

A Study on Profitability of Sidbi

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Abstract: Small Industries Development Bank of India (SIDBI), set up on April 2, 1990 under an Act of Indian Parliament, is the Principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector and for Co-ordination of the functions of the institutions engaged in similar activities. The growth of the economy depends on the sound financial institutions of a country the role of financial intuitions in an economy are remarkable growth of investment and savings. A business growth which can be attained only through the availability of finance with reasonable rate of interest. The contribution of financial the intuitions like IFC, SFC, SIDBI, IFCI, UTI, ICICI, IDBI, etc., to the GDP. Among these, SIDBI is a vital role in mobilizing savings and investment in an economy. Its contributions in earning surplus financing to meet the business risk in order to not only expand the business but also to run the business smoothly. In this context, researchers have selected the topic on "A Study on profitability of SIDBI".

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I. Introduction

SIDBI was established on April 2, 1990, The Small Industries Development Bank of India Act, 1989 envisaged SIDBI to be "The principal financial institution for the promotion, financing and development of industry in the small scale sector and to co-ordinate the functions of the institutions engaged in the promotion and financing or developing industry in the small scale sector and for matters connected therewith or incidental thereto.

BUSINESS DOMAIN OF SIDBI

The business domain of SIDBI consists of Micro, Small and Medium Enterprises (MSMEs), which contribute significantly to the national economy in terms of production, employment and exports. MSME sector is an important pillar of Indian economy as it contributes greatly to the growth of Indian economy with a vast network of around 3 core units, creating employment of about 7 crore, manufacturing more than 6,000 products, contributing about 45% to manufacturing output and about 40% of exports, directly and indirectly. In addition, SIDBI's assistance also flows to the service sector including transport, health care, tourism sectors etc.

SIDBI AMONG TOP 30 DEVELOPMENT BANKS OF THE WORLD

SIDBI retained its position in the top 30 Development Banks of the World in the ranking of The Banker, London. As per the May 2001 issue of The Banker, London, SIDBI ranked 25th both in terms of Capital and Assets.

ACCESS TO GOVERNMENT SCHEMES

SIDBI is a nodal agency to roll out Government Schemes for the Micro, Small and Medium Enterprises. With our unique, in-depth understanding of the various schemes, we can help you secure maximum possible advantage

DEVELOPMENT OUTLOOK

The major issues confronting MSMEs are identified to be:

- Technology obsolescence
- Managerial inadequacies
- Delayed Payments
- Poor Quality
- Incidence of Sickness
- Lack of Appropriate Infrastructure and
- Lack of Marketing Network

There can be many more similar issues hindering the orderly growth of MSMEs. Over the years, SIDBI has put in place financing schemes either through its direct financing mechanism or through indirect assistance mechanism and special focus programmers under its P&D initiatives. In its approach, SIDBI has struck a good balance between financing and providing other support services.

CO-ORDINATION AND UNDERSTANDING

As an apex institution, SIDBI makes use of the network of the banks and state level financial institutions, which have retail outlets. SIDBI supplements the efforts of existing institutions through its direct assistance schemes to reach financial assistance to the ultimate borrowers in the small scale sector. Refinancing, bills rediscounting, lines of credit and resource support mechanisms have evolved over the period of time to route SIDBI's assistance through the network of other retail institutions in the financial system.

Improved levels of co-ordination for development of the small scale sector is also achieved through a system of dialogue and obtaining feedback from the representatives of institutions of small scale industries who are on the SIDBI's National Advisory Committee and Regional Advisory Committees.

SIDBI has entered into Memoranda of Understanding with many banks, governmental agencies, international agencies, research & development institutions and industry associations to facilitate a co-ordinate approach in dealing with the issues for development of small scale industries.

SIDBI's MOUs

- Swiss Agency for Development and Co-operation
- Small Industries Development Organization
- Auto Components Manufactures Association
- Council for Scientific and Industrial Research
- Small Enterprise Assistance Funds (SEAF) For setting up of SEAF India SME Equity Fund and for other capacity building initiatives for SMEs

STATEMENT OF THE PROBLEM

The growth of the economy depends on the sound financial institutions of a country the role of financial intuitions in an economy are remarkable growth of investment and savings. A business growth which can be attained only through the availability of finance with reasonable rate of interest. The contribution of financial the intuitions like IFC, SFC, SIDBI, IFCI, UTI, ICICI, IDBI, etc., to the GDP. Among these, SIDIBI is a vital role in mobilizing savings and investment in an economy. Its contributions in earning surplus financing to meet the business risk in order to not only expand the business but also to run the business smoothly. In this context, researcher has selected the topic on "A Study on profitability of SIDBI".

OBJECTIVES

- ❖ To analyze the profitability of SIDBI
- ❖ To examine the growth interest income and interest expenses of SIDBI
- ❖ To find out growth of total income and total expenditure of SIDBI

SCOPE OF THE STUDY

- ❖ The study would help to realize profitability of SIDBI.
- ❖ The study would help to know growth of the total income and total expenditure of SIDBI
- ❖ The study would help to understand the revenue earned by SIDBI only through interest and as well as spending on interest payment.

LIMITATION OF THE STUDY

The study was based on only secondary data for 23- years which collected from annual report of SIDBI. The study period covered only liberalization period. Therefore, the result would not be covered other periods.

II. Methodology

For the present study the following methodology adopted as follows.

NATURE OF RESEARCH DESIGN

The present study intends to analysis the profitability of small industrial development bank of India, the interest income and interest payment of SIDBI and growth of total income and total expenditure of SIDBI, Its analytical research in nature.

NATURE OF DATA

The secondary data used for the present study.

SOURCES OF DATA

The collected data for the study were from compiled from annual report of SIDBI, Hand Book of Statics, RBI bulletin and other journals and magazine.

PERIOD OF STUDY

The study period covered 23- years i.e. from 1990-91 to 2012-13. The researcher has selected the above study period to base on liberalization.

STATISTICAL TOOLS APPLIED

The profit performance of SIDBI is measured on the basics of interest income, interest expenses, spread, non-interest expense, burden, total income, total expense and net profit. In addition, profitability analysis has been made by using various ratios, CV and Mean values.

PROFITABILITY RATIOS (BASED ON REVENUE)

The interest income as percentage total income implies the relationship between incomes received in the form of interest out of the total income of the bank. The frequent changes in the interest rate affect the profitability of an institution. A high ratio implies profitable position of a firm and adequate margin of safety for the creditors of the firm. The interest expense as percentage to total expenses indicates the proportion of interest expenditure incurred and its relationship with the total expenses of the firm.

The spread is the difference between interest received and interest paid and indicates the margin left for the bank in interest transactions. An upward movement in the margin is considered positive for the financial performance of the bank. The spread as percentage to working funds implies the margin left out of the total working funds. The working funds are the total resources of the bank. Here, working funds implies total assets of the bank. The non-interest income as percentage to total income implies the proportion of non-interest income received by the bank out of the total income received during the year. The non-interest expense as percentage to total expenses signifies the quantum of funds spent apart from interest out of the total expenses incurred during the year. It is required to exercise proper control over these expenses to increase the volume of business. A downward movement in the ratio is considered favorable for an institution. Burden is the difference between non-interest expenditure and non-interest income of an institution. Every institution always tries to reduce the amount of burden to ensure smooth conduct of its business. Operating expenses as percent to total expenses measures the of operating efficiency of an firm. A low ratio is considered as favorable for firm because it provides high margin to meet other expenses of the business.

Operating expenses of the bank includes establishment expenses, directors and committee members fees, stationery, printing and etc. The interest income as percent to total income, interest expenses as percent to total expenses as percent to total expenses, burden as percent to working funds, non-interest expenses as percent total expenses ratio of SIDBI for the period 1990-91 2012-13 are presented in table 01

TABLE -01 Profitability Ratios Based On Revenue

YEAR	INTEREST INCOME TO TATAL INCOME	INTEREST EXPENSES TO TOTAL EXPENSES	SPREAD TO WORKING FUNDS	NON-INTEREST INCOME TO TOTAL INCOME	NON-INTEREST EXPENSES TO TOTAL EXPENSES	BURDEN TO WORKING FUNDS	OPERATING EXPENSES TO TOTAL EXPENSES
1990-91	94.51	96.86	0.46	5.49	3.14	-0.21	3.14
1991-92	95.86	97.13	0.95	4.14	2.87	-0.13	2.79
1992-93	95.97	95.01	1.46	4.03	4.99	0.01	4.73
1993-94	94.38	96.81	1.46	4.03	4.99	0.01	4.73
1994-95	94.10	96.38	1.56	5.90	3.62	-0.29	3.62
1995-96	92.29	94.95	1.88	7.71	5.05	-0.37	5.05
1996-97	92.51	92.84	2.21	7.49	7.16	-0.21	7.16
1997-98	90.58	93.56	2.42	9.42	6.44	-0.49	6.44
1998-99	90.59	92.86	2.50	9.41	7.14	-0.44	7.14
1999-00	93.64	92.70	2.66	6.36	7.30	-0.11	7.30
2000-01	91.90	91.28	2.61	8.10	8.72	-0.18	8.72
2001-02	87.78	92.65	1.70	12.22	7.35	-0.60	7.35
2002-03	78.63	90.26	0.69	21.37	9.74	-1.10	9.74
2003-04	71.69	85.07	0.85	28.31	14.93	-1.09	14.93
2004-05	65.49	82.16	0.56	34.51	17.84	-1.18	17.84
2005-06	74.81	81.24	1.20	25.19	18.76	-0.65	18.76
2006-07	85.46	79.27	2.02	14.54	20.73	-0.09	20.73
2007-08	89.01	67.03	2.45	10.99	32.97	1.04	32.97

2008-09	82.80	82.76	1.99	17.20	17.24	-0.41	17.24
2009-10	91.29	88.17	2.01	8.71	11.83	-0.06	11.82
2010-11	92.22	89.12	2.62	7.78	10.88	-0.06	10.88
2011-12	89.41	90.26	2.69	10.57	9.74	-0.36	8.58
2012-13	85.63	90.42	2.56	14.37	9.58	-0.73	9.58
MEAN	87.85	89.51	1.79	12.15	10.49	-0.35	10.42
CV	9.24	8.03	41.50	66.81	68.51	-132.29	69.15

Source: Compiled from annual reports of **SIDBI**.

It was found that the interest income as percent to total income fell down from 94.51 percent in 1990-91 to 85.63 percent in 2012-13 along with an average of 87.85 percent during the period. The analysis of the ratio revealed a fluctuating trend over the period. In case of the interest expenses as percentage to total expenses remained fluctuating during the study period. The ratio declined from 96.86 percent in 1990-91 to 90.42 percent 2012-13 and the mean value remained at 89.51 percent during the study period. The interest spread as percentage to working funds increased from 0.46 percent in 1990-91 to 2.56 percent in 2012-13 along with an overall average of 1.79 percent during the same period. However, the interest spread as percentage to working funds showed greater degree of variation (CV=41.50) as compared to that of interest income as percentage to total income (CV=9.24) and interest expenses as percentage to total expenses (CV=8.03) during the period of study. It further explained that non-interest income as percentage to total income of the bank increased from 5.49 percent in 1990-91 to 14.37 percent in 2012-13 and the overall average rate was 12.15 percent during the same period. The non-interest expenses as percentage to total expenses grew from 3.14 percent to 9.58 percent over the period and the mean value was 10.49 per cent during the same period. However, the burden percentage to working funds was negative throughout the period and the same declined from Rs -0.21 crore in 1990-91 to Rs -0.73 crore in 2012-13. The operating expenses as percentage to total expenses also increased from 3.14 percent in 1990-91 to 9.58 percent along with mean value of 10.42 percent during the period of study. Further, the operating expenses as percentage to total expenses showed lower degree of consistency (CV=69.15) as compared to non-interest expenses as percentage (CV=68.51), non-interest income as percentage to total income (CV=66.81) and burden as percentage to working funds ratio (CV=-132.29) during the same period.

Table – 2 Growth Of Interest Income,Interest Expense And Spread In Sidbi

YEAR	INTEREST INCOME	INTEREST EXPENSES	SPREAD
1990-91	401.79	377.29	24.50
1991-92	485.11	421.41	63.69
1992-93	647.54	538.13	109.41
1993-94	803.98	693.86	110.11
1994-95	941.00	779.38	161.63
1995-96	1047.74	829.82	217.92
1996-97	1193.80	905.04	288.76
1997-98	1275.88	938.68	337.21
1998-99	1429.97	1047.59	382.38
1999-00	1496.27	1055.40	440.87
2000-01	1488.25	1042.38	445.86
2001-02	1369.05	1069.45	299.60
2002-03	1105.16	984.26	120.90
2003-04	825.44	660.92	164.52
2004-05	620.59	519.27	101.32
2005-06	720.79	475.56	245.22
2006-07	1014.65	584.87	429.78
2007-08	1458.06	872.55	585.87
2008-09	1724.19	1037.02	687.17
2009-10	2318.64	1476.82	841.83
2010-11	3565.87	2224.51	1341.36
2011-12	4118.94	2523.82	1595.11
2012-13	4624.84	3039.25	1585.58
MEAN	1507.72	1047.71	460.01
CV	74.78	64.67	100.90

Source: compiled from annual report of **SIDBI**.

The interest income of SIDBI comprises of interest and discount on loans, advances and bills. The bank incurs interest expenditure in the form of financial charges every year. The difference between interests received and interest paid is known as spread. A higher interest spread is positive indicator for bank's profitability. There are presented in the task interest income, interest expense and spread of SIDBI for the period 1990-91 to 2012-13. are presented in the table.

It was observed that the interest income of the bank has increase from Rs 401.79 core in 1990-91 to Rs 4624.84 crore in 2012-13 and registered a growth rate of 11.75 percent during the period. The interest expenses of bank also increased from Rs 377.29 crore in 1990-91 to Rs 3039.25 crore in 2012-13 and the growth rate was recovered 9.95 percent over the same period. It further recovered that interest spread of the bank increased from Rs 24.50 crore in 1990-91 to Rs 1585.58 crore in 2012-13 and recorded growth of 20.87 percent over the period. The overall average interest income was registered Rs 1507.72 crore, interest expenses was Rs 1047.71 crore and spread was Rs 460.01 crore respectively. In the case of interest spread showed greater degree of variation (CV=100.9) as compared to interest income (CV=74.78) and interest expenses (CV=64.67) during the study period.

Table 3 Profitability Ratios (Based On Investments)

YEAR	RETURN ON ADVANCE	RETURN ON INVESTMENT	RETURN ON FUNDS	COST OF FUNDS	RETURN ON ASSETS	RETURN OYN EQUI
1990-91	9.55	12.51	9.66	8.12	0.67	7
1991-92	9.88	10.52	9.90	7.26	1.08	13
1992-93	10.93	9.17	10.87	9.24	1.45	17
1993-94	12.10	3.90	11.26	9.89	1.43	18
1994-95	13.13	4.50	12.20	11.28	1.85	20
1995-96	12.94	7.58	12.43	11.37	2.25	22
1996-97	13.41	4.52	12.55	12.04	2.42	20
1997-98	13.14	6.90	12.44	11.96	2.91	16
1998-99	12.79	8.87	12.45	12.59	2.94	15
1999-00	12.11	9.84	11.95	12.69	2.77	13
2000-01	12.97	11.15	12.01	14.63	2.79	12
2001-02	11.96	6.69	11.11	22.01	2.30	9
2002-03	9.25	9.24	9.25	20.02	1.79	7
2003-04	9.05	6.30	8.24	12.94	1.94	8
2004-05	6.15	6.73	6.30	16.71	1.74	7
2005-06	5.52	6.59	5.72	15.83	1.86	8
2006-07	6.70	3.23	6.11	13.10	2.12	9
2007-08	7.64	2.85	7.35	9.21	1.41	6
2008-09	5.88	3.48	5.74	4.81	2.40	15
2009-10	6.49	3.94	6.37	5.77	2.07	15
2010-11	7.74	5.97	7.66	5.66	1.56	13
2011-12	7.66	11.10	7.82	5.47	1.81	16
2012-13	8.25	17.78	8.71	6.34	1.93	16
MEAN	9.75	7.54	9.48	11.26	1.98	13.08
CV	27.65	47.76	26.18	40.72	29.39	36.15

SOURCE: Compiled from annual reports of SIDBI.

The return on advance ratio of the bank declined from 9.55 per cent in 1990-91 to 8.25 per cent in 2012-13 along with an average of 9.75 per cent over the period .the return on investment ratio increased from 12.51 per cent in 1990-91 to 17.78 per cent in 2012-13 and the mean value is 7.54 per cent over the period. Further it was found that return on funds ratio also declined from 9.66 per cent in 1990-91 to 8.71 per cent in 2012-13 and the overall average of the ratio is 9.48 per cent during the study period. The cost of funds ratio decreased from 8.12 per cent in 1990-91 to 6.34 per cent in 2012-13 and the mean value was 11.26 per cent over the period. It further showed that return assets ratio increased from 0.67 per cent in 1990-91 to 1.93 per cent in 2012-13 along with an average of 1.98 per cent during the reference period. The return on equity also increased from 7 per cent in 1990-91 to 16 per cent in 2012-13 and the main value was 13.08 per cent over the period of the study. The equity ratio showed wider fluctuation during the same period. However, a high degree of variation CV 47.76, has been observed in return on investments ratio, followed by cost of funds CV 40.72, return on equity CV 36.15 return assets CV 29.39, return on advances CV 27.65 and return on funds CV 26.16 respectively during the reference period

III. Conclusion

From the analysis, it was concluded that even though the total income, net profit, long term fund, Non interest income of SIDBI, was recorded higher growth, some of the dimensions like interest spread , non-interest expenses ,total expenses ,credit deposits in the study were found unfavorable. Therefore, the government should take steps to bring the growth of the SIDBI through simplifying the procedures and enhancing the monetary support timely.

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