NOLEGEIN Journal of
Financial Planning & Management

ISSN: 2581-4087
Volume 6, Issue 2, 2023
DOI (Journal): 10.37591/NJFPM

http://mbajournals.in/index.php/JoFPM/index

Research NJFPM

Financial Evaluation of one of the Leading NBFC

Palak Dixit[1,*], Meghna Jain[2]

Abstract

This study revolves around the financial analysis of Fusion Microfinance Limited, an NBFC. The Fusion Microfinance Ltd company was selected because it is a non-banking financial company which has its branch in Jabalpur. NBFCs are financial organizations that do not have an RBI banking license but have the authority to provide a few limited banking services such as house loans, personal loans, auto loans, gold loans, retirement planning, and other similar services. The main objective of this study is to employ a variety of ratios to evaluate the company's financial performance. The five years of data that the corporation presents in its annual reports are used to conduct the analysis. Ratio analysis is a financial process that notify the management and investors of a company about the company's financial position. It is generally indicated as a percentage and can be a marker of the growth of a company. It is a quantitative method that gives an understanding about the liquidity, profitability, and operational efficiency of a company by analyzing the financial statements, balance sheets, and income statements. It enables investors to efficiently analyze the financial status of companies by assessing their past and their current financial statements. The report contains 12 types of ratios which are Current Ratio, Cash Ratio, Return on Interest Ratio, Return on Asset Ratio, Return on Capital Employed Ratio, Net Profit Margin, Profit After Tax, Debt-To-Equity, Debt-To-Asset, Interest Coverage Ratio Asset Turnover Ratio and Debtors Turnover Ratio. Apart from these ratios the report consists the findings, suggestions and conclusion.

Keywords: Non-banking financial companies, liquidity, turnover, leverage, efficiency

INTRODUCTION

Ratio analysis is the quantitative evaluation of the company's financial performance. Ratios help in understanding the profitability, operational efficiency, liquidity and solvency position of the organization.

It's a quick way to learn about a company's financial situation, but it also reveals more specific connections between data, such debt and equity or price vs earnings. Setting performance goals requires the comparison of a ratio with the prior period once it has been calculated [1]. For analysing the financial performance of the business concern, the ratio is employed as an index. The mathematical relationship between two figures that demonstrates their significant relationship to one another is represented by an accounting ratio. A number of ratios must be analysed collectively and contrasted with ratios from the prior year or even with other businesses in the same industry. In financial analysis, the comparative component of the study is quite important [4,2].

The ratio can be classified into different types:

- Liquidity Ratio
- Leverage Ratio

***Author for Correspondence**
Palak Dixit
E-mail: palakd29@gmail.com

[1]Student, MBA, 3rd Semester, Gyan Ganga Institute of Technology and Sciences, Jabalpur, Madhya Pradesh, India
[2]Associate Professor, Department of MBA, Gyan Ganga Institute of Technology and Sciences, Jabalpur, Madhya Pradesh, India

Received Date: September 16, 2023
Accepted Date: October 20, 2023
Published Date: October 30, 2023

Citation: Palak Dixit, Meghna Jain. Financial Evaluation of one of the Leading NBFC. NOLEGEIN Journal of Financial Planning & Management. 2023; 6(2): 20–31p.

© MBA Journals 2023. All Rights Reserved

- Efficiency Ratio
- Profitability Calculator

The Liquidity Ratio

It aids in analysing the company's liquidity status in order to settle debt commitments without requiring funding from other sources. Three liquidity ratios exist.

- Cash Ratio
- Quick Ratio
- Cash Ratio

Leverage Ratio

One of the many financial metrics that assess a company's ability to satisfy its financial obligations or how much money is obtained through debt (loans) is the leverage ratio. 4 leverage ratios exist.:

- Interest Coverage Ratio
- The Debt-To-Equity (D/E) Ratio
- Total-Debt-To-Total-Assets Ratio
- Debt-Service Coverage Ratio

Efficiency Ratio

Efficiency ratios aid in assessing the company's current performance. A company's ability to utilise its assets to create revenue is assessed using an efficiency ratio. The effectiveness of a company's internal use of its assets and liabilities is frequently assessed using the efficiency ratio. Few Efficiency ratios include of:

- Turnover of Assets
- Turnover of Receivables
- Turnover of Inventory
- Turnover of Asset

Profitability Ratio

Using profitability ratios might aid in analysing the company's profitability situation. The profitability ratio is classified into 2 parts – Margin Ratio and Return Ratio.

Types of Margin Ratio:

- Net Profit Margin
- Operating Margin
- Margin of Gross Profit

Types of Return Ratio:

- Return On Capital Employed
- Return On Assets
- Return On Equity

OBJECTIVE

The Objectives of the study follows:

- To evaluate the financial performance of the company Fusion Microfinance Limited with the help of ratio analysis of 5 years data (2018-2022).
- To analyse the profitability, solvency, liquidity etc. of the company.

LITERATURE REVIEW

Gopinathan Thachappilly (2016)

© MBA Journals 2023. All Rights Reserved

In his article from 2016, Gopinathan Thachappilly discusses the use of financial ratio analysis in performance evaluation. Usually, analysis is carried out to interpret the vast array of data displayed in the financial statements of companies. In order to determine whether to invest in a company, it aids in assessing its performance. Here, we examine the various ratio categories in detail in individual articles covering various performance-related topics, including debt, liquidity, profitability, and investment evaluation ratios [5,6].

James Clausen (2017)

James Clausen (2017) states that the income statement and balance sheet profitability ratio assessments are crucial tools for evaluating a company's profitability performance. These reports display a company's profit and net value, indicating its financial health in relation to sales. The balance sheet, on the other hand, aims to show the organization's net worth by subtracting liabilities from assets. Clausen argues that assets and profit are significantly correlated, and that the balance sheet often overlooks important information [3].

N. Gopal Samy and Dr. M. Nandhini (2017)

The study by N. Gopal Samy and Dr. M. Nandhini (2017) analysed leverage based on financial ratios of five companies with NBFC, using different ratio types as tools. The findings showed that Tata Capital Housing Finance Limited's performance is good compared to other NBFCs, suggesting that other companies should focus on working capital to increase financial leverage in the future [4].

RESEARCH METHODOLOGY

Design of the Study

- This research is based on secondary data.
- The data for the analysis is collected from the annual report presented by the company from year 2018 to 2022. Required information has been gathered from Fusion Microfinance Ltd's balance sheet and profit and loss statement [7].

Sample Dimensions

- The analysis was done on a single firm namely, Fusion Microfinance Private Limited.

Period of Study

- 5-year data has been collected for the ratio analysis i.e., from financial year 2017-2018 to 2021-2022.

Tools For Data Analysis

- Ratio Analysis and Percentage (%)

Source Of Data

- The information in this study was derived from secondary data that was previously published.
- Data is gathered from several public annual reports and company websites.

Limitations

- *Insufficiency of data:* Some ratios are overlooked due to insufficiency of data for particular Financial Year.
- The authenticity of the data always has an interrogative mark as it is collected from secondary source
- The study is conducted on the basis of experience and knowledge which may be incomplete for the perfect outcome [8].
- Monetary data alone is analysed in financial analysis while non-monetary factors are overlooked.

DATA ANALYSIS AND INTERPRETATION

Liquidity Ratio

© MBA Journals 2023. All Rights Reserved

Interpretation

The ratio decreases to 1.20 in financial year 2018-2019. Figure 1 There was increase in the ratio in financial year 2019-2020 and then again it decreases to 1.25 and 1.20 in the financial year 2019-2021 and financial year 2021-2022 respectively Table 1.

Table 1. Current Ratio: Current Assets / Current Liabilities = Current Ratio

Current Ratio					
Particulars	***2017-2018***	***2018-2019***	***2019-2020***	***2020-2021***	***2021-2022***
Current Assets	14212.08	35733.61	41882.07	57288.55	71429.99
Current Liabilities	7065.83	29746.8	30290.84	45701.54	59346.11
Current Ratio	2.01	1.20	1.38	1.25	1.20

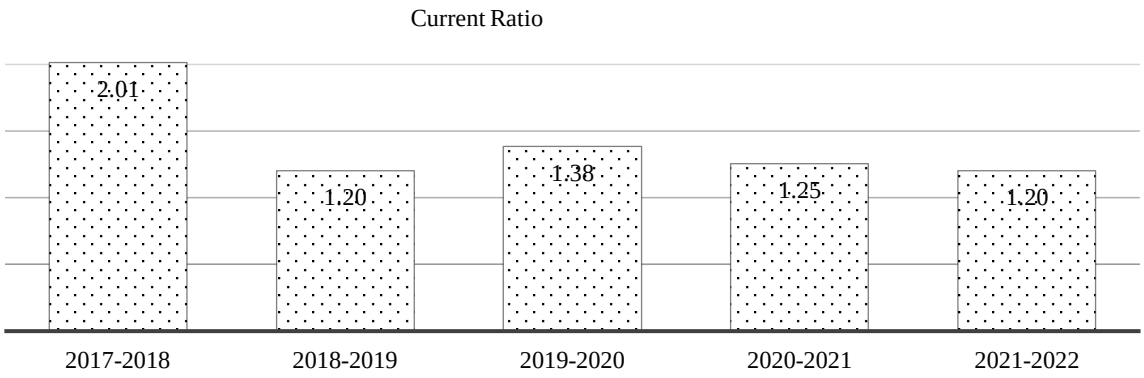


Figure 1. Current ratio.

Interpretation

Table 2 The company's cash ratio is fluctuating in last 5 years.

Table 2. Cash Ratio: - Cash (Cash + Cash Equivalent) / Total Current Liabilities = Ratio

Cash Ratio					
Particulars	***2017-2018***	***2018-2019***	***2019-2020***	***2020-2021***	***2021-2022***
Cash & Cash Equivalents	4945.87	7239.71	5396.67	12154.2	10113.72
Current Liabilities	7065.83	29746.89	30290.84	45701.54	59346.11
Cash Ratio	0.70	0.24	0.18	0.27	0.17

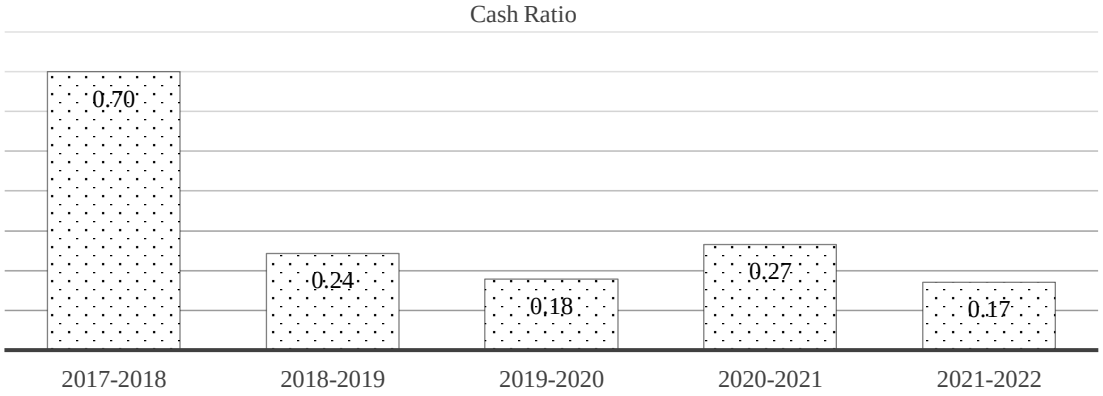


Figure 2. Cash ratio.

© MBA Journals 2023. All Rights Reserved

In 2017- 2018 the cash ratio was 0.70 which decreases to 0.18 in 2019-2020. It again increases to 0.27 in 2020-2021 and then decreases to 0.17 in 2021-2022. Figure 2 This indicates that the companies highest cash ratio was in 2017-2018 and lowest in 2021-2022.

Profitability Ratios

Interpretation

Figure 3 The ROE above 20% is consider a good investment and 5 % it is considered low. Table 3 The Return on Equity was -15.29. It was negative because the net income was -394.13 in 2017-2018 and then it increases to 8.10% in 2018-2019. But after the financial year 2018-2019 it has been decreasing every year. In 2021-2022 the ROE was 1.63%. The highest ROE was in the financial year 2018-2019 and the lowest was in 2021-2022.

It is not a good signal as company is generating less profit for each invested rupee from shareholders' equity [9].

Table 3. Return on equity (ROE): ROE = Net Income / Total Equity * 100

ROE					
Particulars	***2017-2018***	***2018-2019***	***2019-2020***	***2020-2021***	***2021-2022***
Net Income	-394.13	506.69	696.1	439.44	217.55
Shareholder's Equity	2576.95	6258.54	11988.89	12463.55	13379.51
ROE	-15.29%	8.10%	5.81%	3.53%	1.63%

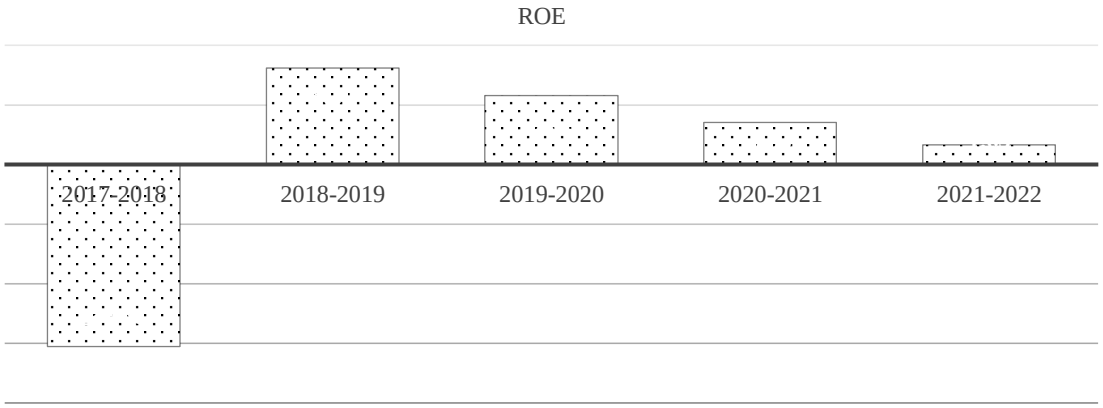


Figure 3. ROE

Interpretation

Figure 4 We can see that the Net Income of a company was -394.13 because of which it shows negative ROA in financial year 2017-2018. In financial year 2018-2019 and financial year 2019-2020 ROA increases to 1.40% and 1.64% respectively. Table 4 From the last 2 years ROA is decreasing. A declining ROA indicates that the corporation may have overinvested in assets that haven't increased revenue [10]. It demonstrates that the business is not making the best use of its resources to produce revenues.

Table 4. ROA = **Net Income / Total Assets * 100**

ROA					
Particulars	***2017-2018***	***2018-2019***	***2019-2020***	***2020-2021***	***2021-2022***
Net Income	-394.13	506.69	696.1	439.44	217.55
Total Assets	19684.61	36105.21	42399.94	58379.33	72904.82
ROA	-2.00%	1.40%	1.64%	0.75%	0.30%

© MBA Journals 2023. All Rights Reserved

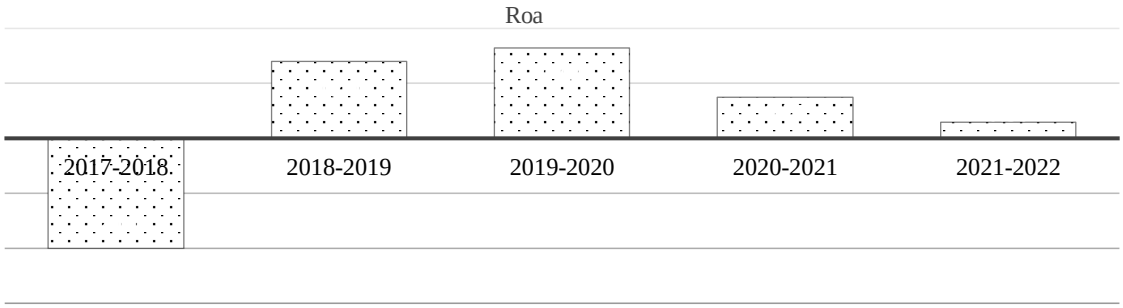


Figure 4. Roa.

Interpretation

Figure 5 The ROCE was 6.58 in financial year 2017-2018 which increases to 50.70% in 2019. But after financial year 2018-2019 and financial year 2019-2020 it decreases to 36.14% and 34.07% respectively, it may be because of the pandemic. Table 5 In financial year 2021-2022 ROCE again increases to 38.38% which is a good signal as the company is generating the profit by using its capital effectively . The financial year 2018–2019 had the highest ROCE (50.70%), while 2017–2018 had the lowest ROCE (0.58%).

Table 5. Return on capital Employed (ROCE): ROCE = EBIT / Capital Employed * 100

Roce					
Particulars	***2017-2018***	***2018-2019***	***2019-2020***	***2020-2021***	***2021-2022***
EBIT	829.98	3223.92	4376.67	4318.91	5203.9
Capital Employed	12618.78	6358.32	12109.1	12677.79	13558.71
ROCE	6.58%	50.70%	36.14%	34.07%	38.38%

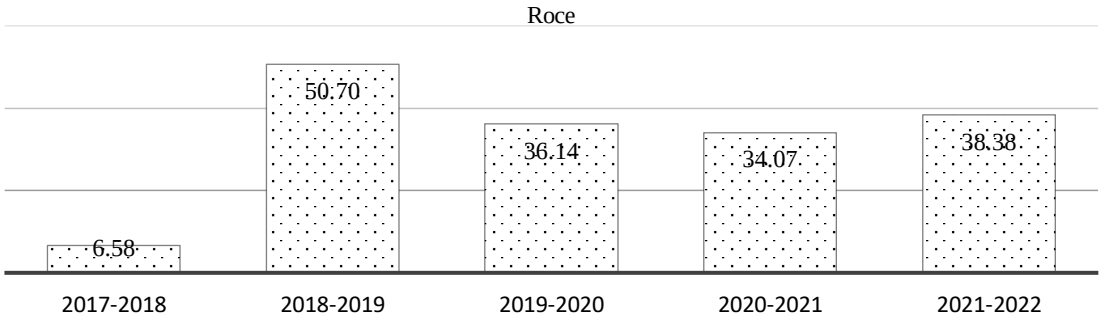


Figure 5. Roce.

Interpretation

Figure 6 In the financial year 2017-2018 company had a negative net profit margin of -14.74% as the company's net income was negative at the time. Table 6 The net profit margin rises to 10.19% in the following fiscal year 2018-2019. The company's net profit margin decreased after the fiscal year 2018–2019, which might not be encouraging to investors. However, the Covid epidemic, which brought about an economic downturn to the state of the economy, could be blamed for the decline in the company's net profit margin.

Table 6. Net Profit Margin Ratio = **Net Income / Total Revenue * 100**

Net Profit Margin					
Particulars	***2017-2018***	***2018-2019***	***2019-2020***	***2020-2021***	***2021-2022***
Net Income	-394.13	506.69	696.1	439.44	217.55
Total Revenue	2673.12	4970.53	7303.11	8730.88	12013.49
Net Profit Margin	-14.74%	10.19%	9.53%	5.03%	1.81%

© MBA Journals 2023. All Rights Reserved

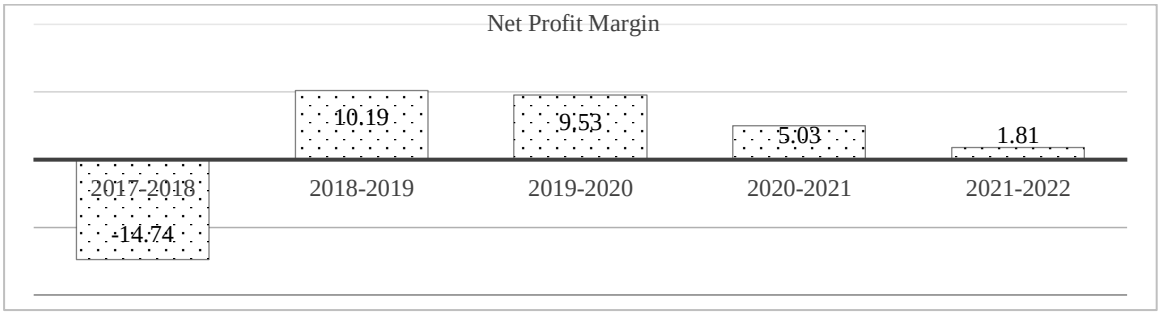


Figure 6. Net profit margin.

Interpretation

Table 7 In financial year 2017-2018 the PAT Ratio was -20.05. It was negative because the Earning Before Tax (EBT) was negative. In financial year 2018-2019 it increases to 13.76 which was a good sign, but after financial year 2018-2019 it se decreasing every year. Figure 7 In financial year 2021-2022 the PAT Ratio was 2.03 this indicates that the costs are not well controlled. It demonstrates how the business may keep costs under control while paying out earnings to investors as dividends.

Table 7. Profit After Tax (PAT) Ratio: **PAT Ratio = EBT / Total Revenue * 100**

Pat Ratio					
Particulars	***2017-2018***	***2018-2019***	***2019-2020***	***2020-2021***	***2021-2022***
EBT	-536.05	684.03	999.95	567.91	244.26
Total Revenue	2673.12	4970.53	7303.11	8730.88	12013.49
PAT Ratio	-20.05%	13.76%	13.69%	6.50%	2.03%

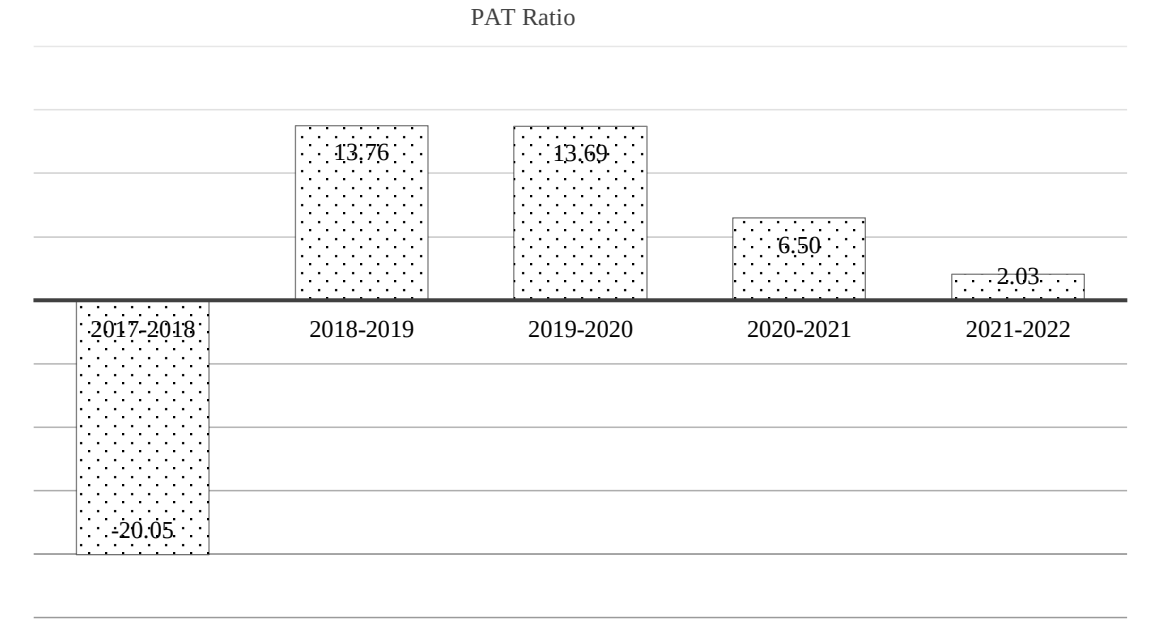


Figure 7. PAT ratio.

LEVERAGE OR SOLVENCY RATIO

Interpretation

Table 8 Debt-to-Equity ratio in financial year 2017-2018 was 6.6 which decreases to 4.8 and 2.5 in the year financial year 2018-2019 and financial year 2019-2020 respectively. Figure 8 After

© MBA Journals 2023. All Rights Reserved

financial year 2019-2020 the ratio again started to increase. In financial year 2020-2021 the ratio was 3.7 and increases to 4.4 in financial year 2021-2022.The ratio of 5 years are not the good sign for the company.

Table 8. Debt-to-equity ratio: **Debt-to-Equity Ratio = Total Debt / Shareholder's Equity**

Debt-To-Equity Ratio					
Particulars	***2017-2018***	***2018-2019***	***2019-2020***	***2020-2021***	***2021-2022***
Total Debts	17107.66	29846.67	30411.05	45915.78	59525.31
Total Shareholder's Equity	2576.95	6258.54	11988.89	12463.55	13379.51
Total Debt-to-Equity Ratio	6.6	4.8	2.5	3.7	4.4

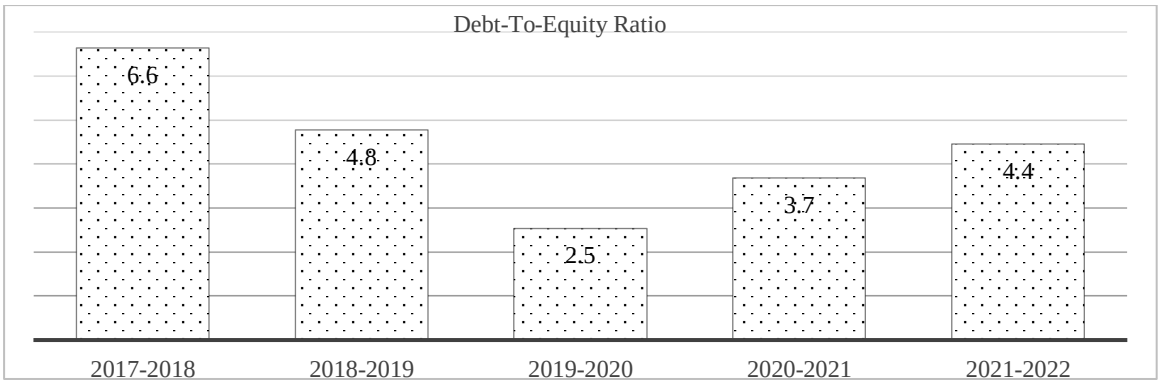


Figure 8. Debt -to- equity ratio.

Interpretation

Figure 9 The Debt-to-Asset ratio decreased after the financial year 2017-2018 but after financial year 2019-2020 it again started to increase. Table 9 The highest Debt-to-Asset Ratio was 86.91 in the financial year 2017-2018 and the lowest was 71.72 in financial year 2019-2020. The company's Debt-to-Asset ratio is more than 50% in last 5 years that indicates that the company is "leveraged". This demonstrates that the company borrows more money to finance its operations.

Table 9. Debt-to-asset ratio (D/A): **Total Debt / Total Assets = Debt-to-Asset Ratio**

Debt-To-Assets Ratio					
Particulars	***2017-2018***	***2018-2019***	***2019-2020***	***2020-2021***	***2021-2022***
Total Debts	17107.66	29846.67	30411.05	45915.78	59525.31
Total Assets	19684.61	36105.21	42399.94	58379.33	72904.82
Debt-To-Asset Ratio	86.91	82.67	71.72	78.65	81.65

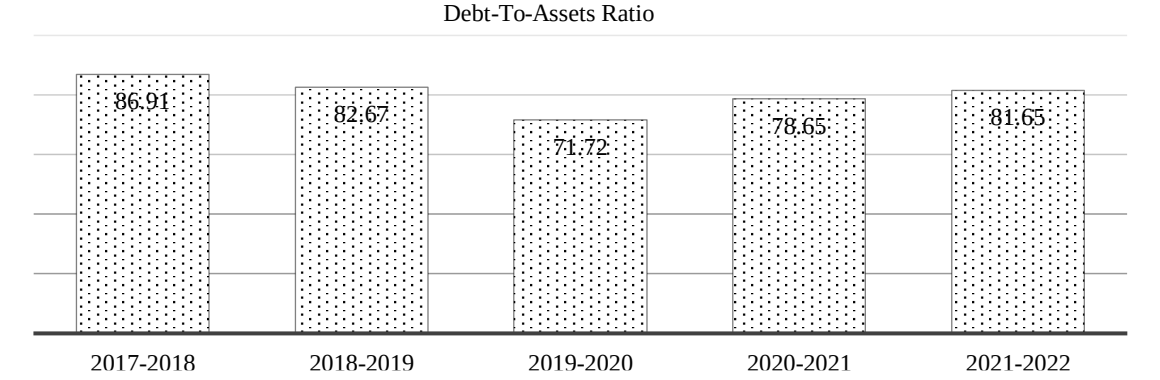


Figure 9. Debt-to-asset ratio.

© MBA Journals 2023. All Rights Reserved

Interpretation

Table 10 We can see that in financial year 2017-2018 the Interest Coverage Ratio was 0.67 but in financial year 2018-2019 & financial year 2019-2020 there is a rise which indicates the company's strong financial health. But after financial year 2019-2020 the Interest Coverage Ratio decreases to 1.15 and 1.05 respectively which indicated that the company is struggling to pay its interest on debts. Figure 10 The highest Interest Coverage Ratio was 1.30 in the financial year 2019-2020 and the lowest was 0.61 in financial year 2017-2018.

Table 10. Interest Coverage Ratio: EBIT / Interest Expenses = Interest Coverage Ratio

Interest Coverage Ratio					
Particulars	***2017-2018***	***2018-2019***	***2019-2020***	***2020-2021***	***2021-2022***
EBIT	829.98	3223.92	4376.67	4318.91	5203.9
Interest Expenses	1366.02	2539.89	3376.72	3751.04	4959.64
Interest Coverage Ratio	0.61	1.27	1.30	1.15	1.05

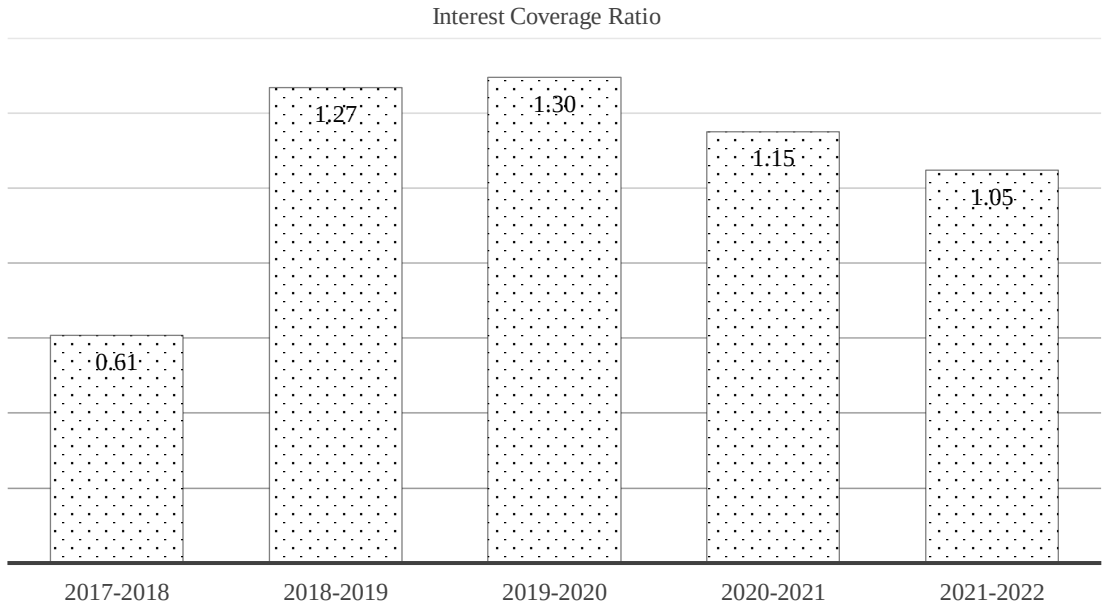


Figure 10. Interest coverage ratio.

TURNOVER RATIO

Interpretation

Table 11 The asset turnover ratio is 0.14 in financial year 2017-2018 and 2018-2019 which increases to 0.17 in the financial year 2019-2020. After financial year 2019-2020 there is fluctuation in ratio as it decreases to 0.15 and then again increases to 0.16. Highest Asset Turnover Ratio was 0.17 in financial year 2019-2020 and the lowest was 0.14 from 2017-2019. Figure 11Investors can learn how effectively a company is utilizing its assets to create sales by looking at the asset turnover ratio.

Table 11. Asset Turnover Ratio: Total Revenue / Total Assets = Asset Turnover Ratio

Asset Turnover Ratio					
Particulars	***2017-2018***	***2018-2019***	***2019-2020***	***2020-2021***	***2021-2022***
Total Revenue	2673.12	4970.53	7303.11	8730.88	12013.49
Total Assets	19684.61	36105.21	42399.94	58379.33	72904.82
Asset Turnover Ratio	0.14	0.14	0.17	0.15	0.16

© MBA Journals 2023. All Rights Reserved

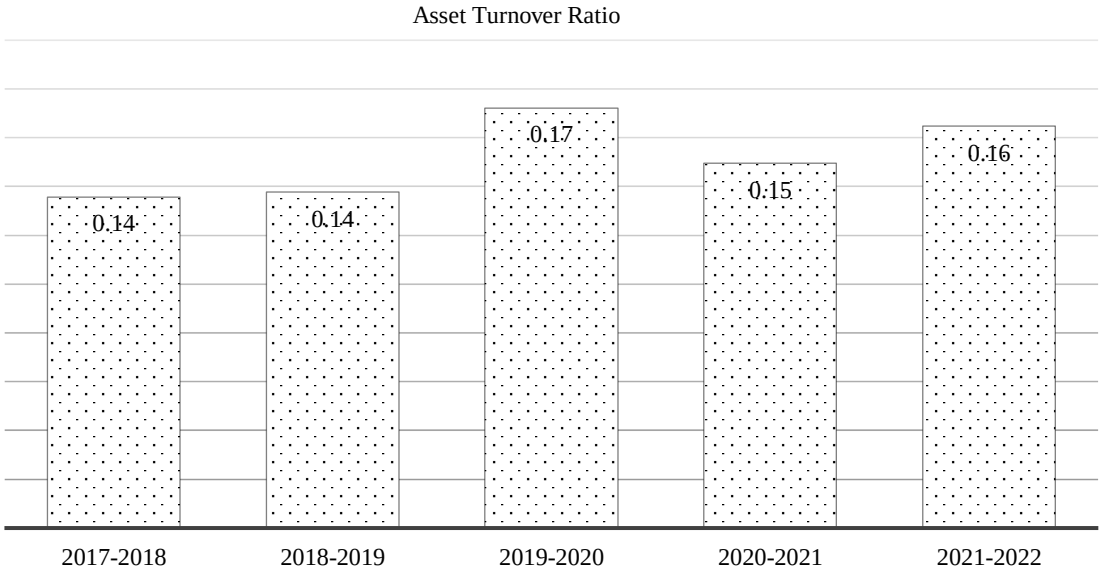


Figure 11 Asset turnover ratio

Interpretation

Table 12 We can see that in the Financial Year 2017-2018 the debtor's turnover ratio is 558.06 which increases to 816.18 in the Financial Year 018-2019. High debtor's turnover ratio indicates that the company has the good credit policy and efficient process to collect its dues from its customers and convert debtors into cash. Figure 12 The ratio decreases to 232.66 in the Financial Year 2019-2020, it could be because of pandemic. In the Financial Year 2020-2021 the ratio increases to 312.60 and then again decreases in Financial Year 2021-2022 to 276.68.

Table 12. Debtors Turnover Ratio: DTR = Total Revenue / Average Trade Receivable

Debtors Turnover Ratio					
Particulars	***2017-2018***	***2018-2019***	***2019-2020***	***2020-2021***	***2021-2022***
Total Revenue	2673.12	4970.53	7303.11	8730.88	12013.49
Trade Receivables	4.79	6.09	31.39	27.93	43.42
Debtors Turnover Ratio	558.06	816.18	232.66	312.60	276.68

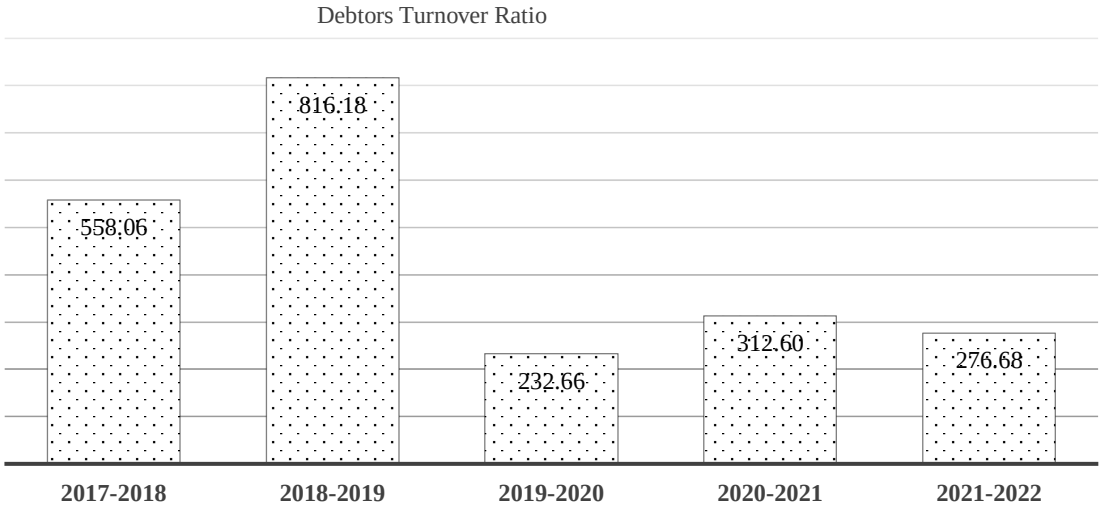


Figure 12. Debtor's turnover ratio.

© MBA Journals 2023. All Rights Reserved

Findings

- The corporation is more likely to repay the creditor because the current ratio for all five years is greater than 1.
- The Return on Equity Ratio in 2017-2018 is negative which indicates that the organization was having issues with debt, asset retention, or both. The company's ROE has been steadily declining over the past four years, which suggests that it is not turning a sufficient profit.
- The company's Return on Asset Ratio is not good and has been steadily falling from 2019 to 2020; this suggests that the company may have bought too many assets or is not making the best use of those assets.
- The company's Return on Capital Employed in 2017 and 2018 was low. Following that, it rises and falls, but the corporation still has a decent ROCE.
- The Net Profit Margin of the company was 10.19% In year 2018-2019 which was good, but after that it is continuously declining. A falling net profit margin over time may problematic.
- The Company's Profit After Tax was good in 2018-2019 & 2019-2020 but it is decreasing continuously.
- Debt-to-Asset ratio is more than 50% in last 5 years that indicates that the company is "leveraged"..
- The interest coverage ratio in 2017-2018 was low, but afterwards it increases. The ratio of 5 years is not satisfactory which indicates that the company is not that much capable of meeting its interest obligation.
- The Asset Turnover Ratio of all 5 year is less than 1, due to increase in assets.
- There is continuous fluctuation in debtor's turnover ratio in last 5 years. Even after the fluctuation it shows good result that the company has the good credit policy and efficient process to collect its dues from its customers and convert debtors into cash [11].

CONCLUSION

The main objective of this study was to analyse the overall financial performance of Fusion Microfinance Ltd with the help of ratio analysis. The company's published annual report is used to conduct the study.

Current Ratio, Cash Ratio, Return on Interest Ratio, Return on Asset Ratio, Return on Capital Employed Ratio, Net Profit Margin, Profit After Tax, Debt-To-Equity, Debt-To-Asset, Asset Turnover Ratio, and Debtors Turnover Ratio are the 12 different types of ratios included in the report.

The company's current ratio demonstrates a satisfactory outcome, indicating that it is more likely to repay its creditors. According to the company's profitability statistics, its assets are not being utilised efficiently enough to generate a profit. The company's debt-to-asset ratio has been greater than 50% for all five years, indicating that it is "leveraged."

The asset turnover ratio shoes that the company's total assets cannot produce enough revenue for the company but, on the other side the debtor turnover ratio indicates that the company has good credit policy to collect its dues from tits customers.

The company's existing financial situation, which needs to be improved in the future.. This may be due to the pandemic which hit the whole world and affected the world's economy the company incurring loss during the period of study. So, the company should focus on getting of profit in the coming years. The company need to change the strategy to improve its financial condition in future.

Suggestions

- After analyzing the above data, the following suggestions are made to the company for the expansion and growth of the company-

© MBA Journals 2023. All Rights Reserved

- Since the cash ratios of the fusion microfinance limited is less than 1, the company should strive to have more cash in hand in order to settle the demand for payments or in case of short-term liquidation when required.
- Fusion microfinance limited should utilize their assets more effective way, in order to enhance their profit generation, which can be clearly visible from the declination in their return of assets ratio.
- Profit margins and profitability ratio suggest that fusion microfinance limited still have the scope to improve in these sections. For achieving this, fusion microfinance limited should go for reducing operating cost and possible abatements in expenses.
- Fusion microfinance limited should try to count on their own cash instead of going for heavy financing rates in order to diminish their debts and accelerate the value of their company. This will boost their asset and equity values to another level.
- For advancing the asset turnover ratio and generate heavy revenue, a better strategy is required by fusion microfinance limited that should be adopted to utilize the assets more effectively.

REFERENCES

1. AB Leasing And Finance Limited [Internet]. Abgroup.in. Available from: https://www.abgroup.in/
2. Fusion Micro Finance – NBFC | MFI Company, Microfinance, MSME, Machinery, New Small Business Loans in India [Internet]. Fusion Micro Finance. Available from: https://fusionmicrofinance.com/
3. Sinha AB. Non-Banking Financial Institutions of India-Their Onset, Growth and Performance of Selected NBFCs. The Institute of Company Secretaries of India. Retrived from https://www. icsi. edu/Portals/86/Manorama/DBIMS% 20Journal. 2017;20.
4. Samy NG, Nandhini M. A Study on Financial Performance of Selected Non-Banking Financial Companies in India. International Journal of Current Research and Modern Education (IJCRME). 2017;2(2):111-4.
5. Gopinathan S. Education and the nation state: The selected works of S. Gopinathan. Routledge; 2013 Feb 11.
6. Tadi MS. EVALUATION OF FINANCIAL PERFORMANCE OF SELECTED NON-BANKING FINANCIAL COMPANIES IN INDIA. Journal of General Management Research. 2022 Jul 1;9(1).
7. Anbukarasi M, Devaki M. Financial Performance Appraisal of Select Companies in India–Special Reference to Banking and NBFCs.
8. Investing.com India - Financial News, Shares & Quotes [Internet]. Investing.com India. Available from: https://in.investing.com
9. T.S. Grewal's Double Entry Book Keeping: Financial Accounting Textbook for CBSE Class 11 (Old Edition) : T. S. Grewal, H. S. Grewal, G. S. Grewal, R. K. Khosla: Amazon.in: Books [Internet]. Amazon.in. Available from: https://www.amazon.in/Grewals-Double-Keeping-Financial-Accounting/dp/8194047749
10. Amazon.in [Internet]. Amazon.in. Available from: https://www.amazon.in/Books-Shashi-K-Gupta-R-Sharma/s?rh=n%3A976389031%2Cp_27%3AShashi+K.+Gupta+%26+R.K.+Sharma
11. Nandhini Muniappan. A Study On Financial Performance Of Selected Non-Banking Financial Companies In India [Internet]. ResearchGate. unknown; Available from: https://www.researchgate.net/publication/335543761_A_Study_On_Financial_Performance_Of_Selected_Non-Banking_Financial_Companies_In_India

© MBA Journals 2023. All Rights Reserved