital, which means excess of current assets over current liabilities. A high current ratio is an assurance that a firm will have adequate funds to pay current liabilities and current payments. The objective of computing this ratio is to measure the ability of the firm to meet its short term obligations and to reflect the short term financial strength of a firm. In other words, the objective is to measure the safety margin available for short-term creditors.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The logic behind the current ratio is that, cash need not be immediately available to meet all current liabilities on a particular date but there should be good prospect for an adequate inflow of cash indicated by the amounts of individual components of current assets. It is closely connected with the concept of working capital. However, the main limitation of current ratio is that it fails to indicate the liquidity of individual components of current assets. Even if the ratio is favorable, the firm may be in financial trouble because of stock and work in progress, which are easily convertible into cash and therefore, may have less cash to pay off current liabilities. Hence, it is suggested that the current ratio should not be used as the sole index of short term solvency.

Table: - 7 Statement Showing Current Ratio (Rs.in crores)

Year	Current Assets (Rs.)	Current Liabilities(Rs.)	Current Ratio
2003	17273.37	1144.93	15.09
2004	11763.27	1539.99	7.64
2005	9638.18	1195.30	8.06
2006	8814.48	1018.26	8.66
2007	9675.19	1447.45	6.68
2008	9947.49	1630.95	6.10
2009	8236.93	1468.03	5.61
2010	10869.24	1416.95	7.67
2011	15675.87	1646.98	9.52
2012	7373.5	4958.66	1.49

Statistical Analysis			
Mean	10926.75	1746.75	7.65
s	3033.89	1088.83	3.25
C.O.V	27.77%	62.33%	42.44%
Growth	-57.31%	333.10%	-90.14%
Average Annual Growth	-5.73%	33.31%	-9.01%

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

Interpretation:

In the year 2002-2003 the current ratio was 15.09:1. The current ratio decreased to 7.64:1 in the year 2003-2004. The current ratio then increased to 8.06:1 and 8.66:1 in the year 2004-2005 and 2005-2006 respectively. Then again the current ratio decreased by 6.68 in the year 2006-2007, 6.10:1 in the year 2007-2008 and 5.61:1 in the year 2008-2009. Then the current ratio showed an increase and was 7.67:1 in the year 2009 and 9.52:1 in the year 2010-2011. The current ratio was at its minimum in the year 2011-2012 when it was 1.49:1. The standard deviation of the current ratio was 3.25, with coefficient of variation as 42.44% and average annual growth as -9.01%.

8. Cash Ratio

Cash Ratio measures a relationship between cash and marketable securities and current liabilities. The objective of computing this ratio is to measure the ability of the enterprise to meet its short-term obligations as and when due, without relying upon the realization of stock and debtors. Although receivables, debtors and bills receivables are generally more liquid than inventories, yet there may be doubts regarding their realizations into cash immediately or in time. Therefore Cash Ratio should also be calculated together with current ratio and acid test ratio so as to exclude even receivables from the current assets and find out the absolute liquid assets.

$$\text{Cash Ratio} = \frac{\text{Cash and Cash Equivalent}}{\text{Current Liabilities}}$$

This ratio gains significance only when it is used in conjunction with the first two ratios. A standard of 0.5:1 is considered an acceptable norm for this ratio. In other words, this ratio indicates that 50 paise worth of absolute liquid assets is sufficient to meet 1 rupee worth of liquid liabilities.

Table: - 8 Statement Showing Cash Ratio (Rs.in crores)

Year	Cash (Rs.)	Current Liabilities (Rs.)	Cash Ratio
2003	413.32	1144.93	0.36
2004	122.48	1539.99	0.08
2005	199.47	1195.30	0.17
2006	1030.54	1018.26	1.01
2007	1478.37	1447.45	1.02
2008	3482.31	1630.95	2.14
2009	483.59	1468.03	0.33
2010	38.53	1416.95	0.03
2011	527.86	1646.98	0.32
2012	898.61	4958.66	0.18

Statistical Analysis			
Mean	867.51	1746.75	0.56
s	969.30	1088.83	0.62
C.O.V	111.73%	62.33%	110.28%
Growth	117.41%	333.10%	-49.80%
Average Growth	11.74%	33.31%	-4.98%

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

Interpretation:

According to the above table the cash ratio in the year 2003 was 0.36:1 which further decreased to 0.08:1 in the year 2004. In the year 2005 the cash ratio increased to 0.17:1 and in the next year i.e. 2006 the cash ratio again increased when it was 1.01:1. The cash ratio further increased in the year 2007 to 1.02:1. The cash ratio was at its highest in the year 2008 when it was 2.14:1. The cash ratio then decreased in the year 2009 to 0.33:1 and it was at its lowest when it was 0.03:1 in the year 2010. In the year 2011 the cash ratio increased to 0.32:1 and again decreased in the year 2012 to 0.18:1. The standard deviation of the Cash to Current Liabilities ratio was 0.62, with coefficient of variation as 110.28% and average annual growth as -4.98%.

TESTING OF HYPOTHESES**Null Hypothesis (Ho)-1.**

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

$$t=2.23 \text{ \&t}0.05=1.86$$

$$t > t_{0.05}$$

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 (H1)-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.

Null Hypothesis (Ho)-2.

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

Interpretation of t-test

$$t= -0.08 \text{ \&t}0.05=1.86$$

$$t < t_{0.05}$$

When degree of freedom (df) is 8 and level of significance is 5%, the critical value is 1.86. Since the calculated value of t is -0.08 which is less than the table value, we conclude that there is no significant difference in the solvency position of the Industrial Finance Corporation Of India Ltd during the period of study (2003-2012)., during the study period (2000-2009). Hence null hypothesis is accepted.

Null Hypothesis (Ho)-3.

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

Interpretation of t-test

$$t = -1.13 \text{ \& } t_{0.05} = 1.86$$

$$t < t_{0.05}$$

When degree of freedom (df) is 8 and level of significance is 5%, the critical value is 1.86. Since the calculated value of t is -1.13 which is less than the table value, we conclude that there is no significant difference in the liquidity position of the Industrial Finance Corporation Of India Ltd during the period of study (2003-2012). Hence, null hypothesis is accepted.

Conclusion

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 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%. So far as debt equity ratio of IFCI Ltd is concerned, it showed a favourable situation in the later period of the study. The overall average of debt equity ratio was 6.55:1, with growth of 75.66% and average annual growth of 7.57%. The IFCI Ltd has remarkable current ratio since it ranges from 5.61:1 to 15.07:1 for major period of the study. The overall average of current ratio was 7.65:1. Similarly the cash ratio also helps to make firm decision regarding cash available in an institution. This ratio is used as a complementary ratio to current ratio. The cash ratio of IFCI Ltd was satisfactory during 2006 to 2008 while it was not much approving in the rest period of the study.

Suggestions

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 go 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 their continuous support is indispensable for the survival of the concern.

- 3 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.
- 4 The Industrial Finance Corporation of India Ltd should try to reduce blockage of funds in current assets and should try to increase investment in fixed assets.
- 5 The Industrial Finance Corporation of India Limited should invest excess amount in current assets and should try to invest in other investments schemes so that it can earn more return.

References

- Anthony, R.N. & Reece, J.S. (1975): *Management Accounting*, (Illinois: R.D. Irwin), P.248
- Banerjee, Ashok.,(2004): *Financial Accounting-A Managerial Emphasis*, Excel Books,p. 423.
- Basant & C. Raj (1978): *Corporate Financial Management*, (New Delhi: Tata McGraw Hill Publishing Co., Ltd., P.154
- Betty, J. (1971): *Management Accounting* (London: McDonald & Evan, P.382.
- Bhat, S, *Financial Management -Principles and Practice*, Excel Books (2008), pp28-32.
- Chowdhary S.B. (1977): 'Management Accountancy', (New Delhi: Kalyani Publishers), P.45
- Khan, M.Y. & Jain, P.K. (1982): *Financial Management*, (New Delhi: Tata McGraw Hill Publishing Co. Ltd.), P.139.
- Kulshrestha N.K. (1971): Ph.D. Thesis on "Analysis of Financial Statements of paper Industry in India" University of Rajasthan, Jaipur, p.379.
- Monga, J.R. (1981): *Topics in Financial Accounting*, (New Delhi: National Publishing House, P.51
- Siddiqui, S. A. (2002), *Accountancy*: Laxmi Publications (P) Ltd., p894.

Amit Kumar Nag, Assistant Professor, Department of Commerce, Bhopal School of Social Sciences. (BSSS), Bhopal, Madhya Pradesh, India