

A Study of Financial Aspects of SIDBI

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Abstract: The MSME (Micro Small and Medium Enterprises) sector in India has been of considerable importance since Independence. The small and medium sector contributes 39 per cent of the total GDP and 34 per cent of the total exports of the country. The sector provides employment to 29.5 million people in rural and urban areas of the country and has emerged as the second largest employment providing sector in the country after agriculture. The small and medium sector has been recognized as engine for growth in the country. Keeping in view the importance of this sector efforts have been made by the government to ensure steady availability of financial resources. SIDBI (Small Industries Development Bank of India) is the apex institution for making available financial resources to the small scale industries. In this paper, a financial analysis of the development financial institution SIDBI in the post liberalization period has been conducted with a view to analyze its function in the changed operating environment after 1991.

Keywords: DFI (Development Financial Institution), Equity Share Capital, Capital Adequacy Ratio, ROTA (Return on Total Assets), NPAs (Non Performing Assets).

I. Introduction

The Small Industries Development Bank of India (SIDBI) was established in the year 1990 under the Parliament Act – the SIDBI Act, 1989. The charter of the Act envisioned SIDBI to be the principal financial institution for promoting financing and developing industries in the small scale sector and to coordinate the functions of other institutions engaged in similar activities.

SIDBI started its operations on April 2, 1990 by taking over the outstanding portfolio and activities of IDBI related with the small scale sector. In pursuance of the SIDBI (Amendment) Act 2000, and as approved by the Government of India, 51.1 per cent equity shares of SIDBI held by IDBI have been transferred to public sector banks, LIC, GIC and other institutions owned and controlled by the central government. Presently, SIDBI has 35 banks, insurance companies, investment and financial institutions as its shareholders in addition to IDBI, which continues to hold 49 per cent share in SIDBI.

SIDBI's role is to act as a friend, philosopher and guide to the small sector. And this, it does so by striking a balance between financing and providing support services for the development of the small scale sector.

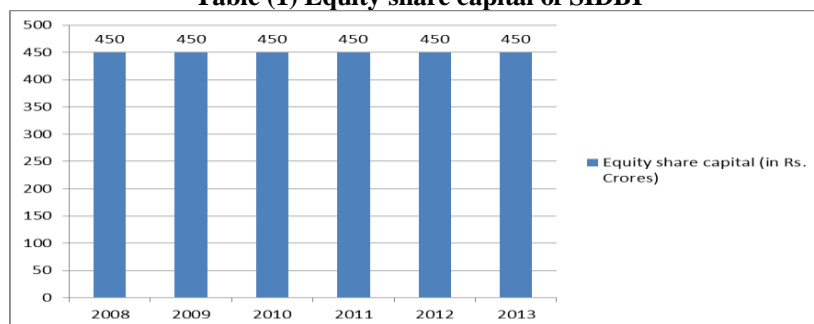
Purpose of the study

The purpose of this study is to conduct financial analysis of SIDBI taking in to consideration its equity share capital, net worth, balance sheet, income and profit after tax, CAR, ROTA, NPAs, cost of funds and resource mobilisation. The study is conducted on the basis of secondary data collected from the annual reports of SIDBI from 2008-2013.

Financial Analysis of SIDBI

In the financial analysis of SIDBI, analysis of share capital and other financial measures like NPA levels, CAR, ROTA and the gap between income and profits have been studied.

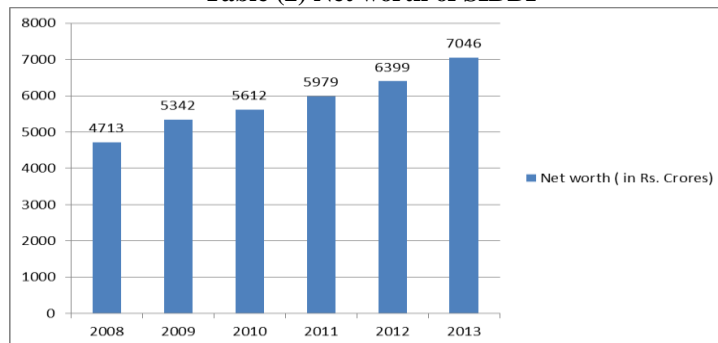
Table (1) Equity share capital of SIDBI



Source: SIDBI Annual Reports 2008-13

From the above table it can be observed that there is no change in the equity share capital of SIDBI. It remained unchanged at 450 crores in the year 2013 as it was 450 crores in the year 2012. The equity share capital of SIDBI has remained unchanged from 2008 to 2013.

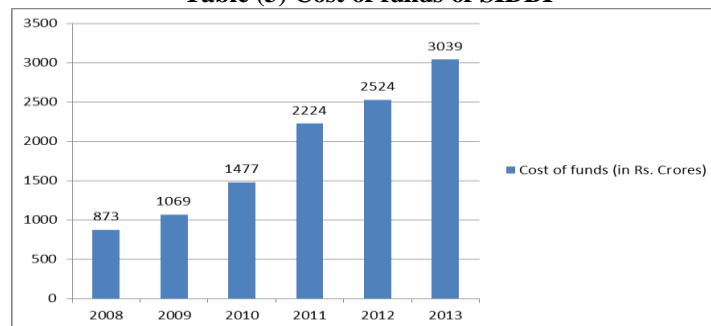
Table (2) Net worth of SIDBI



Source: SIDBI Annual Reports 2008-13

The net worth of SIDBI in March 2008 was Rs. 4,713 crores which increased to Rs. 5,342 crores in 2009. The net worth further increased to Rs. 5,612 crores in 2010. In 2011, the net worth of SIDBI further increased to Rs. 5,979 crores. The increasing trend in net worth continued in 2012 as well and increased to 6,399 crores and in 2013 it increased to the level of 7,046 crores. The net worth has thus shown a favourable trend from the past five years. In terms of percentage the net worth of SIDBI has increased 49.50 percent since March 2008.

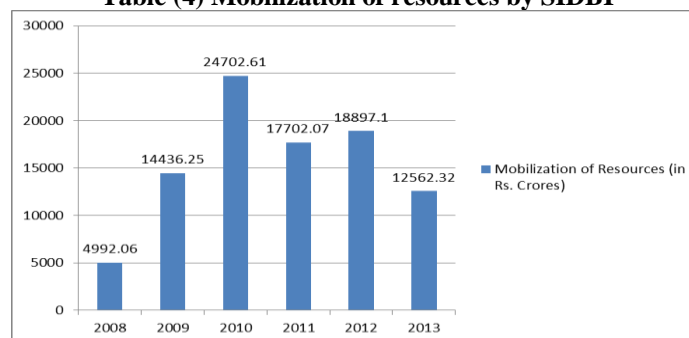
Table (3) Cost of funds of SIDBI



Source: SIDBI Annual Reports 2008-13

From the above table the cost of funds of SIDBI in the interest expenses was Rs. 873 crores in March 2008. The cost increased to Rs. 1,069 crores in 2009. The cost of funds further increased to Rs.1,477 crores in 2010. In 2011, the cost of funds jumped to Rs.2,224 crores and increased to Rs. 2,524 crores in 2012. In March 2013, the cost of borrowings increased to Rs. 3,039 crores. In terms of percentage, the cost of funds has increased to 248.10 percent during the last five years since 2008.

Table (4) Mobilization of resources by SIDBI

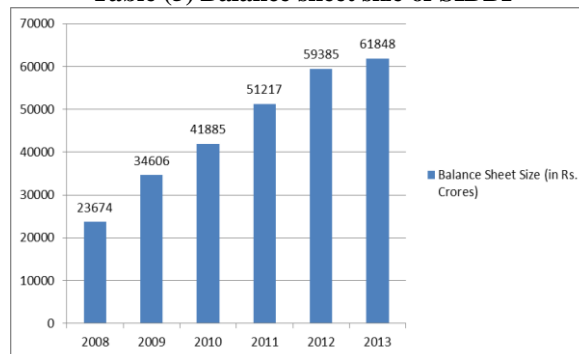


Source: SIDBI Annual Reports 2008-2013

From the above table it can be observed that in March 2008, the borrowings (domestic) of SIDBI stood at Rs. 4,992.06 crores. In 2009 the borrowings increased to Rs. 14,436.25 crores. The borrowings further increased to

Rs. 24,702.61 crores in 2010. However in 2011, the borrowings decreased to Rs. 17,702.07 crores. In the year 2012, the borrowings of SIDBI again increased to Rs. 18,897.10 crores. In 2013, the borrowings again decreased to Rs. 12,562.32 crores.

Table (5) Balance sheet size of SIDBI

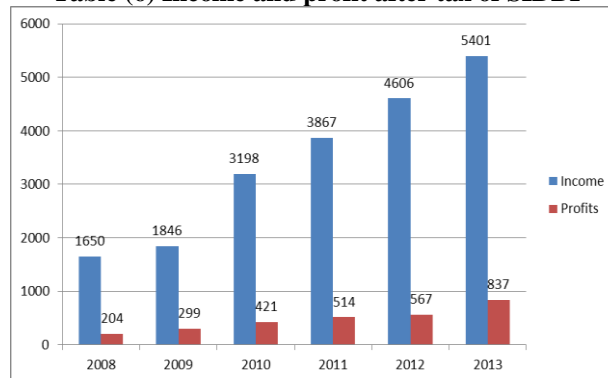


Source: SIDBI Annual Reports 2008-13

The value of assets of SIDBI in 2008 was recorded Rs. 23,674 crores which increased to Rs. 34,606 crores in 2009. The assets further increased to the value of Rs. 41,885 crores in 2010. The increasing trend continued in 2011 with an increase in the value of assets to the level of 51,217 crores. In 2012 the value of assets further increased to Rs. 59,385 crores. In 2013, the assets value increased to Rs. 61,848 crores. During the last five years the assets of SIDBI have recorded an increase in value by 161.24 percent.

Following is the analysis of income and profit after tax, NPAs, capital adequacy ratio and disbursements by SIDBI.

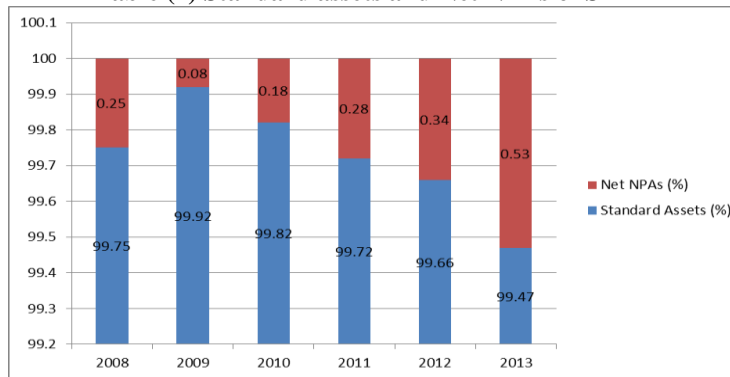
Table (6) Income and profit after tax of SIDBI



Source: SIDBI Annual Reports 2008-13

The income of SIDBI was 4,606 crores in 2012 which increased to 5,401 crores in 2013. The profits from the year 2012 to year 2013 increased to 17.26%. The income in 2008 was Rs. 1,650 crores which increased to Rs. 1,846 crores in 2009 and further to 3,198 crores in 2010. The increasing trend also continued in 2011 where the bank recorded an income of 3,867 crores. The SIDBI recorded a 227.33% increase in its income during the five years period from 2008 to 2013 which is remarkable. Net profits of SIDBI were recorded at 567 crores in 2012 which increased to 837 crores in 2013. In terms of percentage, there has been an increase in the profits of SIDBI by 47.61% in the year 2013 in comparison to the previous year. The growth in profits is remarkable in a one year period. The profits in 2008 were Rs. 204 crores which increased to Rs. 299 crores in 2009 and further increased to Rs. 421 crores in 2010. In 2011, the profits again increased to Rs. 514 crores. During the five year period from 2008 to 2013, the profits of SIDBI increased to 310.29%.

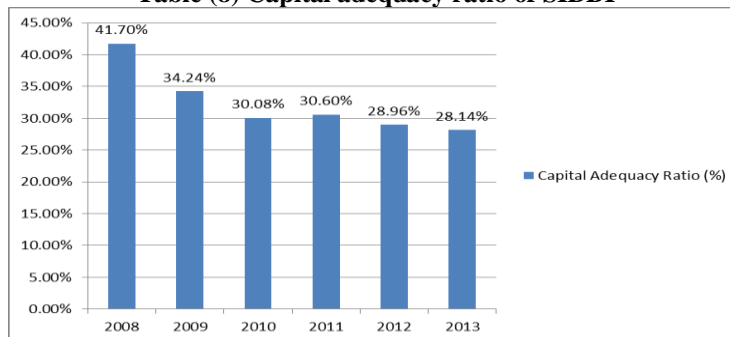
Table (7) Standard assets and Net NPAs of SIDBI



Source: SIDBI Annual Reports 2008-13

The net NPAs of SIDBI were recorded at 299.15 crores in 2013. There has been an increase in the NPAs during the one year period as net NPAs were 183.92 crores in 2012. In terms of percentage, the NPAs were 0.34% in 2012 and increased to 0.53% in 2013. The NPAs levels are low as against prescribed by the RBI which is 2%. In 2010 net NPAs of SIDBI were recorded at 69.09 crore rupees which in terms of percentage was 0.18%. In 2011, net NPAs were 127.18 crores which in terms of percentage is 0.28%. It is observed in this study that the bank has efficient credit and risk management that has kept NPA levels low throughout from 2010 to 2013.

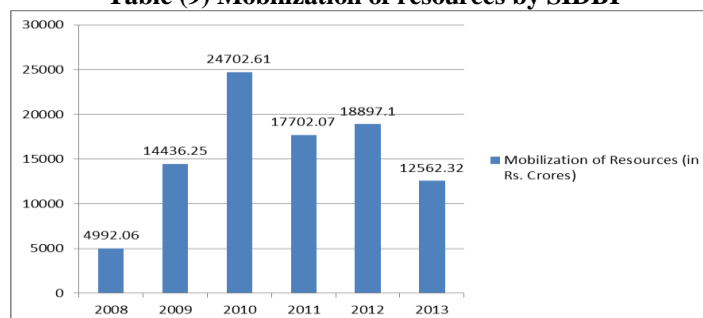
Table (8) Capital adequacy ratio of SIDBI



Source: SIDBI Annual Reports 2008-13

The CAR of SIDBI was 28.96% in 2012 which declined to a minimal difference of 28.14% in the year 2013. It can be observed that the CAR of SIDBI is at a fairly comfortable level against prescribed by RBI which is 9%. The CAR or CRAR was 30.08% in 2010 which remained more or less the same in the next year at 30.60% (2011). The CAR was more comfortable in 2009-10 and 2010-11 than in 2011-12 and 2012-13. In 2008 CAR was 41.70% and in 2009 it was 34.24%. High CAR of 41.70% in 2008 depicts that SIDBI had idle funds in that period. Overall High CAR in the past five years reveals that SIDBI had idle funds during these years.

Table (9) Mobilization of resources by SIDBI



Source: SIDBI Annual Reports 2008-2013

From the above table it can be observed that in March 2008, the borrowings (domestic) of SIDBI stood at Rs. 4,992.06 crores. In 2009 the borrowings increased to Rs. 14,436.25 crores. The borrowings further increased to Rs. 24,702.61 crores in 2010. However in 2011, the borrowings decreased to Rs. 17,702.07 crores.

In the year 2012, the borrowings of SIDBI again increased to Rs. 18,897.10 crores. In 2013, the borrowings again decreased to Rs. 12,562.32 crores.

ROTA

In the following table return on total assets (ROTA) has been calculated from the period 2008-2013 by dividing net income from average total assets.

Table (10) ROTA of SIDBI

Year	ROTA (%)
2008	0.70
2009	0.78
2010	0.90
2011	0.92
2012	0.93
2013	1.35

Source: SIDBI Annual Reports 2008-13

From the above table it can be observed that ROTA of SIDBI has increased from 0.70% to 1.35% in 2013. There has been a consistent increase in the return of SIDBI during these five years. Though in absolute terms, the overall return on assets is low as it has hovered around one per cent.

II. Conclusion

The capital adequacy ratio of SIDBI was very high in 2008 at 41.70 percent which came down to 28.14 percent in 2013. Still the CAR is higher than required. This is an indication of under utilization of funds. There has been a slight decline in the disbursements by SIDBI. In 2012, the disbursements were Rs. 41,160 crores which declined to Rs. 40,000 crores in 2013. However the cost of funds has been increasing for SIDBI which is an indication of pressure on interest margins.

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