Analyzing the Financial Position of Delhi Financial Corporation Over the Years (Intra firm Comparison)

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ABSTRACT

Purpose- In India, financial institutions play a crucial role in economic upliftment in terms of loans, advance and management of assets. This study will analyze the financial position of Delhi Financial Corporation (DFC) over the past five years, focusing on intra-firm comparisons. Design/Methodology/Approach – This research is based on secondary data and it is a case study that presents an in-depth analysis of the financial position of Delhi Financial Corporation (DFC) over the past five years, focusing on intra-firm comparisons.

Findings – Results reveal stakeholders with valuable insights into the corporation's financial performance, stability, and potential areas for improvement.Originality- Data is accurate and original, it was collected manually and studied the last 5 years of data and analysed the financial position of the company based on the data,

Keywords: *Financial Performance (Intra- firm) comparison, Solvency, Efficiency, Liquidity and profitability.*

INTRODUCTION

DELHI FINANCIAL CORPORATION (DFC) was established in April 1967 under State Financial Corporations Act 1951 on reorganization of erstwhile Punjab Financial Corporation (PFC) which was divided into four SFCs in 1967 i.e., Delhi Financial Corporation (For NCT of Delhi & UT of Chandigarh), Punjab Financial Corporation (For Punjab), Haryana Financial Corporation (For Haryana) and Himachal Pradesh Financial Corporation (For Himachal Pradesh). The main objective of the Corporation is financing of loans for establishing and running micro, small and medium scale industries, service sector industries, commercial/ transport sector in NCT of Delhi and UT of Chandigarh. DFC has been playing a vital role in promotion and development of MSMEs and the service sector. The Corporation extends financial assistance for Restaurants/ Hotels, Amusement parks & other tourism related activities, Construction of Commercial complexes/ multiplexes, Hospitals/ Nursing homes/ Clinics/ Diagnostic centres, commercial vehicles etc. as specified under SFC's Act, 1951 or any other activity approved by SIDBI.

The corporation can extend financial assistance upto Rs. 10.00 crores for companies & co-operative societies and Rs. 4.00 crores to proprietorship and partnership firms. However, the limit of assistance can be doubled with the prior approval of the Small Industrial Development Bank of India. It allows a longer repayment period as compared to other banks and financial institutions. The primary function of financial institutions to lend

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funds as loans to various sectors such as agriculture, industry, personal loans, housing loans etc., in recent times the institutions have become very cautious in extending loans. The reason being mounting non-performing assets (NPAs). An NPA is defined as a loan asset, which has ceased to generate any income for a bank whether in the form of interest or principal repayment. Vision is to become a leader for catering to the financial and developmental needs of the MSME sector to make it robust and competitive. To position DFC as a customer-friendly institution and a household name in NCT of Delhi and UT of Chandigarh. Mission is "to facilitate credit flow to MSMEs for promotion, development and economic growth of this sector". The objective of the DFC is to extend financial assistance to MSME and service sector enterprises in the small and medium scale in National Capital Territory of Delhi and Union Territory of Chandigarh. To establish uniformity in regional industries, to bring efficiency in regional industries units and to provide incentives to new industries.
Financial analysis is the process of evaluating businesses, projects, budgets, and other finance-related transactions to determine their performance and suitability. Typically, financial analysis is used to analyze whether an entity is stable, solvent, liquid, or profitable enough to warrant a monetary investment. This is done through the synthesis of financial numbers and data. A financial analyst will thoroughly examine a company's financial statements—the income statement, balance sheet, and cash flow statement. Financial analysis can be conducted in both corporate finance and investment finance settings. Ratio analysis is a quantitative method of gaining insight into a company's liquidity, operational efficiency, and profitability by studying its financial statements such as the balance sheet and income statement. Ratio analysis is a cornerstone of fundamental equity analysis. Ratio analysis compares line-item data from a company's financial statements to reveal insights regarding profitability, liquidity, operational efficiency, and solvency. Ratio analysis can mark how a company is performing over time, while comparing a company to another within the same industry or sector.
Liquidity Ratio measure a company's ability to pay off its short-term debts as they become due, using the company's current or quick assets. Liquidity ratios include the current ratio, quick ratio, and working capital ratio. Current Ratio is a liquidity ratio that measures a company's ability to pay short term obligations or those due within one year. Quick Ratio is an indicator of a company's short term liquidity position and measures a company's ability to meet its short-term obligation with its most liquid assets.

Solvency Ratio it also called financial leverage ratios, solvency ratios compare a company's debt levels with its assets, equity, and earnings, to evaluate the likelihood of a company staying afloat over the long haul, by paying off its long-term debt as well as the interest on its debt. Examples of solvency ratios include: debt-equity ratios, debt-assets ratios, and interest coverage ratios. Debt to Asset Ratio shows the total amount of debt a company has relative to its assets. Debt to Equity Ratio This ratio is used to evaluate the company's financial leverage. Interest Coverage Ratio is used to determine how easily a company can pay their interest expenses on outstanding debt. A higher interest coverage ratio indicates stronger financial health, the company is more capable of meeting interest obligations. Profitability ratios are the ratios which convey how well a company can generate profits from its operations. Profit margin, return on assets, return on equity, return on capital employed, and gross margin ratios are all examples of profitability ratios. Return on Asset is a financial ratio that measures the profitability of a business in relation to its total assets. Return on Capital Employed measures the company's profitability and the efficiency with which its capital is used. Return on Shareholder's equity, ROE is considered a gauge of a corporation's profitability and how efficient it is in generating profits. The higher the ROE, the more efficient a company's management is at generating income and growth. Net Profit shows the relationship between net profit after tax and net sales.

Efficiency Ratios, also called activity ratios, efficiency ratios evaluate how efficiently a company uses its assets and liabilities to generate sales and maximize profits. Key efficiency ratios include: turnover ratio, inventory turnover, and days' sales in inventory. Fixed Assets Turnover is a ratio that measures how efficiently a company is generating net sales from its fixed assets investments. Total Asset Turnover can be used as an indicator of the efficiency with which a company is using its assets to generate revenue.

REVIEW OF LITERATURE

A literature review is typically undertaken to assess the current state of a specific research topic. It allows the researcher to see how much work has already been done on a specific issue as well as what has yet to be done. Research papers, articles, books, journals, magazines, and other related resources are used to access relevant literature. Some research on financial performance evaluation is addressed below:

According to Lachhman Singh Rawat (2017), the government should also be prepared to bail out the sick SFCs. SFCs should also be prepared to hire professionals to manage their marketing and commercial operations, as well as computerize their whole operations in order to compete with larger financial institutions. G.K. Nair (2000) noted in his paper "Need to rejuvenate State finance corporations" that in order to develop a thriving small firm economy in the country, the State finance corporations must be revitalized. The divide between primary lending institutions and development finance institutions must be eliminated. He further claims that priority sector lending is a source of contention between the government and financial institutions. Bashir (1999, 2000, and 2001) investigated the balance sheets and income statements of a sample of Islamic banks to determine the causes of their performance, specifically the relationship between profitability and the banks' features. He discovered that the capital and loan ratios increase the measure of profitability. Furthermore, the paper emphasizes the empirical importance that proper capital ratios and loan portfolios have in explaining bank performance.

Samad and Hasan (1999) use financial ratio analysis to examine the performance of Malaysian Islamic banks from 1984 to 1997, concluding that bankers' lack of understanding was the primary reason for the slow development of loans under profit sharing. Samad (2004) investigates experimentally the performance of Bahrain's commercial banks in terms of credit (loan), liquidity, and profitability from 1994 to 2001. Ten financial ratios are chosen to assess credit, liquidity, and profitability. Using the t-test on these financial variables, he discovers that commercial banks' liquidity performance falls short of that of the banking industry. Commercial banks are less profitable, less liquid, and more vulnerable to risk than the banking industry as a whole. This study shows no unambiguous result regarding credit performance.

Jacob V. L. (2002) did research on KFC's loan policy and recovery performance. He discovered that growing overdues was a significant challenge for KFC. An active participation in achieving this, supervision and follow-up practice should be undertaken. Almazari (2011) attempted to measure the financial performance of seven Jordanian commercial banks from 2005 to 2009 by employing simple regression to estimate the impact of independent variables such as bank size, asset management, and operational efficiency on dependent variables such as return on assets and interest income size. It was discovered that banks with bigger total deposits, credits, assets, and shareholders' equity do not always perform better in terms of profitability. It was also discovered that there is a positive association between financial performance and asset size, asset utilization, and operational efficiency, which was supported by regression analysis, indicating that financial performance is greatly influenced by these independent elements.

According to Jahangir, Shill, and Haque (2007), the traditional measure of profitability through stockholder's equity is quite different in the banking industry than in any other sector of business, where the loan-to-deposit ratio works as a very good indicator of banks' profitability because it depicts the status of asset-liability management of banks. However, banks' risk is not just associated with asset liability management, but also with development opportunities. Smooth growth promotes better future returns to holders, and profitability entails not only current earnings but also future returns.

Krishna Kumar S (1982) investigated Kerala's approach for mass development of small-scale industry. He proposed a methodical overhaul and rejuvenation of the organization's administration corporation. He discovered that the lending policies and operations of Kerala's commercial banks and government were far apart better. Abdulrahman and El-Sabaawi (2011) attempted to examine the performance of Islamic banks using complex financial analysis based on two tools: (financial analysis using financial ratios) and (analysis of

change and general trend on the basis of the base year). To assess the performance of these banks and the efficiency of management in managing financial resources optimally, as well as to achieve economic and social goals in light of numerous developments occurring in these institutions. According to H.R. Machiraju (2003) in his book "Merchant Banking," SFCs give financial assistance to small and medium-sized businesses through term loans, direct subscription to equity/debentures, bill discounting, and guarantees. They also help with seed capital to the entrepreneurs having viable projects but lacking adequate funds of their own.

Objectives of the Study

1. To study Profitability and Margins of DFC
2. To enhance efficiency in utilizing assets to generate revenue.
3. To analyse the financial performance of DFC and their sustainability.

RESEARCH METHODOLOGY

Data collection

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

Data analysis

The obtained data is edited, categorised, and analyzed using various accounting and statistical tools and methodologies. The methodology used in the study is different ratios i.e., current ratio, quick ratio, return on assets ratio, return on equity ratio, return on capital employed ratio, debt to asset ratio, net profit ratio, total asset turnover ratio and total fixed assets turnover. We analysed this data with the help of the line graph. Because the line graph is a graph that uses lines to connect individual data points. A line graph displays quantitative values over a specified time interval. It is beneficial for showing changes and trends over different time periods, it is also helpful to show small changes that are difficult to measure in other graphs and line graphs are common and effective charts because they are simple, easy to understand, and efficient. The data is displayed using simple classification as well as percentage, ratio, and trend. We analyse the given data of the DFC on the basis of ratio analysis because it provides a better understanding of the DFC's performance. In which liquidity ratios shows that how they are able to convert their assets into cash in a span of short period like in the year 2023 the current ratio is 1.04 and the quick ratio is 1.00 which shows that the company's position is moderate, because their current assets are less and the current liabilities are more. However, on the other hand we calculated the profitability ratio to analyse that the company is profit making or not it includes return on assets i.e., 0.15, return on capital employed i.e., 0.14, return on equity which is negative due to loss occurred i.e., (0.64), and net profit as per the data given in appendix (Table 1) it shows that DFC is suffering from the huge loss i.e., (258.71%) from this we understand the position of the company is not stable and not able to generate the profits.

On the other side, efficiency ratio describes the efficiency of the company in using their assets and convert it to generate revenue in this the total asset turnover and the fixed assets turnover helps in to analyse the data easily which is 0.06 and 4.07 respectively it appears that the company is not effectively use their current assets and fixed assets to generate revenue and having a low asset. and last but not the least in solvency ratio we analyse the company is solvent or not, like company is able to pay their debts on time or not, their equities and the risk taken by the company is high, moderate or low. Then after the computation of the solvency ratio we got know that company solvency position is not much good it is riskier for the company to survive in a long term due to increase in their debts, reduction in the networth and increase in interest expenses on outstanding debt it includes debt to equity i.e., 3.35, debt to assets i.e., 0.77 and interest coverage ratio i.e., 2.01 for the year 2023 respectively.

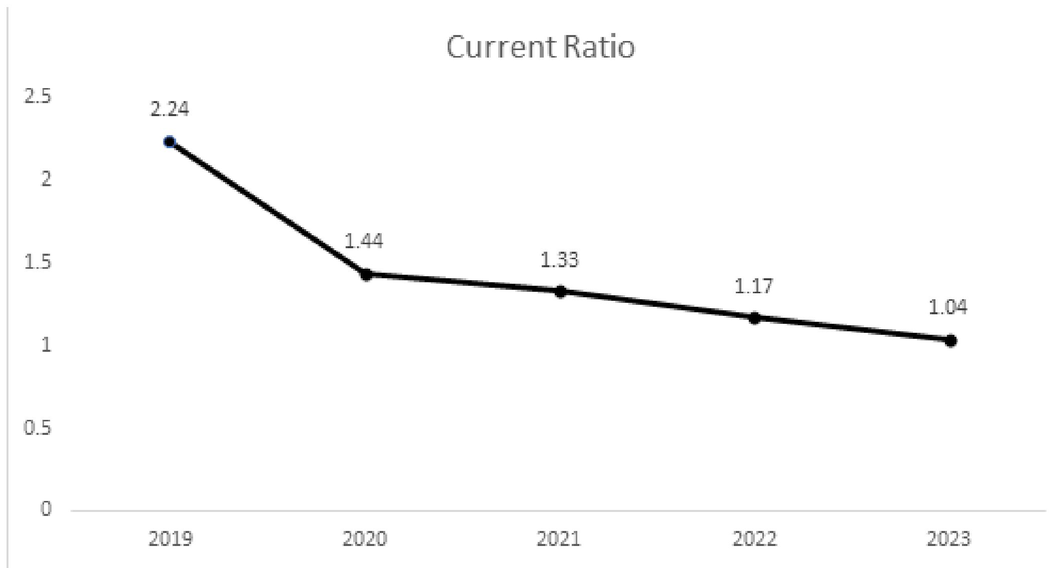


FIG:1 Author's Own

In the year 2019 the current ratio is 2.24, In 2020 the current ratio declines by 64% i.e1.44, In the year 2021 the current ratio declines by 92% i.e1.33, In the year 2022 the current ratio declines by 87% i.e1.17, In the year 2023 the current ratio declined by 89% i.e., 1.04.

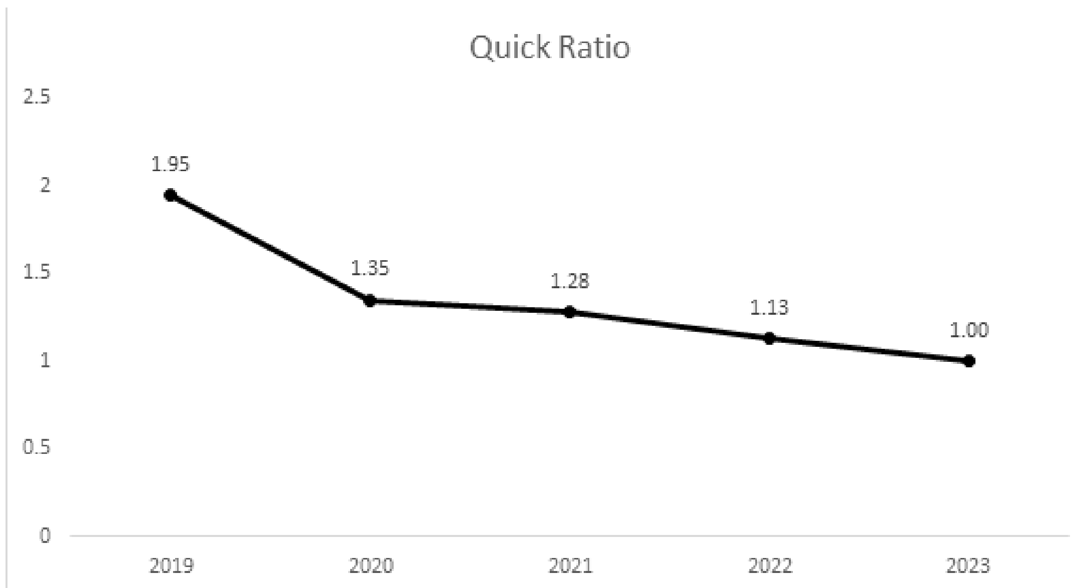


Fig 2: Author's own

In the year 2019 the quick ratio is 1.95, in the year 2020 quick ratio is 1.35 less than 69% from the previous year i.e., 2019, in the year 2021 quick ratio is 1.28 less than 95% from the previous year, in the year 2022 quick ratio is 1.13 less than 88% from the previous year, in the year 2023 quick ratio is 1.00 less than 88% from the previous year.

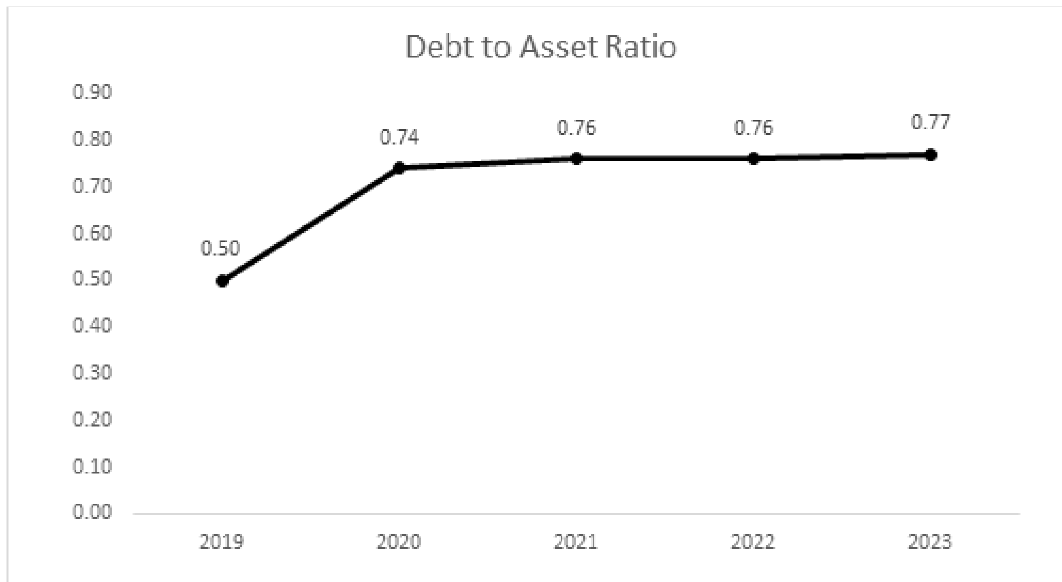


FIG:3 Author's Own

In 2019 the debt to asset ratio is 0.50 or we can say 50%, in 2020 it was 74%, there was a minute change in the year 2021 i.e., 76%, and will remain constant in the year 2022, in the year 2023 there is also a minute change i.e., 77%.

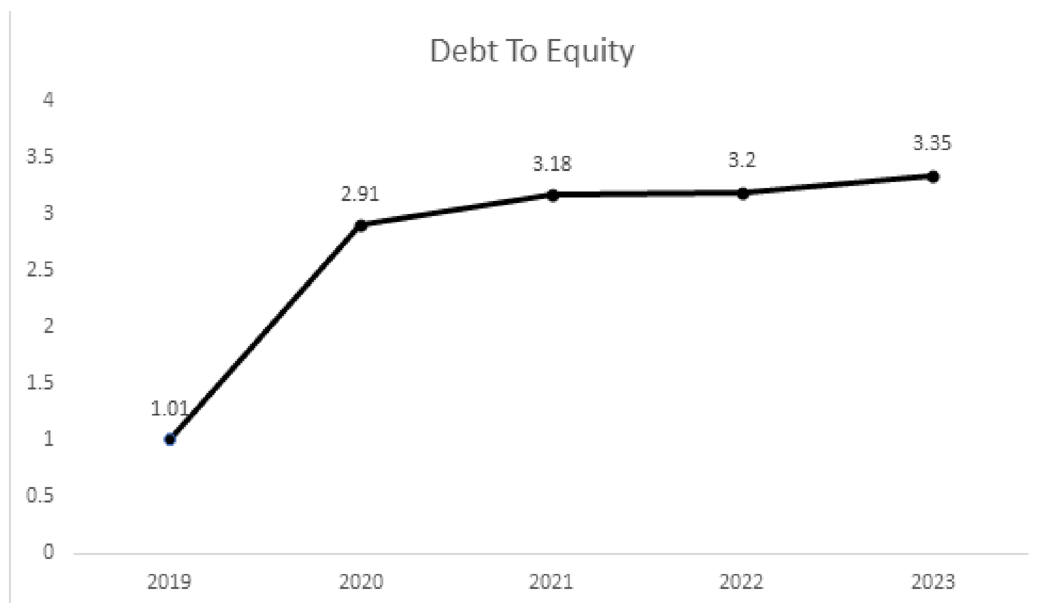


FIG:4 Author's Own

From Fig. 4 it can be depicted that the ratio in the year 2019 was 1.01, in the year 2020 ratio was 2.91, in the year 2021 it was 3.18,iIn the year 2022 it was 3.20 and in the year 2023 it is 3.35.

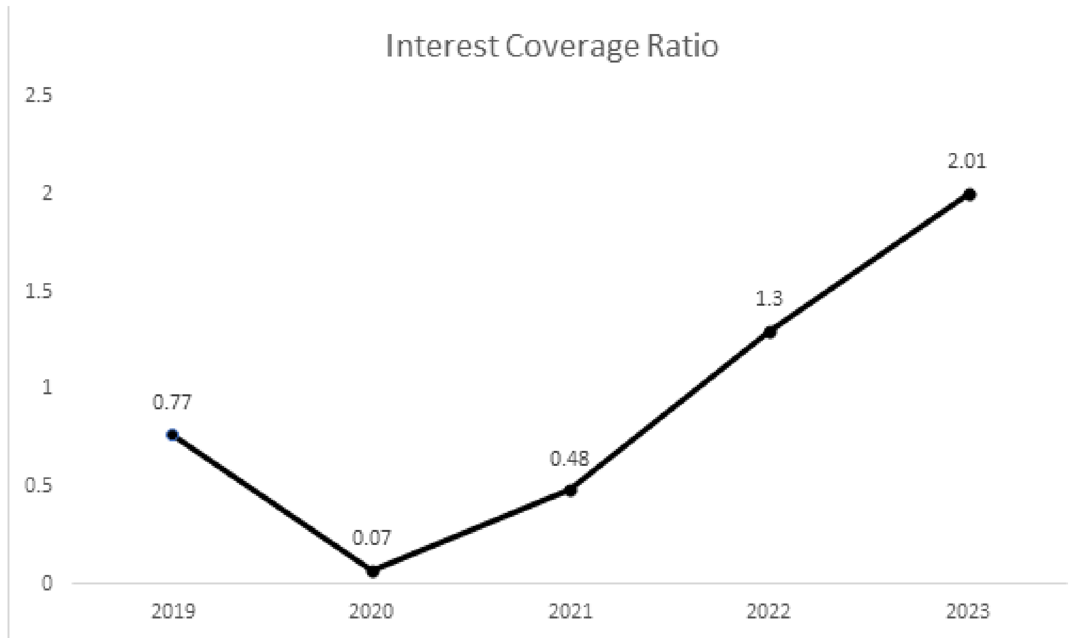


FIG:5 Author's Own

In the year 2019 the ratio of interest coverage ratio is 0.77, in the year 2020 the ratio declined and it was 0.07 and in the year 2021 the ratio was increased to 0.48, in the year 2022 the ratio was increased from 0.48 to 1.3, in the year 2023 the ratio is increased i.e., 2.01.

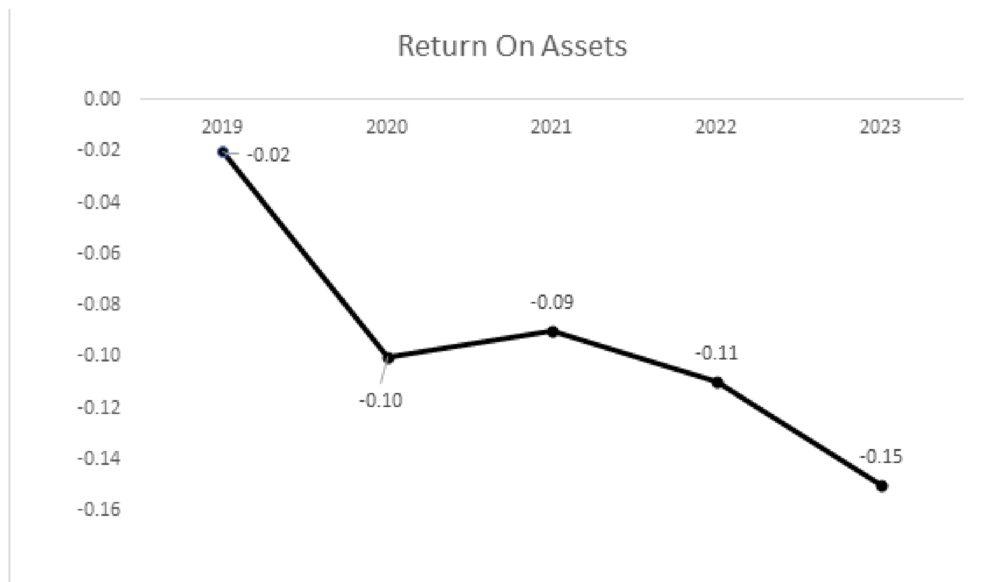


FIG:6 Author's Own

In the year 2019 return on assets ratio was (0.02), in the year 2020 it was (0.10), in the year 2021 it was (0.09), in the year 2022 it was (0.11) and in 2023 it is (0.15).

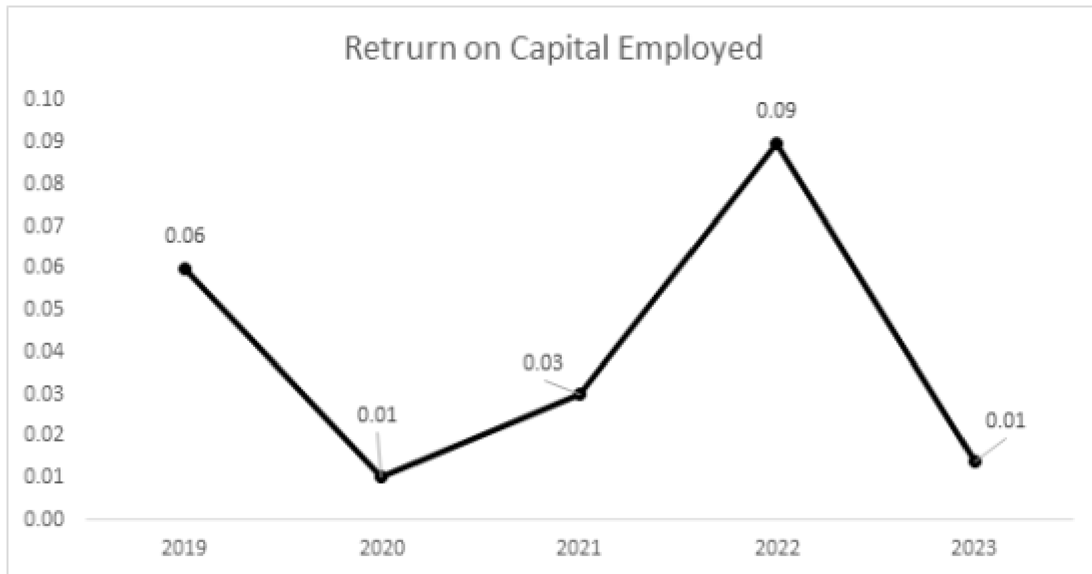


FIG:7 Author's Own

From the Fig 7 it can be observed that in 2019 the capital employed ratio was 0.06, in the next year i.e., 2020 it decreased to 0.01, in the year 2021 and 2022 the ratio increased to 0.03 and 0.09 respectively, again the graph declined to 0.01 in the year 2023.

FIG:8 Author's Own

In the above Fig 8 it can be observed that return on equity in the year 2019 was (0.08), in 2020 was (0.45), in 2021 was (0.35), in 2022 was (0.48) and in 2023 it is (0.64).

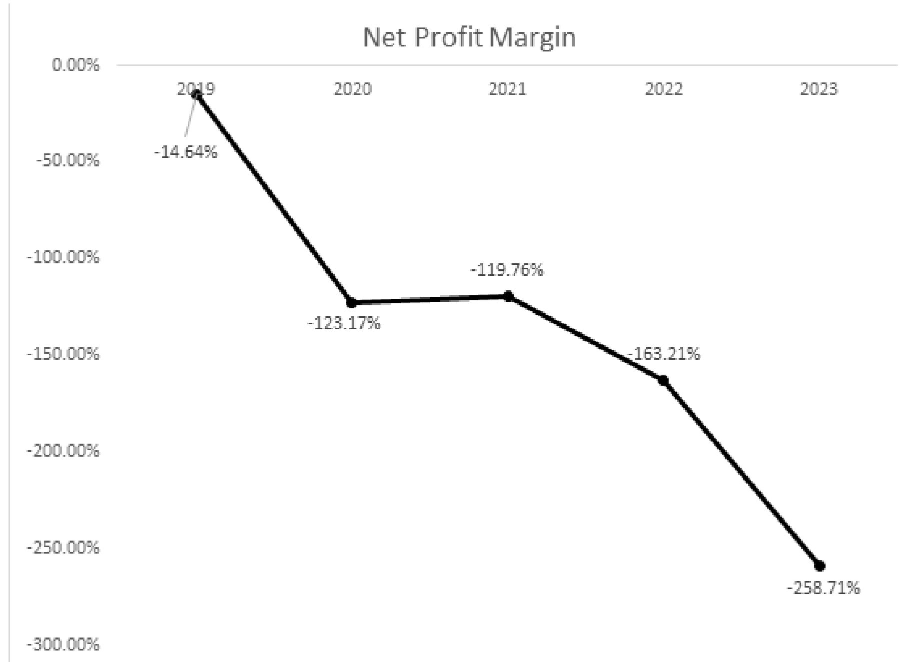


FIG:9 Author's Own

From Fig. 9 it can be reveal that the net profit percentile of the company was (14.64) in 2019, in the year 2020 it was (123.17), in the year 2021 it was (119.76), in the year 2022 it was (163.21), and in the year 2023 it is (258.71).

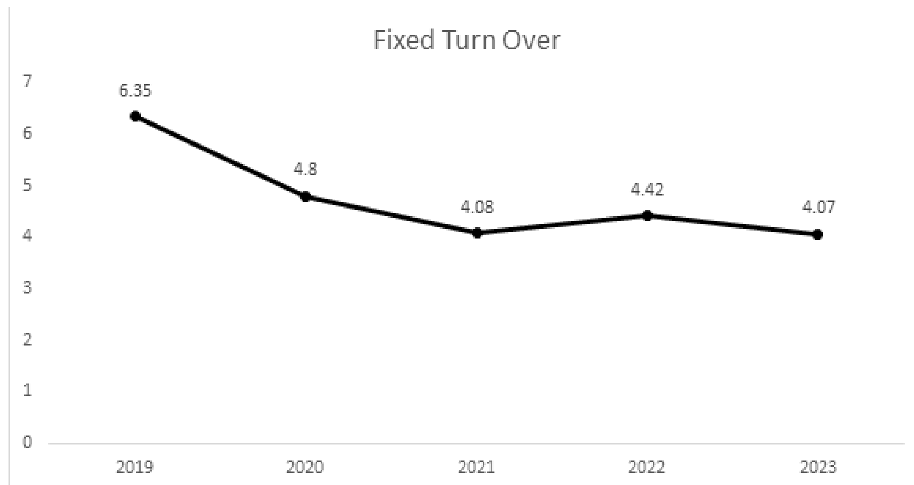


FIG:10 Author's Own

In the year 2019 the fixed asset turnover ratio was 6.35, in 2020 was 4.80, in 2021 was 4.08, in 2022 was 4.42 and in 2023 it is 4.07.

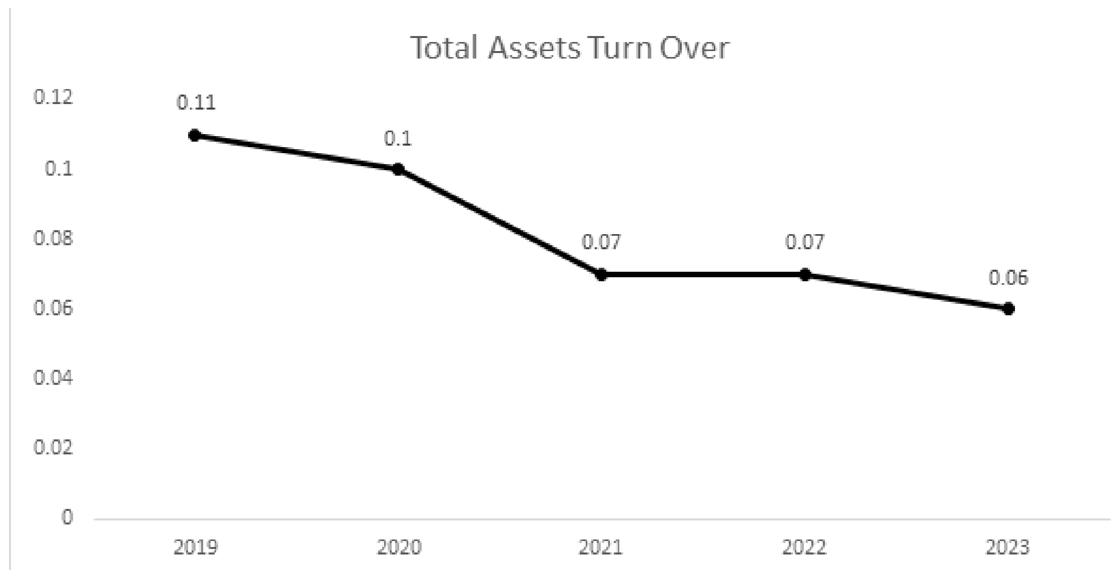


FIG:11 Author's Own

From fig. 11 it can be observed that the ratio is declining year by year i.e 0.11 in 2019, 0.10 in 2020, 0.07 in 2021, 0.07 in 2022 and 0.06 in 2023 respectively.

FINDINGS

From fig.1 it can be observed that in 2019, current assets are increasing and current liabilities are decreasing, in 2020 more than 50% current assets are decreasing and current liabilities are increased, in the year 2023 the current liabilities are increased with the huge amount.

Fig. 2 reveals that there was an increase in their cash outflow which affects the liquidity position of the company, however the company is able to pay its current liabilities not fully but partly. From fig 3 it can be observed that 50% of the company's assets are financed using debt (with the other half being financed through equity) in the year 2019 and after that it increases to 77% which shows that the company carries a high degree of debt on its balance sheet. From Fig 4 we depict that the company's financial position is risky or it is in high risk from which their networth is declining and their debt is increasing.

In fig. 5 we can observe the company cannot easily pay their interest on the outstanding debts, which reveals that there was more expenditure incurred on the interest and the earnings are less.However, a high ratio may also indicate that a company is overlooking opportunities to magnify their earnings through leverage. From fig. 6 it can be observed that there is a growth in the percentile of the ROA which shows that the company is performing well and able to generate its assets. From fig. 7 it can be observed that there are so many variations in the capital employed ratio of the company which depicts that the ratio is lower than expected. It means that the company is not doing a good job at generating profits from its capital.

In fig. 8 the data reveals that the negative earnings are increasing and their capital and borrowings were lower. However, it is indicating that the ratio is lower than expected. From fig 9 it can be observed that the net profit is in negative which depicts that the company is not doing a good job and suffered from huge loss from the year 2019 to 2023.

From fig. 10 and fig. 11 it can be observed that from the year 2019 to 2023 continuously, it shows that the company is not using fixed assets and total assets more effectively due to less revenue generated from the profits.

CONCLUSION

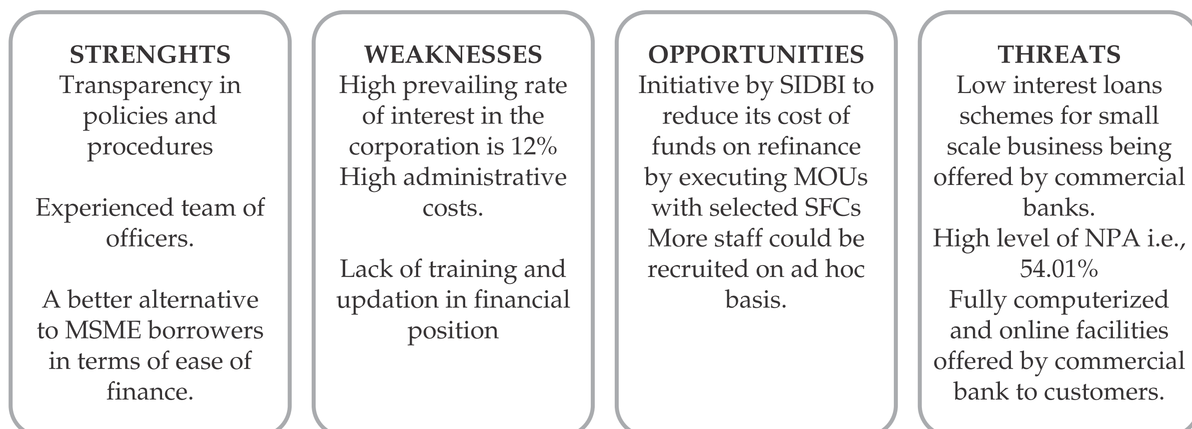
The financial performance of Delhi Financial Corporation during the last five years has been poor, with significant liabilities/debts owing to high NPAs, posing a danger to the company's capacity to demonstrate stability, profitability, and high-risk management. The corporation is not well-positioned for sustained growth, with opportunities for further improvement through targeted operational enhancements and strategic diversification, minimize their NPAs, merge with the profitable organization in the same industry, and it is mandatory for them to recover their loans from defaulters in order to remain sustainable in the market, the percentage of giving interest is reduced to 8-10%. This study assists to protect both the company's net worth and its shareholders/investors if the company's net worth falls since it is not producing any profit during the last five years has been offset by liabilities and debt on which they are unable to pay interest due to their insolvency and financial status.

SUGGESTIONS AND RECOMMENDATIONS

Given these problems, a comprehensive turnaround strategy is required. This should include a thorough examination of operational procedures, strict control over expenditures, a focused approach to income production, and a solid credit risk management strategy. Conduct extensive market research to better understand customer preferences and segment the market for more targeted marketing efforts. Internal processes should be reviewed and improved on a regular basis in order to increase productivity and reduce operational expenses. Optimize asset utilization for revenue generation and consider divesting underperforming or non-core assets. To lower interest costs, evaluate debt structures and examine refinancing possibilities. Investigate debt-reduction options. Seek additional investment from stakeholders or explore partnerships that can help the company raise funds.

SWOT ANALYSIS

SWOT Analysis can help you to challenge risky assumptions and to uncover dangerous blind spots about your organization's performance. If you use it carefully and collaboratively, it can deliver new insights on where your business currently is, and help you to develop exactly the right strategy for any situation.



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Appendix

Table 1- Computation of Financial Ratios of Delhi Financial Corporation over the years.

	2019	2020	2021	2022	2023
Current Ratio	2.24	1.44	1.33	1.17	1.04
Quick Ratio	1.95	1.35	1.28	1.13	1.00
Return on Capital Employed	0.06	0.01	0.03	0.09	0.01
Return On Assets	0.02	0.10	0.09	0.11	0.15
Return On Shareholder's Equity	-0.08	-0.47	-0.35	-0.48	-0.64
Net Profit Margin	-14.64%	-123.17%	-119.76%	-163.21%	-258.71%
Fixed Turnover	6.35	4.8	4.08	4.42	4.07
Total Assets Turnover	0.11	0.1	0.07	0.07	0.06
Debt To Equity	1.01	2.91	3.18	3.2	3.35
Interest Coverage Ratio	0.77	0.07	0.48	1.3	2.01
Debt to asset Ratio	0.50	0.74	0.76	0.76	0.77

Annual reports of Delhi Financial Corporation for the Year 2018- 2019 to 2022-2023

Table 2- Balance Sheet of Delhi Financial Corporation for the last 5 years.

Particular	Note No.	31.03.2023	31.03.2022	31.03.2021	31.03.2020	31.03.2019
Equity and Liabilities						
Share Capital		265975000	265975000	265375000	264775000	264775000
Reserves and Surplus		-	-	-	-	422208521
Borrowings		330000000	330000000	330000000	330000000	330000000
Provision		87828564.00	88608346.00	90939276	80698972	99585494
Other Liabilities		474291485	432002877	424275520	360208281	267625533
TOTAL		**1158095050**	**1116586223**	**1110589796**	**1035682253**	**1384194547**
Property And Assets						
Cash and Bank balance		562116237	585811740	658386067	596202241	715156033
Investments		86,000.00	86,000.00	86000	86000	86000
Loan and Advances		161315428	265828317	311474694	380179516	539936395
Fixed assets		16287418	17572541	19084328	20945579	23333036
Current Asset and Other Assets		25232592	25612051	26713668	36723686	105683083
Profit and Loss appropriation account		393057375	221675574	94845039	1545231	-
TOTAL		**1158095050**	**1116586223**	**1110589796**	**1035682253**	**1384194547**

Annual Reports of Delhi Financial Corporation for the year 201-2019 to 2022-2023