GROWTH AND FINANCIAL PERFORMANCE OF A FAMILY BUSINESS:

A STUDY OF MANAPPURAM FINANCE LTD. KERALA

DISSERTATION

SUBMITTED BY

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Declaration

I, Hridya Sudarsan, hereby declare that the dissertation report being submitted by me is my own work on the tittle **"Growth and Financial performance of a family business: A study on Manappuram Finance in Kerala"** under the guidance of prof. R. Nirmala, and to the best of my knowledge and belief it has not been previously formed the basis of receiving any degree, diploma or any other titles from Goa university or any other.

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Certificate

Certified that this dissertation entitled **"Growth and Financial performance of a family business: A study on Manappuram Finance in Kerala"**, is a record of work done by Ms. Hridya Sudarsan herself under my guidance and supervision. Further, it contains result of her own hard work and has not previously formed basis of any certification in Goa University or elsewhere.

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I extend my sincere thanks to all those who helped me in the completion of this project. Without their help and support, this project would not be what it is.

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Hridya Sudarsan

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CHAPTER 1

INTRODUCTION

1.1 Introduction

The family-run businesses assume lot of significance in the Indian business scenario. There are many successfully run family-run businesses. Though there are many studies exist on family-run businesses in India, there are very few studies on the financial performance of family-run businesses. Malappuram Finance is a successful family-run business in Kerala. This study aims to understand the financial performance of Manappuram Finance Ltd of Kerala

1.2 Family Run Business

A family-run business Is considered one of the oldest forms of economic organization. It is a commercial organization wherein the business is run, and the decision-making power lies upon the various generations of the family. It is being passed on from one generation to another; they could either be related by blood, marriage, and so on.

One can call a family business a fruit that has been derived from the desire to run one's own firm, be accountable and be their own boss. It is a unique form of commercial activity and gives us the best example of entrepreneurship.

They basically have the ability to influence the growth of the organization. A family business can vary from a small corner shop with family members working in it to multinational companies with thousands of employees.

A company can be called family-owned if the person belonging to the family is the controlling shareholder. Some of the world's largest family run business include Samsung group (Korea) and Tata group (India).

If a said company is a family run business by nature, it has various benefits as the company is worked out by a family. We come across many such family businesses on a daily basis.

Most commonly seen family run business would be a restaurant. Restaurants are mostly family run businesses, and it is possible for a family to work together in a company. As a matter of fact, this type of business is mostly having the best effective organizational structure which gives profitable results for the firm.

Another example will be line of retailing outlets. for these retail outlets to operate, family communication is truly needed. For the outlet to run smoothly jobs and tasks are perfectly distributed for family members. As long as it will remain in this way, specific duties and responsibilities can give more beneficial effects for a business flow. Other examples may include rental business, photography, consultancy services, event management, catering business , and so on.

It can be observed that most studies conducted on family businesses are generally focussing on the non-financial parameters and characteristics, and lesser focus is given on the financial data.

1.3 Financial Performance

Financial performance is a process by which a company's overall standing in the categories such as assets, liabilities, equity, expense, revenue and overall profitability can be understood. It helps users calculate the company's potential effectiveness through various business-related formulas. In order to establish the financial performance of a company, a financial statement analysis must occur.

Financial statement analysis is a process that is conducted on organizations by any internal and external parties to gain a better understanding of how a company is performing. The process consists of analyzing four financial statements in a business. The four statements that are extensively studied are a company's balance sheet, income statement, cash flow statement, and annual report.

Through this project, we are trying to study the financial performance of one such family business, which is a Non-Banking Financial company in Kerala, Manappuram Finance Ltd.

1.4 Objectives of the Study

Through this project, we are trying to study the following aspects, and the objectives are:

1. To study the strength and weaknesses of Manappuram Finance as a family business

2. To assess the financial performance of Manappuram finance ltd.
3. To study the relationship between physical expansion and financial performance

1.5 Methodology

In order to conduct the study, we have used various tools to conduct the analysis; for financial statement and ratio analysis, data was collected from CMIE database and also a website called Money control. In order to conduct the data analysis, statistical software called Gretl was used to study the correlation between the various factors.

1.6 Significance of the Study

The study is important because the study fills the gap in the existing literature on the financial performance of family businesses. Moreover, this study is on a gold financing Non-Banking Finance Company. Not many studies have been done on the financial performance of Gold Financing companies in India. There is always a question of whether the physical expansion of a company enhances financial performance. This study looks into that aspect also.

1.7 Chapter Scheme

The first chapter is the introduction to the topic and study. The second chapter includes a review of the literature. The third chapter gives an idea of the company and its background, the fourth chapter includes research methodology and gives an idea about the various analysis that will be conducted, the fifth chapter includes the results analysis and discussions based on the analysis. The sixth chapter is on summary and conclusions

CHAPTER 2

REVIEW OF LITERATURE

2.1 Introduction

This chapter tries to understand the objectives, methodology, and major findings of the existing studies pertaining to the financial performance of family businesses in India.

2.2 Studies on Financial Performance of family businesses

Burns (1996) has described small Business (family business) according to the following criteria, namely:

• In economic terms, a small firm is one that has a relatively small share of the market.

• It is managed by its owners or part-owners in a personalized way.

• It is independent in the sense that it does not form part of a larger enterprise and that the owner/managers should be free from outside control in making their principal decisions

The family business brand of entrepreneurship, like most other forms, is deeply rooted in the sense of pride of the individual. This is further reinforced by a strong desire for autonomy, one of the five 'career anchors'; this was identified by Schein (1998).

According to the Family Business Survey (PwC, 2012), family businesses are willing to invest for the long term and do not suffer from the constraints imposed on their listed competitors by the quarterly reporting cycle and the need for quick returns.

According to Ernst & Young (2012), family businesses are typical, environmental, and they have an economic and social responsibility, which are the result of the long-term focus and sustainability outlook.

Family business is not confined to small companies or to privately held firms. L. Barnes and S. Hershon looked at public corporations and estimated that about 42 percent of the largest companies in the United States are controlled by one person or by an actively involved family.

In the most recent survey of Small Business Owners, the U.S. Census reported that 33 to 34% of firms with 1-9 employees are family-owned (2007). This statistic does not necessarily account for businesses that employ family members, but smaller businesses may be more likely to recruit employees from their social networks, including their families (Leung, 2003; Zimmerman & Zeitz, 2002)

Notably, family businesses are certainly not a new concept: the term itself may have been redundant one hundred years ago, as all businesses were operated by families (Aldrich & Cliff, 2003)

Family businesses may have more social capital – that is, available benefits based on the reciprocity norm in social networks – than non-family businesses (Sirmon & Hitt, 2003)

Similarly, family businesses may be more resilient and flexible than non-family businesses, but it is the disadvantages – including nepotism and family issues – may nullify the advantages (de Vries, 1994).

Being a member of an owning family may be bivalent for such employees themselves: family member employees may have more opportunities for advancement but experience higher pressure to perform well (Beehr, Drexler, & Faulkner, 1997).

As per Piramal(1996) and Bhattacharyya(2007), family-owned businesses in India have the following features which distinguish them from other family businesses worldwide:

1. Family relationships play very high importance in determining the position a person holds in a family
2. The predominance of few castes which are the connotation for family-owned businesses in India (Aggarwals, Guptas, Chettiars, Jains, Parsees and Marwaris)
3. All members in the businesses follow a presiding culture pursued by the caste to which they belong.
4. Family, relatives, and extended family have a strong feeling of trust and sincerity to the family that naturally construe as trust and sincerity to the business
5. Higher positions are more likely to be held by sons and make relatives and in succession as compared to the female relatives.

The Deloitte Research Report (2013) states that family firms constitute 85% of the total companies in India and also contribute an ample share of employment and domestic output.

The role of family members in the management and their impact on the firm's performance shows intricate and mixed results. Some studies show intricate and mixed results. Some studies show that listed firms managed by family members as CEOs have a positive relationship with a firm's financial performance (Anderson & Reeb, 2003 : McConaughy et al.,1998).

Gill and Kaur (2015)in their sample of Indian family firms, documented that family involvement in management is associated with higher financial performance.

On the other hand, Bhatt and Bhattacharya (2017) in their sample of Indian firms, stated that family management is irrelevant to the firm value and performance. Thus different studies are giving a mix of results.

CHAPTER 3
COMPANY OVERVIEW

3.1 Historical Background

Manappuram Finance Ltd. is a leading gold loan non-banking financial company
founded in 1949, in the coastal village of Valapad in Thrissur , kerala by Late Mr. V.C Padmanabhan (the original name was Manappuram General Finance and Leasing Limited). The company is now promoted by his son V.P Nandakumar (current MD and CEO) who controls approximately 35% of the total equity of the company.

Since then, Manappuram finance Ltd. has grown in a rapid pace and has branches across 28 states/UTs (over 4190+ branches) with assets under management (AUM) of Rs. 252.25 billion and a workforce of 27,726. And now Manappuram Finance Ltd. is a leading gold loan company that is ranked among India's top 20 non-banking finance companies.

Manappuram Finance Ltd. has a few "firsts" to add to achievements like The first non-banking financial company (NBFC) in Kerala to receive a Certificate of Registration issued by the RBI, it was also among the earliest to go for an IPO in 1995 , . Manappuram Finance Ltd. was the first NBFC in Kerala to obtain the highest short term credit rating of A1+ from ICRA

3.2 **Founder – Shri V.C. Padmanabhan**

A man who was committed to the cause of uplifting the economically weaker sections of the society, which mainly included farmers and fishermen of his community Shri V.C. Padmanabhan, dedicated his life to providing loans in affordable prices. In 1949, he laid the foundation for Manappuram. The company has crossed many milestones during his reign and has played a pivotal role in helping the underprivileged by taking organized lending.

With the help of Shri. Padmanabhan's values, Manappuram has helped millions accomplish their financial aspirations, and now Manappuram has transformed into a full-fledged Non-banking financial company (NBFC)

3.3 ownership of Manappuram Finance Ltd.

Mannapuram Finance Ltd., is a professionally run company promoted by Shri. V.P Nandakumar who controls approximately 35% of the total equity of the company. Similar shares are held by various Indian and foreign private equity funds. The shares of the company are traded on both NSE and BSE. The company is managed by a Board consisting of ten directors headed by Shri Jagdish Capoor, Chairman. Shri Capoor is a former Deputy Governor of the RBI. Shri V.P. Nandakumar is the MD & CEO of the company

3.4 CEO AND MD – Mr. V.P. Nandakumar

Mr.V.P. Nandakumar is the managing director and CEO of Manappuram Finance Ltd., a leading gold loan company that is ranked among India's top 20 Non- banking financial company. Mr. Nandakumar took over the reins of the business in 1986. Since then the company ahs seen unprecedented growth. Mr. Nandakumar promoted the company in 1992 and since then, the company has 4637 branches across 28 Indian states and UTIs

3.5Recent Diversifications

Over the past 6 years, the company has diversified into new businesses like microfinance, vehicle and housing finance, and SME lending. In February 2015, the company acquired Asirvad Microfinance Pvt. Ltd. with AUM a little short of Rs. 3,000 million. Today, six years of its takeover, AUM has around Rs. 60,000 million. Accelerated growth is reported in the other new business segments too.

3.6 Manappuram as a Brand

During the early years, Manappuram was not even a local or regional brand, it basically began as a village brand, and it was the same for decades. This was how it remained until 1986 when its founder Shri V.C. Padmanabhan (father of Shri V.P. Nandakumar) expired.

When shri Nandakumar took over the reins in 1986, it was this resolute trust in the Manappuram name- the goodwill that served as a hidden capital of the business. Very early on, he decided to do away with the voluntary limits on deposits and loans, and business levels shot up, quickly going over the one crore rupee mark and beyond

CHAPTER 4
RESEARCH METHODOLOY

4.1 Introduction

This chapter will deal with data collection, data analysis, and financial analysis, industry and company analysis. The main sources of data will be CMIE database and Company Annual Reports. The data analysis is carried out with the help of Excel and statistical software GRETL.

4.2 Data Analysis

Under this, the focus will be on analyzing the relationship between the physical expansion of the company and its financial performance.

The variables considered for physical expansion are :

- Branch expansion
- Employees

Since it is a gold loan NBFC, other physical variables like sales could not be considered.

The variables considered for financial performance are the major financial ratios commonly used in financial analysis.

4.3 Financial ratio Analysis

Under financial ratio analysis, financial statements will be assessed in order to attain meaningful information about a company. These financial statements and other required ratios will be taken from **CMIE database and a website called Money control** in order to perform the analysis.

Ratio analysis refers to the analysis of various pieces of financial information in the financial statements of a business. They are mainly used by external analysts to determine various aspects of a business, such as its profitability, liquidity and solvency

4.3.1 Profitability Ratio:

Profitability ratios measures overall performance and effectiveness of the firm.

There are two categories of profitability ratios which are margin ratios and return ratios.

Margin ratios show the firm's ability to turn sales dollars into profits. Return ratios help us measure the overall ability of the firm to generate

- Operating margin

Operating margin helps us measure how much profit a company makes in the form of dollars of sales after paying for variable costs of production, such as wages and raw materials before paying interest or tax.

It can be calculated by dividing a company’s operating income by its net sales. Higher ratios are generally better, illustrating the company is efficient in its operations and is good at turning sales into profits.

Operating Margin = (Operating Income or Loss) / Sales

- Return on Net worth

Return on net worth can also be called a Return on Shareholders’ funds, and it helps in determining whether the investment done by the shareholders is able to generate profitable returns or not.

Return on Net Worth = Profit after Tax / Shareholders’ Funds × 100

- Return on capital employed

Return on capital employed is a financial ratio that can be used to assess the company's profitability and capital efficiency.

This ratio helps to understand how well a company is generating profits from its capital as it is put to use.

- Return on total assets

Return on total assets is a ratio that measures the company's EBIT relive to its total net assets

Return on total assets = EBIT/ total net assets

EBIT= earnings before interests and tax

- Net profit margin

The net profit margin, or simply net margin, measures how much net income or profit is generated as a percentage of revenue.

Net profit margin = net income /R * 100

- Asset turnover ratio

The asset turnover ratio measures the value of a firm's sales or revenues relative to the value of its assets. This ratio can be used as an indicator to know the efficiency of the company using its assets to generate revenue

Asset Turnover Ratio = Net Sales / Average Total Assets

4.3.2 Liquidity ratio

Liquidity ratios are financial metrics that help to determine a debtor's ability to pay off current debt obligations without raising external capital.
It measures a firm's ability to pay debt obligations and its safety margin through the calculation of metrics, including current ratio, quick ratio, and operating cash flow ratio.

- The Current Ratio

The current ratio is a measure of the firm's short-term solvency.

The current ratio measures a firm's ability to pay off its current liabilities with its total current assets such as cash, accounts receivables, and inventories.
The higher the ratio, the better is the firm's liquidity position. It represents the safety margin for the creditors; the higher the current ratio, the greater is the margin of safety.

Current ratio = current assets/ current liabilities

- Quick ratio

  The quick ratio which is also known as the acid-test ratio is a financial ratio that measures liquidity using the more liquid types of current assets. The computation of the quick ratio is similar to the current ratio, just that inventories and payments are excluded.

  Quick ratio= quick assets/ current liability

4.3.3 Leverage ratio

A leverage ratio is any kind of financial ratio that indicates the level of debt incurred by a business entity against several other accounts

- Debt to equity ratio

  The debt-to-equity (D/E) ratio is used to evaluate a firm's leverage and it can be calculated by dividing a company's total liabilities by its shareholders' equity.

  Debt/Equity= Total Liabilities /Total Shareholders' Equity

4.3.4 Coverage ratio

- The interest coverage ratio

The interest cover ratio helps to determine how easily a company can pay interest on its outstanding debt/borrowings. It can be classified as a Debt ratio which gives a general idea about the financial structure and financial risk faced by a company. It can also be classified as solvency ratio, which helps to understand if the organization is solvent and whether there are any near threats pertaining to bankruptcy

interest Coverage Ratio = EBIT for the period/= ÷ Total Interest Payable in the given period

Here, EBIT stands for Earnings before Interest & Tax

4.4. Industry analysis /company analysis

Company analysis refers to the process of evaluating a company's profitability, profile, and product or service. It is also known as "fundamental analysis," and it is generally used by investors. It incorporates basic company information, such as the mission statement, goals, and values.

4.4.1 SWOT analysis

SWOT stands for strengths, weaknesses, opportunities, and threats, and so SWOT Analysis is a technique for assessing these four aspects of your business.

You can use SWOT analysis to make the most of what you have got to your organization's best advantage. And you can reduce the chances of failure by understanding what you are lacking and eliminating hazards that would otherwise catch you unawares.

4.5. Financial statement analysis

4.5.1. comparative balance sheet analysis

A comparative balance sheet analysis is a simple way of comparing the data on two or more balance sheets that have different dates. One can compare several balance sheets from your company, each of which has the same date but on different months or different years.

CHAPTER 5

ANALYSIS, RESULTS AND DISCUSSION

5.1 Financial Ratio Analysis

In this section, financial ratio analysis is carried out. The ratios included are profitability ratios, liquidity ratios, leverage ratios, and coverage ratio

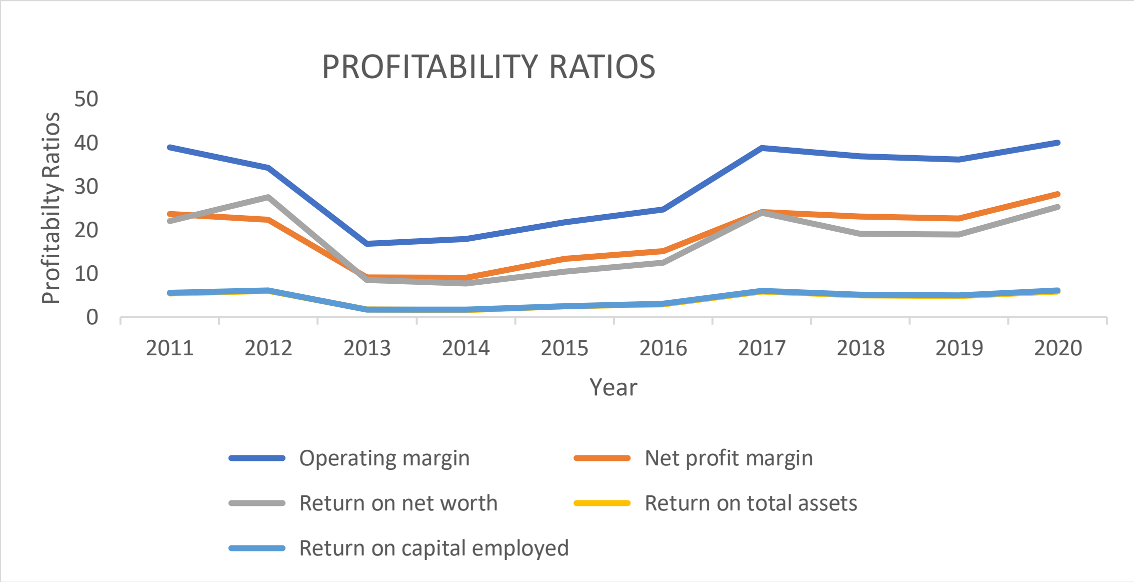
5.1.1 Profitability Ratios

Under the profitability ratio, ratios of operating margin, net profit margin, return on net worth, return on total assets, return on capital employed and asset turnover are considered

Table 5.1 : Profitability Ratios

YEAR	Operating margin	Net profit margin	Return on net worth	Return on total assets	Return on capital employed
2011	38.9	23.7	22	5.4	5.6
2012	34.2	22.3	27.5	6	6.1
2013	16.8	9.1	8.5	1.7	1.7
2014	17.9	9	7.7	1.6	1.7
2015	21.8	13.4	10.4	2.4	2.5
2016	24.7	15.1	12.5	2.9	3
2017	38.8	24.1	24	5.8	6
2018	36.8	23	19.1	4.9	5.1
2019	36.1	22.6	18.9	4.8	5
2020	40	28.2	25.2	5.9	6.1

Graph 5.1 Profitability ratios



- Operating margin

The first profitability ratio, operating margin, can be seen in the above graph in the form of a dark blue line. The operating margin ratio indicates how good is the financial health of a company. If companies compare this ratio to their peer companies, they can learn how their company is functioning financially.

Using the operating margin ratio trends, from the year 2011 to 2020, a comparison is made in order to understand how Manappuram finance ltd has operated financially. If we look at the trend in 2011 the operating margin is 38.9 , and there is a steep decline till 2014 where it is 17.9. in 2015 there is slight increase to 21.8, and there is a steady increase since then, and in 2020 the ratio was 40. A higher operating margin ratio is beneficial for an organization. It signi//fies that more proportion of the revenue of the company is converted into operating income. Therefore compared to the previous years the firm's current financial position is healthier than before.

- Return on net worth

This ratio is used as a measure of how well a company is utilizing the shareholder's investment to create returns for them and can be used for comparison purposes with competitors in the same industry. If we compare the trends of Manappuram over the years, one can notice a fluctuating return on net worth grey curve, in 2011 it was 22 , it fell steeply in 2013-14 and then slightly increases over the years, by 2017 it is 24, there is a slight fall till 2020, in 2020 the ratio is 25.2.

An excessively high net worth ratio may indicate that a company Is funding its operations with a disproportionate amount of debt and trade payables. A decline in the business could result in the inability to pay back the debt, which increases the risk of bankruptcy; this means that the shareholders may lose their investment in the company. Thus an investor relying upon this measurement should examine company debt levels to see how excessive returns are being generated

- Net profit margin

This ratio indicates the firm's ability to withstand adverse economic conditions. A firm with a high net margin ratio would be in an advantageous position to survive. If the net margin is inadequate, the firm will fail to achieve satisfactory returns on shareholders' funds. In the above diagram, the orange curve represents the net profit margin ratio.

In 2011 the net profit margin was 23.7, it kept reducing, and in 2014 it was 9. Since 2015 there is a steady increase,with a slight decline in 2019 , but in 2020 the ratio is 28.2. The fluctuations may represent the inability of the firm to withstand adverse economic conditions but there is an improvement which means the firm is capable of achieving enough returns.

- Return on capital employed

Return on capital employed ratio can help to understand how well a company is generating profits from its capital as it is put to use.

For a company the return on capital investment trend over the years can also be an important indicator of performance. In general, investors tend to favor companies with stable and rising ROCE levels over companies where the ratio is volatile or trending lower. The return on capital employed ratio is represented by a light blue colored curve.In 2011 the ratio is 5.6, it steadily declines after 2012, in 2013 and 2014 the ratio is stable, and the ratio is 1.7, and since 2015 it increases till 2017 , declines again in 2018 and 2019 and increases to 5.1 in 2020. Though there are fluctuations, the current return on capital employed ratio has an increasing trend therefore, the current situation is favorable for the investors to invest.

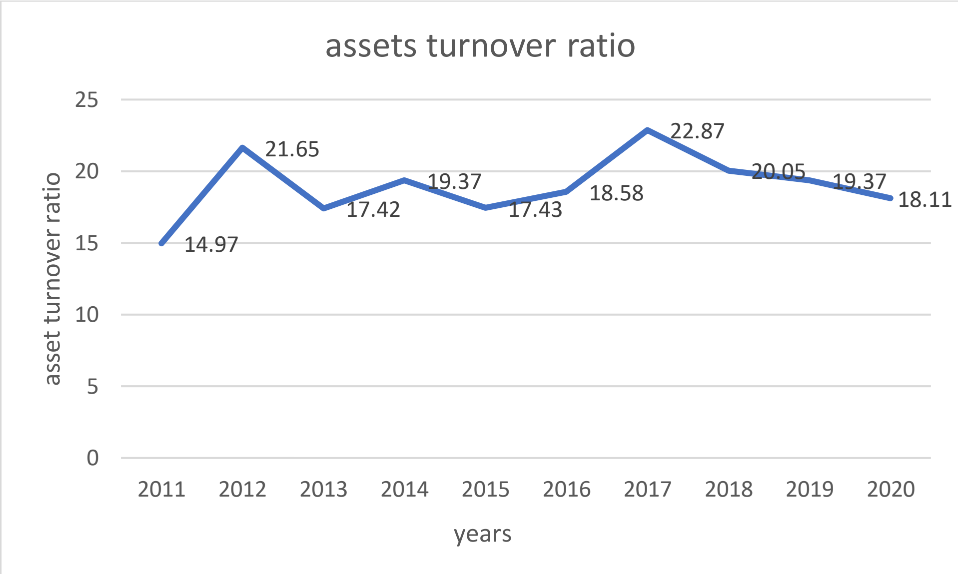
- Return on total assets.

The ratio is considered to be an indicator of how effectively a company is using its assets to generate earnings. This allows the organization to see the relationship between its resources and its income, and it can provide a point of comparison to determine if an organization is using its assets more or less effective than it had previously.
In the above diagram, the return on total assets ratio is represented by a yellow-colored curve.

In 2011 Manappuram finance had a ROTA of 5.4 , there was an increase and later fell in 2013 and 2014 to 1.7 and 1.6 respectively, since 2015 there is a steady increase in ROTA and in 2020 the ratio was 5.9. with this trend, we can see that the firm's ROTA is in a good position

Asset turnover ratio

Graph 5.1.1: Asset turnover Ratio



A company with a high asset turnover ratio operates more efficiently as compared to competitors with a lower ratio. The above curve represents the assets turnover ratio of Manappuram finance Ltd. over the years. In 2011 the ratio was 14.97,an increase can be seen in the year 2012 to 21.65, there is an increasing decreasing fluctuating trend, highest being the year 2017 with 22.87 and then declines to 18.11 in 2020. Therefore compared to 2011 there is an increase in efficiency

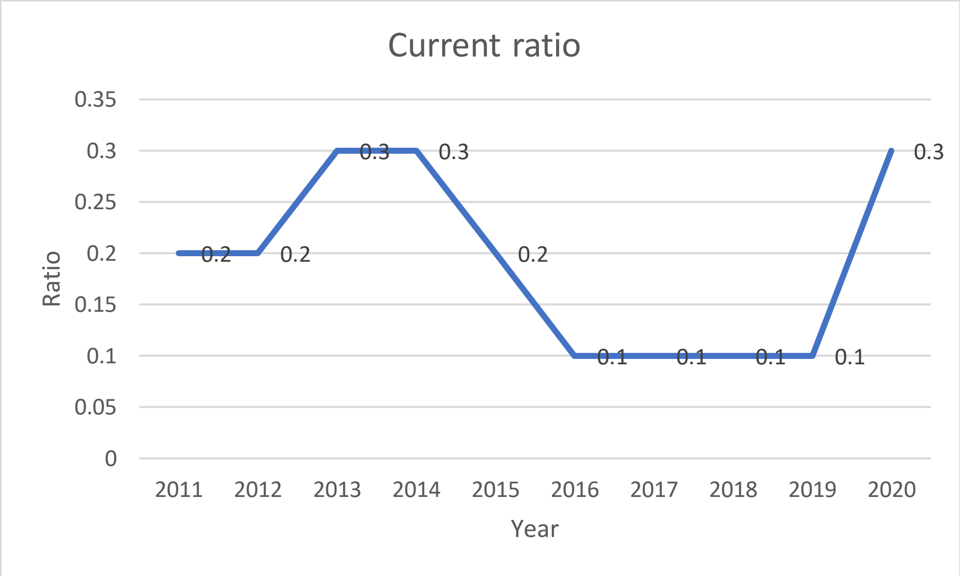
5. 1.2 Liquidity ratio

Under the liquidity ratio, the ratios such as current ratio and qick ratios are being considered

- Current ratio

  The current ratio is given in the following graph.

Graph 5.1.2 : current ratio



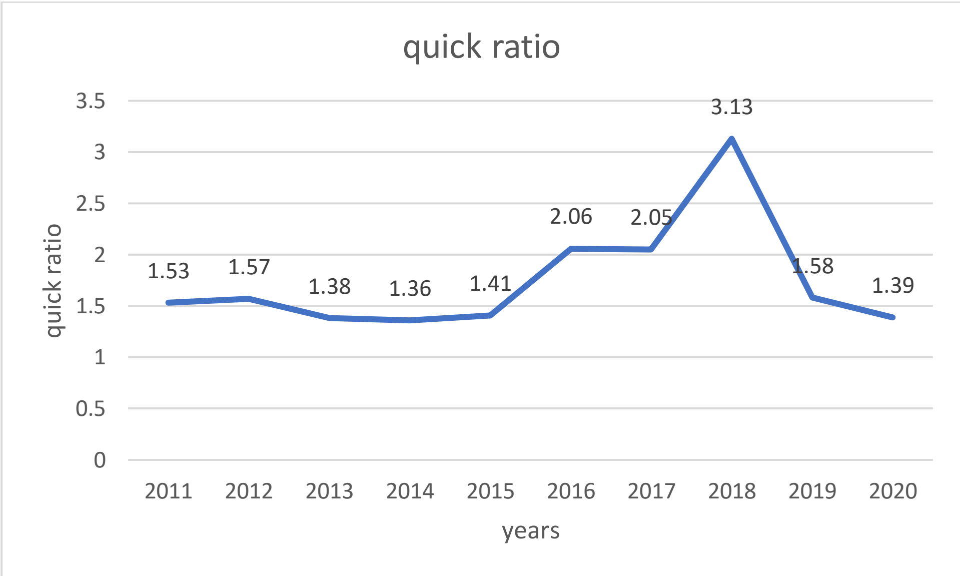
The current ratio is a liquidity ratio that measures a company's ability to pay short term obligations or those due within one year. It helps investors by giving information of how a company can maximize the current assets on its balance sheet to satisfy its current debt and other payables.

A lower current ratio indicates a higher risk of distress or default. If a company has a very high current ratio compared to its peer group, it indicates that management may not be using its assets efficiently

- Quick ratio

  The quick ratio is given in the following graph

Graph 5.1.3: Quick ratio



The quick ratio measures a company’s liquidity or ability to pay short-term obligations. The quick ratio trends of mannapuram finance ltd. can be seen in the above diagram . In 2011 the ratio was1.53 , and there is a slightly fluctuating trend and peaks in 2018 , and then reduces to 1.39 in 2020

A quick ratio that is greater than 1 means that the company has enough quick assets to pay for its current liabilities.

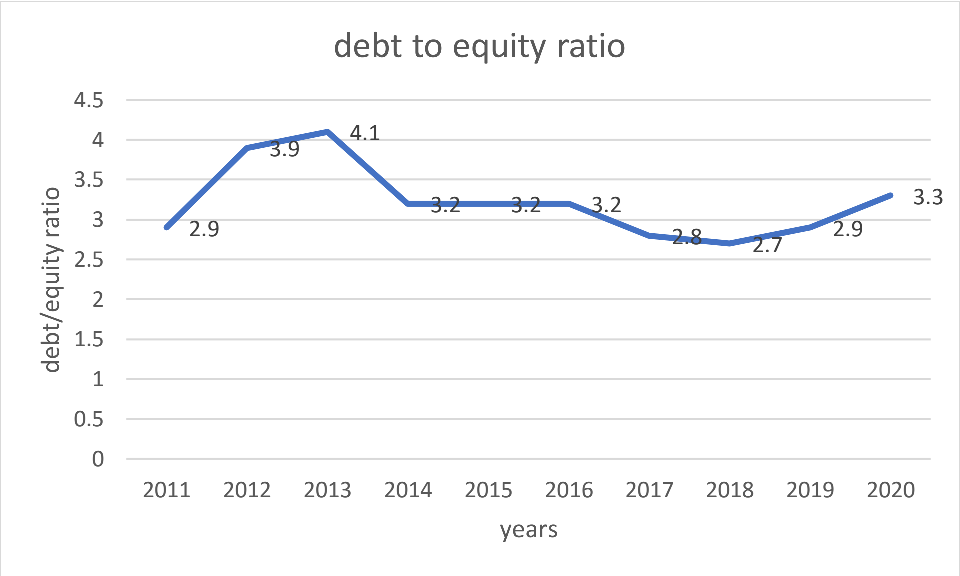
5.1. 3 Leverage ratio

Under the leverage ratio, we have considered the debt equity ratio

- Debt to equity ratio

  The debt-equity ratio is given in the following graph

Graph5.1.4. Debt/ equity Ratio



The debt to equity ratio is a measure of the degree to which a company is financing its operations through debt versus wholly-owned funds.

More specifically, it reflects the ability of shareholder equity to cover all outstanding debts in the event of a business downturn.

A high D/E ratio is often associated with high risk; it means that a company has been aggressive in financing its growth with debt.

If a lot of debt is used to finance growth, a company could potentially generate more earnings than it would have without that financing.

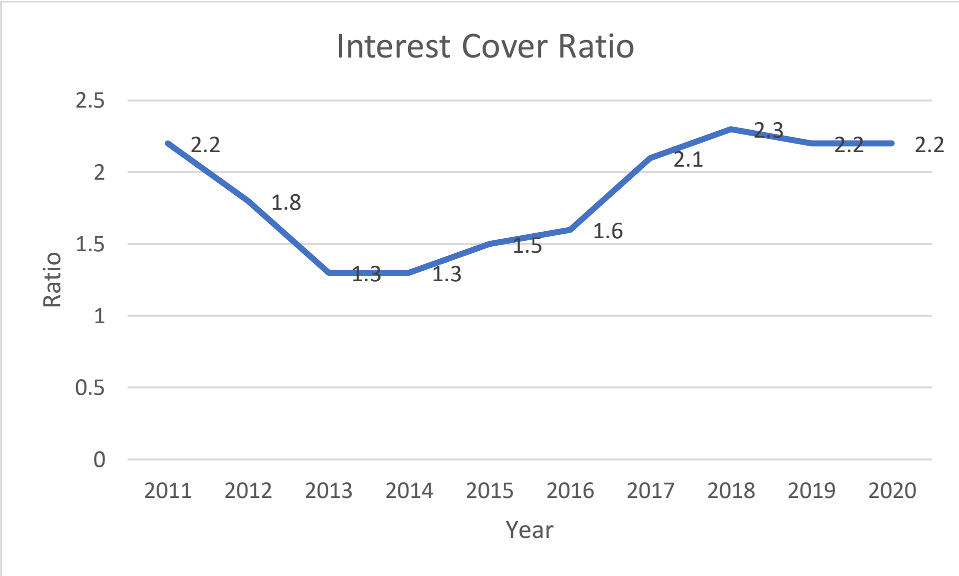
In the above diagram, the curve represents the debt to equity ratio trend from the years 2011 to 2020. In 2011 the ratio was 2.9 , which increased to 4.1 in 2013, 2014-2015 the ratio remained 3.2, later there is a fall till the year 2019, in 2020 the ratio increased to 3.3

5.1. 4 Coverage ratio

Under coverage ratio, the interest coverage ratio is considered.

- Interest cover ratio

Graph 5.1.5: Interest cover Ratio



The interest cover ratio is sometimes called the time's interest earned ratio. Lenders, investors, and creditors often use this formula to determine a company's riskiness relative to its current debt or for future borrowing

In 2011 the ratio was 2.2, it kept reducing till 2014, in 2015 the ratio increased to 1.5, and its showing an increasing trend till 2020, in 2020 it was 3.3.

The interest cover ratio trends give an investor a much better idea of whether a low current interest coverage ratio is improving or worsening or if a high current interest coverage ratio is stable. The ratio may also be used to compare the ability of different companies to pay off their interest, which can help when making an investment decision

Generally, stability in interest coverage ratios is one of the most important things to look for when analyzing the interest coverage ratio in this way. A decline in interest cover ratio is often something for investors to be wary of , as it indicates that a company may be unable to pay its debts in the future.

5.2 . Financial statement analysis

Financial statement analysis is a process wherein a company analysis its financial statements for decision-making purpose. External stakeholders use it to understand the overall health of an organization as well as to evaluate the financial performance, and the internal management use it as a tool to monitor the finances of the company.

In order to understand the financial trends, a comparative financial analysis is being conducted using the balance sheet of Manappuram finance Ltd.

Table 5.2.1: Comparative analysis on the Interim balance sheet of Manappuram Finance Ltd. from the years 2012 to 2021

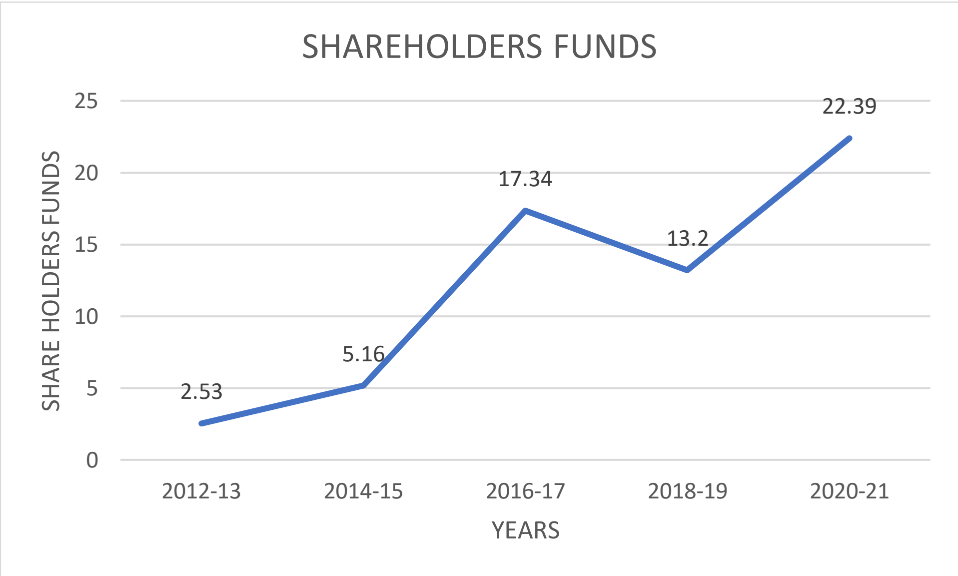
Interim Balance Sheet (Annual) : Mar 2012 - Mar 2021 : Non-Annualised : Rs. Million	Years				
	2012-2013	**2014-2015**	**2016-2017**	**2018-2019**	**2020-2021**
Liabilities					
Shareholders' funds	2.53	5.16	17.34	13.20	22.39749
Capital	0.01	0.00	0.08	0.03	0.159508
Reserves and surplus	2.72	5.51	18.26	13.72	22.95661
Borrowings	-1.39	2.67	3.98	19.66	0.773603
Secured borrowings					
Unsecured borrowings					
Other long term liabilities	75.42	-149.16	-9.11		
Current liabilities & provisions	32.47	19.41	22.82	-6.17	34.77313
Current liabilities	37.93	23.01	22.02	-7.28	34.89959
Provisions	-107.08	-108.64	34.03	3.74	34.16226
Deferred tax liability					
Assets					
Net fixed assets	1.15	-17.14	-5.94	18.67	13.93566
Net pre-operative expenses pending allocation					
Capital work-in-progress				98.48	50
Investments	68.71	-113.98	0.00	62.58	22.3835
Other non-current assets	78.13	-3.95	-432.28		
Current assets & loans and advances	0.18	9.04	10.42	14.52	6.138281
Current assets	-19.74	-10.87	-17.60	15.64	-10.6293
Inventories					
Sundry debtors & bills receivable					
Cash and bank balances	7.46	-22.16	-19.50	1.83	-8.97723
Other current assets	-55.92	2.06	-15.23	23.55	-19.9557
Loans and advances	3.26	11.77	12.17	14.42	8.074319
Other assets					
Deferred tax assets	59.64	2.43	29.62	1.14	34.98127
Miscellaneous expenditure (not written off or adjusted)					

Net current assets & loans and advances	-6.73	7.00	8.72	15.19	5.49245

5.2.1 shareholder’s funds

Shareholder funds can also be known as shareholder’s equity. It represents the funds invested in the company through stock purchases or other private investments. Companies report this figure on the balance sheet, with shareholder funds playing an important role in the accounting equation.

Graph 5.2.1: share holder’s funds



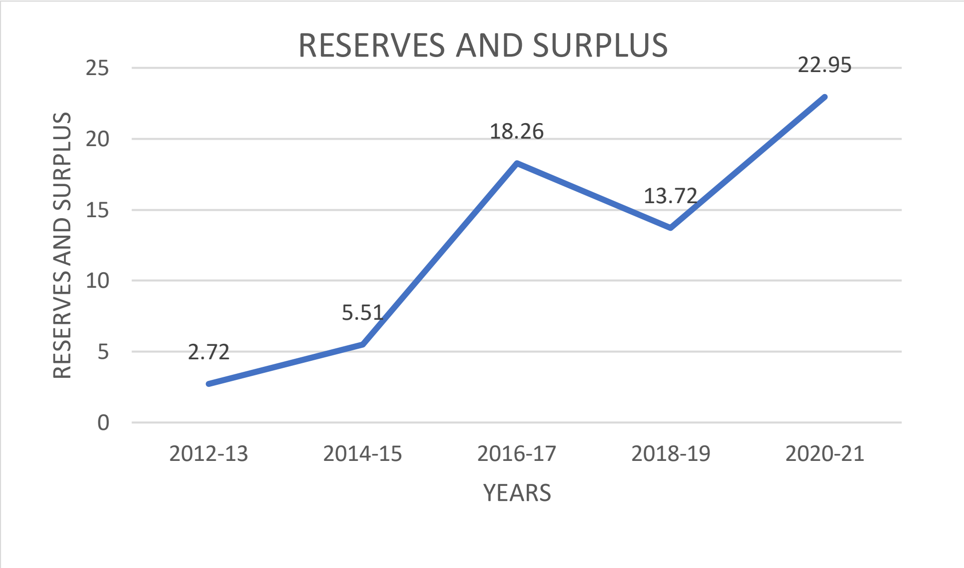
The above graph represents the percentage of shareholders funds from the years 2012 to 2021. It can be seen that in 2012-2013 the shareholders funds was 2.53, which kept increasing till 2016-2017 with 17.34 . There after there is a fall to 13.2 in the year 2018-2019. And increases again to 22.39 in 2020-2021.

This graph tells us that Manappuram finance has a good shareholding is quite healthy.

5.2.2 Reserves and Surplus

Reserves and surplus are all the cumulative amount of retained earnings recorded as a part of the shareholders equity and are used by the company for specific purposes like buying of fixed assets, payment for legal settlements, debt payments, and so on.

Graph 5.2.2: Reserves and surplus

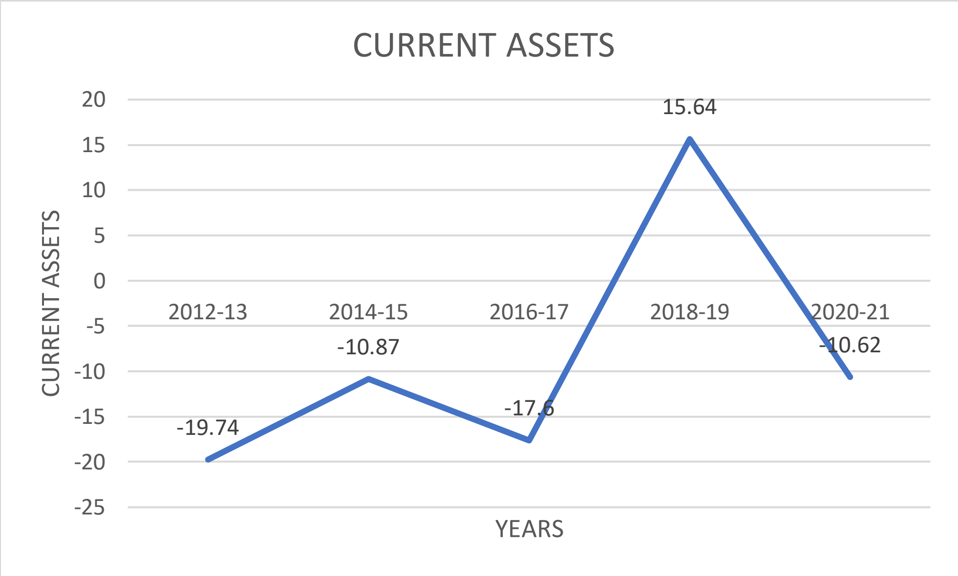


The above graph represents the percentage of reserves and surplus from the years 2011 to 2021. In 2012-2013, the reserves and surplus was 2.72, which kept increasing till 2016-2017, after which there is a fall in 2018-2019 to 13.72, and again it increased to 22.95 in 2020-2021.

5.2.3 current assets

One important of balance sheet is the current assets. Companies need current assets to fund their day-to-day operations. If they fall short of current assets, the company will have to scramble for other sources of short-term funding either by taking on debt or issuing more stock.

Graph 5.2.3: current assets

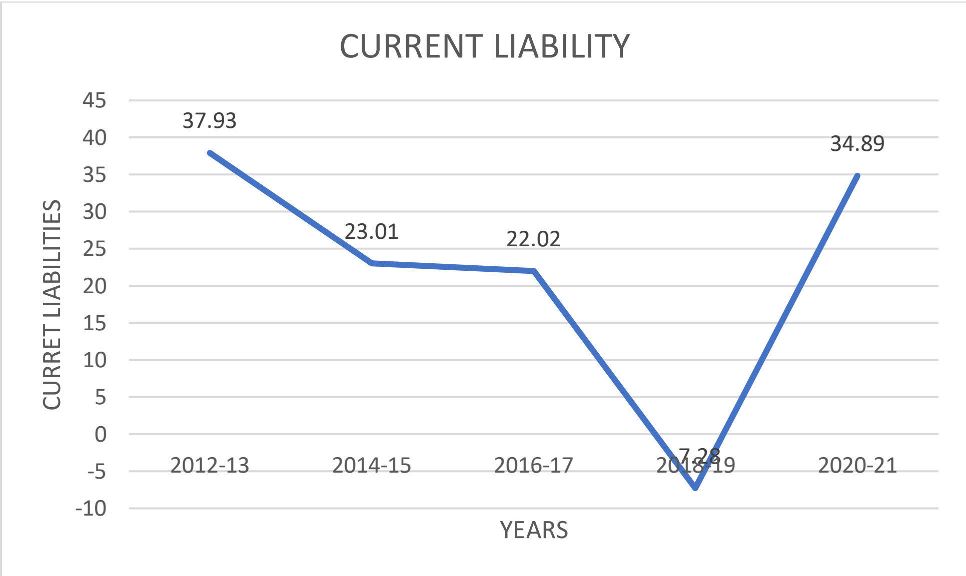


The current assets of Manappuram finance are shown in the above graph. The current assets have constantly been negative throughout from 2012 -13 it was -19.74 to 2016-17 it was -10.87, in 2018-19 the percentage went up to 15.64 and fell to -10.62 in 2020-21.

5.2.4. current liabilities

Current liabilities are an enterprise's obligations or debts that are due within a year or within the normal functioning cycle. Moreover, current liabilities are settled by the use of a current asset, either by creating a new current liability or cash. Current liabilities appear on an enterprise's balance sheet and incorporate accounts payable, short-term debt, and other similar debts.

Graph 5.2.4

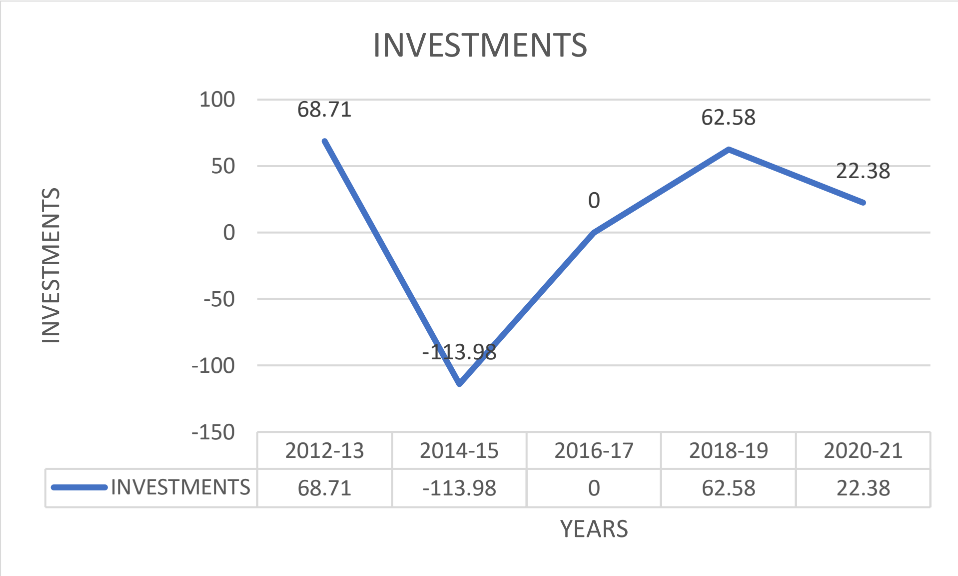


The above graph represents a comparative analysis of the current liabilities of Manappuram finance ltd. of years 2012 to 2021. As can be seen in the above diagram, the current liabilities of 2012-2013 was 37.93 , there is a decline till 2016-17 with 22.02, and falls further in 2028-2019 to -7.28 and later picks up in 2020-2021 to 34.89.

5.2.5 Investments

Short-term and long-term investments on the balance sheet are both assets, but they are not recorded together on the balance sheet. Investments can include stocks, bonds, real estate held for sale and part ownership of other businesses.

Graph 5.2.5: Investments



The above diagram represents the comparative analysis of investments of Manappuram finance Ltd. from 2012 to 2021. In 2012-2013 the investments were 68.71, in 2012-15 it fell to as low as-113.98, which then became 0 in 2016-2017, then increased to 62.58 and fell again in 22.38.

5.3. Data Analysis: Relationship between Physical Expansion and Financial Performance

Data analysis is the science of examining a set of data to draw conclusions about the information to be able to make decisions or simply to expand the knowledge on various subjects.

It consists of subjecting data to operations. This is done to obtain precise conclusions that will help us achieve our objectives, such as operations that cannot be previously defined since data collection may reveal specific difficulties

5.3.1 Correlation

Correlation is a statistic that measures the degree to which two variables move in relation to each other. Through data analysis, we are trying to figure whether there is any correlation between physical factors such as employees and branches and financial factors such as operating margin, net profit margin, return on net worth, return on total assets, return on capital employed, current ratio, interest cover ratio , debt/ equity ratio, total income and total expenses using Gretl.

5.3.2 **Correlation between Employees and Profitability ratios**

correlation between employees and operating margin, net profit margin, return on net worth, return on total assets, return on capital employed, current ratio, interest cover ratio, debt/ equity ratio

The correlation is as follows:

operating margin =0.5018

net profit margin=0.5494

return on net worth=0.3106

return on total assets=0.3860

return on capital employed=0.3961

current ratio= -0.3263

interest cover ratio = 0.6025

debt/ equity ratio= -0.4126

At 5% level of significance, the correlation can be statistically significant only if the correlation is above 0.6319, therefore there exists no correlation between employees and the above-said factors because none of them are statistically significant. This means the number of employees does not define the profitability of a company.

5.3.3. Correlation between branches and Profitability ratios

correlation between the number of branches and operating margin, net profit margin, return on net worth, return on total assets, return on capital employed, current ratio, interest cover ratio, debt/ equity ratio

The correlation is as follows:

operating margin = 0.2669

net profit margin=0.324

return on net worth=0.1434

return on total assets=0.1945

return on capital employed=0.2026

current ratio= -0.2579

interest cover ratio = 0.3443

debt/ equity ratio= -0.2939

At 5% level of significance, the correlation can be statistically significant only if the correlation is above 0.6319. Therefore there exists no correlation between the number of branches and the above said factors because none of them are statistically significant. This means the number of branches does not define the profitability of a company.

5.3.4. Correlation between employees and total income and expenses.

The correlation is as follows:

Total income= 0.88

Total expenses =0.97

Since the derived correlation between no. of employees and total income as well as with total expenses is more than 0.6319 at 5% level of significance, we can conclude that there is a correlation between the number of employees and total income and expenses.

5.3.5. **Correlation between the number of branches and total and expenses.**

The correlation is as follows:

Total income= 0.8429

Total expenses = 0.8024

Since the derived correlation between no. of branches and total income as well as with total expenses is more than 0.6319 at 5% level of significance, we can conclude that there is a correlation between the number of branches and total income and expenses.

5.4. Industry/ company analysis

5.4.1. SWOT analysis

SWOT stands for strengths, weaknesses, opportunities, threats. SWOT analysis is done in order to assess the organization's current position so that you can decide on a new strategy for the company. SWOT Analysis can be used to the best advantage of the company by understanding what you are lacking and eliminating hazards that would otherwise catch you unawares.

Generally, SWOT Analysis is done in the form of a grid with 4 quadrants which include strengths, weaknesses, opportunities, and threats. Where in strengths and weaknesses are internal factors and opportunities and threats are external factors. Internal factors have to do with the organization, its assets, process, and people. Threats and opportunities arise from your market, your competition, and the wider economy.

- Strengths.

Strengths are things that your organization does particularly well or in a way that distinguishes you from your competitors.

- Weakness

Weaknesses are like strengths they are inherent features of the organization, it gives you an idea about things the company is lacking in, and what the company needs to work on.

- Opportunities

These usually arise from situations outside your organization, and being able to spot such opportunities can make a huge difference to the organization.

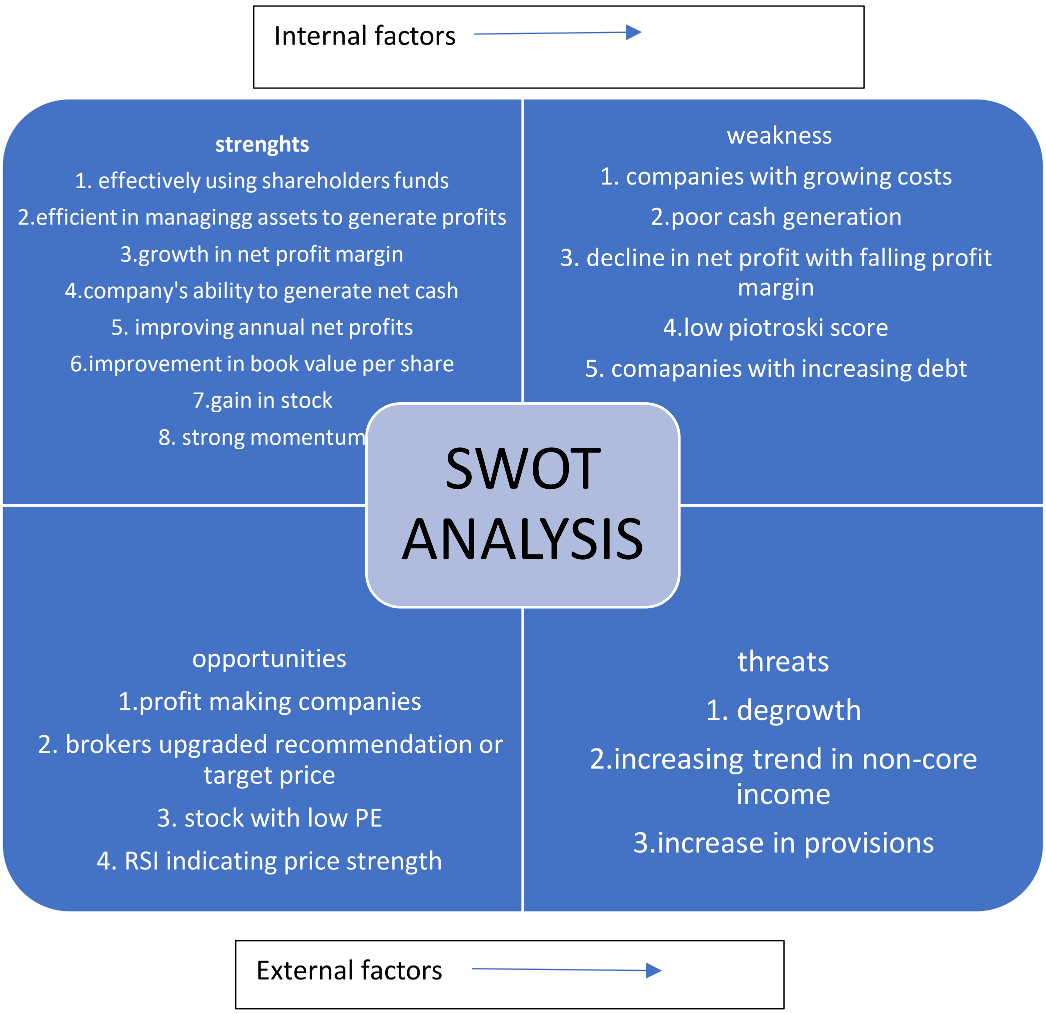
- Threats

Threats include anything that can negatively affect your businesses from the outside, such as shifts in market requirements and so on.

5.4.2 **SWOT analysis of Manappuram Finance Ltd**.

The figure shown below is the SWOT analysis that has been conducted on Manappuram Finance Ltd.

Figure 5.4.2: SWOT analysis of Manappuram Finance Ltd.



Through the above-conducted SWOT analysis, one can notice that there are strong and weak points that a company should work on, to be more specific, if you look at the strengths of the company it says that company is doing quite well and has quite a few strong points like, the company is using its shareholders funds and their return on equity is improving since last 2 years. Their efficiency in managing their assets or their return on assets is improving for the past 2 years. The annual net profits have been improving for the last 2 years. It is said that it is a company with 0 promoter pledge. The stock gained more than 20% in one month. There is a strong momentum, price above short-, medium- and long-term moving averages.

There are a few weaknesses like companies with growing costs YoY for long-term projects, there was poor cash generated from core business. There was a decline in net profit with a falling profit margin (QoQ); there are companies with increases. The Piotrowski score is low.

Talking about the external factors, the company has opportunities like profit-making companies with high ROCE and low PE. Brokers upgraded recommendations or target prices in the past three months. Stock with low PE (PE< = 10). RSI indicating price strength. Another external factor is threats, degrowth in revenue, profits and operating profit margin. There exists an increase in the trend in non-core income. There is an increase in provisions in recent results.

CHAPTER-6

SUMMARY, FINDINGS AND CONCLUSIONS

6.1 Summary

The main aim of this project was to assess the strengths and weaknesses of an NBFC like Manappuram Finance Ltd, and to understand the firm's financial performance and know whether any correlation exists between the firm's physical expansion and its financial performance.

It was hypothesized that the financial performance of Manappuram Finance as a gold loan family business has been good due to its special characteristics. It was also hypothesized that there is a kind of relationship between physical performance and financial performance.

In order to test this hypothesis, different kinds of analysis were conducted. To understand the financial performance of Manappuram Finance Ltd., a comparative balance sheet analysis was done for the years 2012 to 2021; financial ratio analysis was conducted focussing on ratios such as profitability ratio, leverage ratios, interest cover ratio, and liquidity ratio. The required data was taken from CMIE database and a website called Money control.

In order to understand if any relationship existed between the physical expansion and the financial performance of the company, a data analysis tool called correlation was used to test the hypothesis, which was done using a software called Gretl. A company/industry analysis called SWOT analysis was done in order to know what are the strengths, threats, opportunities, and weaknesses of Manappuram Finance Ltd.

6.2 Findings

The first objective was to understand the strengths and weaknesses of the firm, so that one can get an idea of the various threats and weaknesses that the company may face and it may affect its financial performance. Using the SWOT analysis, we can come to know that this NBFC is growing well and has good shareholder's funds, increase in stocks, improved annual profits and so on which are strengths of Manappuram Finance Ltd. Talking about the company's weakness which is another internal factor just like strengths, the firms have to deal poor cash generation, and the Piotrowski score is also low. Taking into consideration the external factors, on a positive note, the firm's has a lot of opportunities like profit-making companies, a stock with low PE and so on and on the other hand, if we look at the threats, there is degrowth in revenue, profits and operating profit margin and so on. With this analysis, we have identified the strong points and areas of improvement for the firm, which can help in decision making and eventually improve the financial performance of the company.

The second objective was to understand the financial performance of Manappuram Finance Ltd. In order to study the financial performance of the firm, a comparative balance sheet analysis and a financial ratio analysis was conducted. Using the financial ratios, we compared the firm's performance from 2011 to 2020. Talking about the profitability ratios, though the ratios have been showing a fluctuating trend the financial situation is 2020 is far better than the previous years for instance, there is in an increase in operating margin, return on net worth, net profit margin. An increase in these ratios is advantageous for the firm to earn returns. An increase in capital employed means , more investors can invest. Under liquidity ratio, if we look at current assets, an over increase in current assets means the assets are not being used efficiently, but the slight increase is of no harm. For quick ratios, anything above 1 means the firm has enough assets to pay for current liability. Therefore the firm is capable of handling the liabilities. Under coverage ratios, an increase in the interest cover ratios can be considered as a good situation. Through this financial ratio analysis, we have found that there is improvement in the financial performance of firm over the years.

In order to get a better picture of the financial position of the firm, a comparative Balance sheet analysis was conducted from the years 2011-2021. The shareholders' funds and reserves and surplus is doing well is there is an increasing trend compared to the previous years. There is a decline in current assets , as it is an NBFC, and there is an increase in current liability. Talking about investments there exists a fluctuating. But in general the financial performance is quite good.

Our third objective was to check if there is any relationship between the physical factors and and the firm's financial performance. In order to conduct this data analysis statistical tool called correlation was done, and this was done using database software called Gretl.

The first hypothesis was to check whether there is any correlation between physical factor, the employees, and the firm's financial position. We found from the correlation analysis that at 5% significance level there is no correlation between employees and the financial performance. Second hypothesis was to check whether there was any correlation between branch expansion and firm's financial position and again we found no correlation, at 5% level of significance. A correlation analysis was done to check if there is any relationship between physical factors such as employees and financial factors such as total income and expenses, and it was found that there is relationship between number of employees and total income and total expense, at 5% level of significance. Therefore, the number of employees has an influence on the total income and expenses. And the last hypothesis was to find if there is a correlation between branch expansion and total expenses and total income at 5% significance level, it is seen that there exists a relationship between branch expansion and the financial performance of the firm.

6.3 conclusion

As per the findings, the current financial position of the firm is quite impressive, compared to the previous years. Considering the fact that it started off as a village money lending institution, that turned into a full-fledged family business and that too an NBFC, with branches all over India shows the firm has grown to great heights over the years. the business is expanding into other sectors like education, hospitals and so on itself shows that Manappuram Finance Ltd. is performing well. It may conclude from the above findings that this firm has a healthy financial situation, though there are a few areas where improvement is required, but the company is doing very well financially. An interesting conclusion from the study is that there exists no relationship between physical expansion and financial performance. This conclusion needs to be taken little more seriously and cautiously by the Company and a more detailed study more long database is required to substantiate this conclusion.

6.4 Suggestions

A major suggestion that emanates from the study is that the Manappuram Finance Ltd has to be very cautious in its endeavor to expand its businesses beyond a limit. The physical expansion is not leading to its financial performance. There could be some kind of diseconomies of scale in its operations.

6.5 Scope for further research

There is scope to carry out further research in the area of financial performance of Gold Loan Companies. The general belief is that physical expansion leads to financial performance. The study results show that there is no such relationship. This aspect can be studied further to know why such a relationship does not exist

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