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An analytical study of profitability and solvency of Jammu and Kashmir state financial corporation

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Abstract
Jammu And Kashmir State Financial Corporation has been set up under the State Financial Corporation Act 1951. JKSFC has significantly advancing loans to 1st generation entrepreneurs and in growth of industry. Based on its consistent profits and operational performance JKSFC used to be rated as one of the best SFCs in the country upto the year 1990.but the prolonged turmoil from last two decades effected the business of JKSFC. This research paper analyses the profitability and solvency of JKSFC from 2010-2011to 2018-2019.the secondary data have been analyzed and judged by using trend analysis, average growth rate, profitability and solvency ratios. The results and interpretation reveal that the profitability, liquidity and solvency is declining during the research period due to poor long and short term solvency, downward in recoveries of loans and in huge revenue losses. For improving the business position of the unit and avoid from liquidation. JKSFC should take some creative and effective ideas.

Keywords: JKSFC, profitability, solvency (short and long term)

Introduction

Jammu and Kashmir state financial corporation was established on December 1959, under the sfcs act 1951(central act 63 of 1959). JKSFC played a vital role in promoting and in growth of fist generation entrepreneurs. JKSFC was one among the ten best SFCS of the country with positive net worth of Rs.31.03 crore having funded more than 13,000 units in MSME Sector of the State upto 1989-90.and had a record of earning profits. But from1989-1990 the corporation suffers huge revenue losses for the reasons beyond its control. the main source of funding for the corporation which is not available now was from SIDBI and IDBI as the SIDBI has opted out from providing LOC to various SFCS and JKSFC has not be able to avail any limit from them since 2007. There was no source of funds for the corporation except NMDFC which have released Rs. 2.00 crore during the year 2016-17 & provided a further limit of Rs. 10.00 crore. The State Govt. had guaranteed the refinance facility from NMDFC against a guarantee fee of 2% which has an adverse impact on the viability of the scheme. The Chairman of the Board of Directors is nominated as one of the most senior Directors by the State Government who shall hold office for two years. Shri Vinod Gupta was appointed as the Managing Director of the Corporation since September 1997. During his time as Managing Director he has introducing for the first time some of the unique schemes like, One Time Settlement Scheme, Special Rehabilitation-cum-Settlement Scheme, Rehabilitation-cum Settlement Scheme and Amnesty/Exit Policy.

Review of literature

Lachhman Singh Rawat (2017), suggested that Government should also be ready to bail out the sick SFCs. SFCs should also be ready to have professional to run its marketing and business activities and should computerize its entire activities to provide on line and fast services to compete with the other financial institutions.
H.R. Machiraju (2003), in his book entitled, “Merchant Banking”, states that the SFCs provide financial assistance to small and medium enterprises by term loans, direct subscription to equity/debentures, discounting of bills of exchange and guarantees. They also provide seed capital assistance to the entrepreneurs having viable projects but lacing adequate funds of their own. The paid-up capital of 18 SFCs together was Rs.1415 crores at the end of March, 2000 and total outstanding on that date was Rs. 11,432 crores.
Hema and Bindu Roy (2014), suggested that Due to downward financial performance of HFC, its operational performance is going to be effective reversely. Therefore, first of all, HFC should improve its financial performance. They also suggested that the main emphasis of HFC is to recovery the loans; therefore, there are few disbursements and few sanctions in loan made by HFC, which should be improved only by making effective plans regarding financial point of view. G.K. Nair (2000), in his article entitled “Need to rejuvenate State finance corporations”, has stated that to create a vibrant small enterprises economy in the country it is necessary to rejuvenate the State finance corporations. It is necessary to bring down the distinction between primary lending institutions and the development finance institutions. He also states that priority sector lending is a thorny issue between the Government and the financial institutions. For the Government, the primary concern is to generate employment at any cost, obviously due to political compulsions. The track record of the SFCs and SIDCs were dismal, in the case of Nabard and SIDBI, the good counsel they provide to the industry, to the Government and the entrepreneurs were negligible.

Objectives

To analyze the profitability of JKSFC.
To analyze the long and short term solvency of JKSFC.

Methodology

Data collection

The study is based on Secondary data, which were derived from the published annual reports of JKSFC collected from the registered office of JKSFC Srinagar.

Data analysis

The collected data are duly edited, classified and analysed using all types of relevant accounting and statistical tools and techniques. The data are presented through simple classification and with help of percentage, average growth rate, ratio and trend.

Period of analysis

The present study covers nine years of data from2010-2011 to2018-2019 to achieve its objectives and best results.

Findings

Table 1: Profitability of JKSFC through Trend Analysis

S.No	Parameters	Average growth rate
1	Operating income	7.37
2	Non- operating income	18.54
3	Total income	9.84
4	Direct operating expenses	-19.47
5	Indirect operating expenses	5.06
6	Total operating expenses	-0.32
7	Gross profit	16.00
8	Net profit	-9.72
9	Operating net profit	-4.60
10	Non -operating expenses	6.89
11	Total expenses	-0.29

The average growth of net profit shows in minus figure as-9.72and operating net profit as -4.60 during the nine years of study period.it shows that the corporation is facing huge losses and is not working in good condition.

Table 2: Profitability of JKSFC through ratio Analysis

S.No	Non-operating income	Operating expenses	Non-operating expenses	Total expenses	Shareholders fund	Net profit
2010-2011	19.81	374.28	1.15	375.43	-2594.40	(255.62)
2011-2012	28.13	149.55	0.74	150.29	- 67.36	(22.17)
2012-2013	13.77	120.91	0.53	121.44	798.99	(7.67)
2013-2014	4.04	110.63	0.54	111.17	1019.69	(7.14)
2014-2015	5.86	122.41	0.58	122.99	1226.03	(17.13)
2015-2016	9.41	149.68	377.75	527.43	1061.37	(418.02)
2016-2017	15.67	184.46	0.95	185.41	1417.10	(69.74)
2017-2018	35.08	1197.53	1.40	1198.93	1188.09	(1063.86)
2018-2019	43.76	206.49	1.11	207.60	880.40	(63.84)
Average growth rate	10.41	-7.16	-0.44	-7.13	-12.63	-15.92

The above table shows the profitability ratios with an average growth rate of different ratios.net profit with an average growth rate-15.92 show the bad position of the unit during the study period. This led that the JKSFC is declining its profitability year by year.

Table 3: Solvency of JKSFC through Trend Analysis

S.No	Parameters	Average growth rate
1	Reserves and surplus	1.15
2	Cash in hand	-8.68
3	Cash at bank	-5.53
4	Shareholders fund	-6.19

The above table shows the trends of cash in hand with an average growth rate as -8.68.Shareholders fund and cash at bank was also recorded as-6.19 and-5.53 which means that the short and long term solvency of the corporation is not working efficiently.

Table 4: Solvency of JKSFC through ratio Analysis

S.No	Current ratio	Liquid ratio	Absolute liquid ratio	Debt equity ratio	Equity/total assets ratio
2010-2011	0.26	0.26	0.23	-71.76	-246.89
2011-2012	0.12	0.12	0.09	-20.36	-11.63
2012-2013	0.29	0.29	0.19	26.10	66.53
2013-2014	0.15	0.15	0.08	0.93	86.01
2014-2015	0.24	0.24	0.17	0.94	88.27
2015-2016	0.99	0.99	0.92	1.22	85.30
2016-2017	2.76	2.75	2.03	4.12	92.01
2017-2018	0.74	0.74	0.50	35.05	44.53
2018-2019	1.19	1.18	0.28	82.92	43.46
Average growth rate	20.94	18.30	2.48	1.82	-19.51

The liquidity ratios shows a lot of ups and downs and solvency ratios like debt to equity and equity to total assets shows fluctuation during the study period of nine years with an average growth rate1.82 percent and -19.51 percent respectively.

Conclusion

JKSFC was among best state financial corporations throughout the India. Although the unit is facing shortage of funds and is not efficiently running due to the circumstances from 1989-90 this impacted and affected every economic activity in the State. The performance of JKSFC also steep down year by year.

- By the end of 2008-2009 the corporation started incurring losses.
- In 2014-15 Devastating floods hit the State in putting the State economy out of gear.
- Aftermath of floods cramped the recovery process during 2015-16.
- Prolonged disturbances in the year 2016-17 crippled the economy yet again.
- There is no other source of avenue available to the Corporation except a limited refinance facility of Rs. 10 crore from NMDFC. By the State Government, the earnings from this portfolio also adversely affected with charging of guarantee fee.

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