



ISSN NO. 2320-5407

Journal homepage: <http://www.journalijar.com>

INTERNATIONAL JOURNAL  
OF ADVANCED RESEARCH

## RESEARCH ARTICLE

# A STUDY ON THE FINANCIAL PERFORMANCE OF STANDARD CHARTERED FINANCE LIMITED

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### Manuscript Info

#### Manuscript History:

Received: 15 April 2014  
Final Accepted: 26 May 2014  
Published Online: June 2014

#### Key words:

Dizziness, Dizziness Diagnostic Scale, VNG, Vertigo, BPPV, Balance, Vestibular Hypofunction

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### Abstract

The financial analysis is the process of identifying the financial strength and weakness of the firm establishing relationship between the items of balance sheet and the profit and loss account.

The study was undertaken in Standard Chartered Finance Limited with a view to have an insight in the financial performance of the firm. In the present study efforts have been taken to determine the financial condition and performance of the firm. The present study has thrown major concentration in ratio analysis, comparative statements, common size statements and trend analysis from the five years financial statements of the firm.

Both primary and secondary sources of data were used in the study and for analysis mainly secondary data has been used. Based on the analysis suitable suggestions were given for a better financial performance in the firm.

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## 1. INTRODUCTION

Business is all about making money. The shareholders and stakeholders are interested in the profit the business makes. In other words they are interested on the return expected from the investment in the business. So it is the duty of the firm to communicate to all the interested parties about its financial performance.

A firm communicates financial information to the users through financial statements and reports. The financial statements provide a summarized view of the financial position and operations of the firm. Things can be learnt from a careful examination of its financial statements as invaluable documents. The analysis of financial statements is an important aid to financial analysis.

Financial analysis is the process of evaluating the relationship between component parts of financial statements in order to obtain a better understanding of the firm's position and performance.

Financial analysis is the process of selection, relation and evaluation. The financial analyst needs to select the information relevant to decision making under consideration from the total information contained in the financial statements. Then the information needs to be arranged in away to highlight the significant relationship. After which the interpretation and the drawing of inferences and conclusions is made.

**OBJECTIVES OF THE STUDY:**

- To study the financial performance of Standard Chartered Finance Limited.
- To analyze the financial statements and profitability of Standard Chartered Finance Limited.
- To measure the utilization of various assets with the turnover of the Standard Chartered Finance Limited.
- To do the comparison of ratio analysis for five years and also to do the comparative, common size statements and trend analysis.

**2. RESEARCH METHODOLOGY:****TOOLS OF FINANCIAL ANALYSIS:**

A financial analyst can adopt the following tools analysis of the financial statement. These are also termed as methods of financial analysis.

- **Comparative financial statements.**
- **Common size statements.**
- **Trend Analysis.**
- **Ratio Analysis.**

**2.1. Comparative financial statements:**

This is yet another technique used in financial statements analysis. These statements summarize and present related data for a number of years, incorporating therein changes (absolute and relative) in individual items of financial statements.

**2.2. Common size statements:**

Common size statements indicate the relationship of various items with some common items, (expressed as percentage of the common item). In this income statement, the sales figure is taken as basis and all other figures are expressed as percentage of sales.

**2.3. Trend Analysis:**

‘Trend’ signifies a tendency and as such the review and appraisal of tendency in accounting variables are nothing but trend analysis. Trend analysis is carried out by calculating trend ratios (percentage) and/or by plotting the accounting data on graph paper or chart.

**2.4. Ratio analysis:**

This is the most important tool available to financial analyst for their work. The modern technique of financial statement analysis is the ratio accountancy or ratio analysis. Through ratios an analyst can X-Ray the financial growth, development and the present condition of business enterprise.

**The analysis and financial statement covers the following four parts.**

- Analysis of Balance sheet and Profit & Loss A/c Ratios.
- Comparative Balance sheet & Income statement.
- Common size Balance sheet & Income statement.
- Trend Analysis.

### 3. ANALYSIS AND INTERPRETATION

#### 3.1. B/S AND P & L A/C RATIOS:

##### Fixed Asset to Net Worth Ratio:

##### INTERPRETATION:

This ratio shows the relationship between fixed assets and proprietors' funds. The purpose of this ratio is to find out the percentage of the owners fund invested in fixed assets. When compared to previous year it has been slightly decreased. This shows that there is a decrease in fixed asset which makes the ratio less.

##### Current Asset to Proprietor's Fund Ratio:

##### INTERPRETATION:

The ratio of current assets to proprietors' fund establishes the relationship between current assets and proprietors' fund. This ratio shows more current asset than the proprietor's fund which shows the concern is in good condition.

##### INTERPRETATION:

- The comparative balance sheet of the company reveals that during 2007 there has been decrease in fixed assets of 141,339 i.e. -1.59%, while the long term liabilities to outsiders have increased by Rs.41,492,614 i.e. 11.41%.
- There has also been increased of Rs.12, 392,065 i.e. 30.72% in Reserves and Surplus of the company.
- The current assets have increased by Rs.68, 856,258 i.e. 32.81% in 2007. There has been sufficient increase in balance of cash as well as other assets.
- On the other hand current liabilities have increased by only Rs.75, 100,936 i.e. 149.71%. This further confirms that the company has raised the long term finances even for the current assets resulting into an improvement in the liquidity position of the company.

##### INTERPRETATION:

- 1) The above statement shows that the turnover had gone up in 2007 of 31.02%. The operating expenses also have been increased by Rs.1, 991,840 i.e. 16.58% and then the total expenditure also has been increased up to 25%.
- 2) The net profit has been increased to 50.78% where the amount increased was Rs.4, 594,645, which shows the company growth is well and good.

##### INTERPRETATION:

- 1) The study of common size balance sheet shows that 54.33% of total assets in 2006 were fixed and advances. This percentage decreased 52.64% in 2007. If the concern requires considerable investment in fixed assets, these percentages might be acceptable.
- 2) In 2006 external equity (long term debt) and owner's equity accounted for 79.16% and 9.93%.
- 3) In 2007 these percentages changed to 68.86% for external equity and 9.86% for owner's equity. The concern has also succeeded in getting its current liabilities increased from 10.92% in 2006 to 21.28% in 2007 of their respective total equities.

##### INTERPRETATION:

- 1) The percentage of net profit to turnover was 21.99% in 2006 which was increased to 25.31% in 2007, where it shows the very good profit in the company.
- 2) The operating expenses decreased from 29.19% to turn over in 2006 to 25.98% to turn over in 2007, where this shows that the company has decreased the operating expenses for the company's growth.

- 3) In the ultimate analysis it can be said that operating efficiency of the concern is in good state as the operating expenses was reduced and due to the increase in the income of the firm during the period under study.

### 3.2 . TREND ANALYSIS:

#### INTERPRETATION:

The study of the above given statement of trend percentage reveals that:

- 1) The turnover of the firm has continuously increased over a period of five years commencing from 2003. However, there has been substantial increase in the amount of turnover in the year 2007 when it increased by 70.87
- 2) The net worth of the firm i.e. equity shareholder's fund have been increased a lot in order to run the company in a good condition, there was much raise in the year 2006 and also in 2007.
- 3) The net profits of the firm have increased at much higher rate in comparison to increase in turnover and net worth during the period under study which show the company's growth is well and sound.
- 4) The current assets value of the company has increased much but the fixed assets amount to be reduced in the year 2007 than in the year 2006.

### 4. SUGGESTIONS:

- The management should try to increase the net profit ratio either by increasing the sales or by reducing the cost.
- They should reduce the operational cost for strengthening the financial status.
- Improve owner's equity.
- The men should adopt latest technology for better performance
- The man should take steps for utilizing its total assets to make more profit.
- Give proper training to employee for the development of their skills and efficiency.
- The management must aware of the importance of human resource and make use of it completely and scientifically through proper co-ordination and motivation.

### 5. CONCLUSION:

- From the study it can be concluded that the short-term assets are very efficiently managed by the organization resulting in a very comfortable liquidity position throughout the year under study.
- The long term financial and profitability position of the concern though not very applicable, is satisfactory. Any step taken to improve this would be worthwhile for the unit under study.

**Fixed Asset to Net Worth Ratio = Fixed Asset / Proprietor's fund.**

<b>TABLE 3.1.1 - FIXED ASSET TO NET WORTH RATIO</b>			
<b>YEAR</b>	<b>FIXED ASSET</b>	<b>PROPRIETOR'S FUND</b>	<b>RATIO</b>
2003	2,343,576	17,376,103	0.13
2004	3,515,364	24,500,306	0.14
2005	4,218,437	32,340,405	0.13
2006	8,913,964	45,616,094	0.20
2007	8,772,625	58,008,159	0.15

**Current Asset to Proprietor's Fund Ratio = Current Asset / Proprietor's fund.**

<b>YEAR</b>	<b>CURRENT ASSET</b>	<b>PROPRIETOR'S FUND</b>	<b>RATIO</b>
2003	117,763,803	17,376,103	6.78
2004	140,138,925	24,500,306	5.72
2005	168,166,711	32,340,405	5.20
2006	209,865,008	45,616,094	4.60
2007	278,721,168	58,008,159	4.80

**TABLE 3.1.3 – COMPARITIVE BALANCE SHEET AS AT 31<sup>st</sup> MARCH 2007**

	31.3.2006	31.3.2007	AMT (+ or -)	% (+ or -)
<b>CAPITAL &amp; LIABILITIES</b>				
CAPITAL	5,281,975	5,281,975		
RESERVES & SURPLUS	40,334,119	52,726,184	12,392,065	30.72
LONG TERM DEBT				
DEPOSITS	284,598,056	341,740,351	57,142,295	20.08
BORROWINGS	79,167,877	63,518,196	(15,649,681)	-19.77
<b>TOTAL</b>	<b>363,765,933</b>	<b>405,258,547</b>	<b>41,492,614</b>	<b>11.41</b>
<b>CURRENT LIABILITIES &amp; PROVISIONS</b>				
	50,164,127	125,265,063	75,100,936	149.71
<b>TOTAL CAPITAL &amp; LIABILITIES</b>	<b>459,546,154</b>	<b>588,531,769</b>	<b>128,985,615</b>	<b>28.07</b>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
CASH & BALANCES WITH RBI	14,012,047	20,035,416	6,023,369	42.99
BALANCES WITH BANKS & MONEY	33,868,569	20,232,683	(13,635,886)	-40.26
INVESTMENT	106,317,316	119,022,852	12,705,536	11.95
OTHER CURRENT ASSETS	55,666,978	119,430,217	63,763,239	114.54
<b>TOTAL CURRENT ASSETS</b>	<b>209,864,910</b>	<b>278,721,168</b>	<b>68,856,258</b>	<b>32.81</b>
ADVANCES	240,767,280	301,037,976	60,270,696	25.03
FIXED ASSETS	8,913,964	8,772,625	(141,339)	-1.59
<b>TOTAL ASSETS</b>	<b>459,546,154</b>	<b>588,531,769</b>	<b>128,985,615</b>	<b>28.07</b>

**TABLE 3.1.4 – COMPARITIVE INCOME STATEMENT FOR THE YEAR ENDED 31<sup>st</sup> MARCH 2007**

	31.3.2006	31.3.2007	AMT (+ or -)	% (+ or -)
<b>INCOME</b>				
INTEREST EARNED	30,563,503	40,427,830	9,864,327	32.27
OTHER INCOME	10,577,377	13,473,330	2,895,953	27.38
<b>TOTAL TURNOVER</b>	<b>41,140,880</b>	<b>53,901,160</b>	<b>12,760,280</b>	<b>31.02</b>
<b>EXPENDITURE</b>				

INTEREST EXPENDED	11,901,671	16,518,869	4,617,198	38.79
OPERATING EXPENSES	12,010,999	14,002,839	1,991,840	16.58
PROVISION & CONTINGENCIES	8,179,733	9,736,330	1,556,597	19.03
TOTAL EXPENDITURE	32,092,403	40,258,038	8,165,635	25.44
PROFIT				
NET PROFIT FOR THE YEAR	9,048,477	13,643,122	4,594,645	50.78
PROFIT AVAILABLE FOR APPROPRIATION	9,048,477	13,643,122	4,594,645	50.78

**TABLE 3.1.5 – COMMON-SIZE BALANCE SHEET AS AT 31<sup>st</sup> MARCH 2007**

<b>COMMON-SIZE BALANCE SHEET AS AT 31st MARCH 2007</b>				
	<b>31.3.2006</b>	<b>PERCENTAGE</b>	<b>31.3.2007</b>	<b>PERCENTAGE</b>
CAPITAL & LIABILITIES				
CAPITAL	5,281,975	1.15	5,281,975	0.90
RESERVES & SURPLUS	40,334,119	8.78	52,726,184	8.96
		9.93		9.86
LONG TERM DEBT				
DEPOSITS	284,598,056	61.93	341,740,351	58.07
BORROWINGS	79,167,877	17.23	63,518,196	10.79
TOTAL	363,765,933	79.16	405,258,547	68.86
CURRENT LIABILITIES & PROVISIONS	50,164,127	10.92	125,265,063	21.28
TOTAL CAPITAL & LIABILITIES	459,546,154	100.00	588,531,769	100.00
ASSETS				
CURRENT ASSETS				
CASH & BALANCES WITH RBI	14,012,047	3.05	20,035,416	3.40
BALANCES WITH BANKS & MONEY	33,868,569	7.37	20,232,683	3.44
INVESTMENT	106,317,316	23.14	119,022,852	20.22
OTHER CURRENT ASSETS	55,666,978	12.11	119,430,217	20.29
TOTAL CURRENT ASSETS	209,864,910	45.67	278,721,168	47.36
ADVANCES	240,767,280	52.39	301,037,976	51.15
FIXED ASSETS	8,913,964	1.94	8,772,625	1.49
		54.33		52.64
TOTAL ASSETS	459,546,154	100.00	588,531,769	100.00

**TABLE 3.1.6 – COMMON-SIZE INCOME STATEMENT FOR THE YEAR ENDED 31<sup>st</sup> MARCH 2007**

<b>COMMON-SIZE INCOME ENDED STATEMENT FOR THE YEAR ENDED 31<sup>st</sup> MARCH 2007</b>				
	<b>31.3.2006</b>	<b>PERCENTAGE</b>	<b>31.3.2007</b>	<b>PERCENTAGE</b>
INCOME				
INTEREST EARNED	30,563,503	74.29	40,427,830	75.00
OTHER INCOME	10,577,377	25.71	13,473,330	25.00
TOTAL TURNOVER	41,140,880	100.00	53,901,160	100.00
EXPENDITURE				
INTEREST EXPENDED	11,901,671	28.93	16,518,869	30.65
OPERATING EXPENSES	12,010,999	29.19	14,002,839	25.98
PROVISION & CONTIGENCIES	8,179,733	19.88	9,736,330	18.06
TOTAL EXPENDITURE	32,092,403	78.01	40,258,038	74.69
PROFIT				
NET PROFIT FOR THE YEAR	9,048,477	21.99	13,643,122	25.31
PROFIT AVAILABLE FOR APPROPRIATION	9,048,477	21.99	13,643,122	25.31

**TABLE 3.1.7 - TREND ANALYSIS**

<b>PARTICULARS</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>TURNOVER</b>	100	127.00	167.64	228.50	299.37
<b>NET WORTH</b>	100	141.00	186.12	262.52	333.84
<b>NET PROFIT</b>	100	121.00	145.20	218.39	329.29
<b>CURRENT ASSETS</b>	100	119.00	142.80	178.21	236.68
<b>FIXED ASSETS</b>	100	150.00	180.00	380.36	374.33

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