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| No. of pages |  |

**Allotted Company:** IDBI Bank

**Question:** Give your understanding of all the ratios calculated in the annual report and also Management Discussion and analysis component of the Annual Report.

**Answer:**

The Industrial Development Bank of India or commonly known as IDBI was established in 1964 under an Act of Parliament as a wholly-owned subsidiary of the Reserve Bank of India.

In 1976, the ownership of IDBI was transferred to the Government of India and it was made the principal financial institution for coordinating the activities of institutions engaged in financing, promoting and developing industry in India.

After the public issue of IDBI in July 1995, the government shareholding in the bank came down from 100% to 75%.

In the month of September 2004, the Reserve Bank of India incorporated IDBI as a 'scheduled bank' under the *RBI Act*, 1934. Consequently, IDBI formally entered the portals of banking business as IDBI Ltd. from 1 October 2004. The commercial banking arm, IDBI BANK, was merged into IDBI in 2005.

LIC of India completed the acquisition of 51% controlling stake in IDBI Bank on 21 January 2019 making it the majority shareholder of the bank. Subsequent to the enhancement of equity stake by LIC of India on 21 January 2019, Reserve Bank of India has clarified through a Press Release dated 14 March 2019 that IDBI Bank stands re-categorized as a Private Sector Bank, with retrospective effect from 21 January 2019.

IDBI Bank Ltd is today one of India’s largest commercial Banks. The services offered by the bank includes

1. Retail banking: The company provides a wide range of products and services like deposits, loans, NRI services, demat, pension account, mobile banking, internet banking
2. Investment schemes: such as mutual fund, insurance products, bonds, debentures etc.
3. Corporate banking: provides corporates project finance, film finance, foreign currency loan, working capital finance, treasury products, etc.
4. Agri business and microfinance: It provides finance to agri businesses in the form of dairy loans, farm mechanization loans, financing for fisheries, poultry, piggery, warehouse receipt finance, etc.
5. Small and Medium Enterprise sector: IDBI Bank also offers products and services to SME sector

**Extract of ratios presented in the latest annual report for the period 2019-20:**

1. **Business Ratios – schedule XV to the financial statements:**

|  |  |  |  |
| --- | --- | --- | --- |
| **S.No** | **Particulars** | **March 31st, 2020** | **March 31st, 2019** |
| 1 | Interest income as a percentage to working funds | 6.88% | 6.84% |
| 2 | Non-interest income as a percentage to working funds | 1.48% | 1.02% |
| 3 | Operating profit as a percentage to working funds | 1.69% | 1.26% |
| 4 | Return on assets (ROA) | (4.26%) | (4.68%) |
| 5 | Business (Deposits plus advances) per employee (Rs in crores) | 18.51 | 20.84 |
| 6 | Profit/ (loss) per employee [Rs. in crore] | (0.73) | (0.88) |

1. **Details of significant / key financial ratios:**

A detailed explanation of the key financial ratios and the significant changes therein have been mentioned as a part of the Director’s report of the latest annual report, the ratios are as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **S.No** | **Particulars** | **2019-20** | **2018-19** | **Comments** |
| 1 | Net interest margin (%) | 2.61 | 2.03 | Interest expenses decreased by Rs. 2,319 crore and interest income decreased by Rs. 1,247 crore resulting in an increase in Net Interest Income by Rs 1,072 crore. |
| 2 | Net NPA% to Net Advances | 4.19 | 10.11 | Net NPA has decreased by Rs 9,398 crore |
| 3 | Provision Coverage Ratio  (including Technical Write-offs (TWO)) | 93.74% | 82.88% | Net NPA as on March 31, 2020 stood at Rs 5,439 crore as against Rs. 14,837 crore as on March 31, 2019. Total Provision (including TWO) as on March 31, 2020 increased by Rs 9,273 crore. |
| 4 | CASA to % of  total deposits | 47.74% | 42.54% | CASA balance increased to Rs 1,06,188 crore as on March 31, 2020 as against Rs 96,730 crore as on March 31, 2019 and total deposits have reduced to Rs 2,22,424 crore as on March 31, 2020 from Rs 2,27,372 crore as on March 31, 2019. |

**A Detailed Analysis Of The Above Mentioned Ratios:**

1. Interest income as a percentage to working funds :

Net Interest Income is the difference between the interest earned from bank’s assets to the interest expenses on the bank’s deposits. A typical bank’s asset consists of all forms of personal and commercial loans, mortgages and securities. The liabilities are the customer deposits. The excess revenue that is generated from the interest earned on assets over the interest paid out on the deposits is the net interest income.

Whereas Working funds are the total resources (total liabilities or total assets) of a bank as on a particular date. Total resources include capital, reserves and surplus, deposits, borrowings, other liabilities and provision. A high Working Fund shows a bank’s total resources strength.

The efficiency will be measured according to this ratio. If this ratio is high, the operational efficiency will be good.

Expressed as a percentage, this ratio shows a bank’s ability to leverage its average total resources in enhancing its mainstream operational interest income.

In the above given extract, this ratio as on 31st march, 2019 was at 6.84% which increased to 6.88% as on 31st march, 2020. The 0.04% increase is considered positive for the company as a high ratio is a good sign for a financing company. It means the bank is using its funds efficiently to earn interest.

1. Non-interest income as a percentage to working funds

Any other operational income other than interest income of a bank is Non-Interest Income, which includes commission, brokerage, gains on revaluation of assets etc.

This ratio also represents the operational efficiency of a bank.

The percentage as on 31st march, 2019 was 1.02% and as on 31st march, 2020 was 1.48%. As there is an increase in the ratio by 0.46% this indicates that the operational efficiency of a bank will be high as this ratio is higher.

1. Operating profit as a percentage to working funds:

Operating Profit means net profit before provisions and contingencies. This is an indicator of a bank’s Profitability at the operating level. In other words it shows a bank's operating efficiency.

This ratio is a profitability parameter for the performance of a bank. This Ratio relates to operating profit with average working funds. If this ratio improves, operating efficiency is believed increased.

The ratio for the years 2018-2019 and 2019-2020 of the bank were 1.26% and 1.69% respectively. As there is an increase in the ratio it can be said that there is an increase in the profitability of the bank.

1. Return on assets (ROA):

This ratio is an indicator of how profitable a bank is relative to its total assets.

The Return On Assets gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing net profit of a bank by its total assets, ROA is displayed as a percentage. ROA tells you what earnings were generated from assets.

It measures the amount of profit the Bank generates as a percentage of the value of its total assets. The profit percentage of assets varies by Banking industry, but in general, the higher the ROA the better. Falling ROA is almost always a problem. It is a key indicator of profit and asset management efficiency.

As per the annual report the ROA in 2018-2019 as well as 2019-2020 was negative at (4.68%) and (4.26%) respectively. But we can see that the negative ROA has been significantly reduced by 0.42%. Therefore, it indicates how well the bank’s assets are managed to bring profit of asset that has been invested to the bank.

1. Business (Deposits plus advances) per employee:

Business per employee ratio is related with the employee's productivity. It can be calculated by dividing the total business of the bank by number of employees. Higher the ratio, better it is.

As the ratio has been significantly decreased from 20.84% to 18.51% from 2018-19 to 2019-2020, it can be said that the employee productivity is not that efficient in the current period when compared with the previous year.

1. Profit/ (loss) per employee :

Profit per Employee is a measure of Net Income for the past twelve months divided by the current number of Full-Time Equivalent employees

The Bank has a loss per employee in the last two financial years at (0.88%) and (0.73%) for 2018-19 and 2019-20 respectively.

Since the loss increased in the current year compared to the previous year, it is advisable that the bank strive for improved employee efficiency.

Improvements can be achieved either with investments in training and culture or by investing in processes and automation.

1. Net Interest Margin (%):

Net interest margin is a measurement comparing the net interest income a bank generates from credit products like loans and mortgages, with the outgoing interest it pays holders of savings accounts and deposits. Expressed as a percentage, it is a profitability indicator that approximates the ability to thrive in the long run. This ratio helps in understanding the profitability of their interest income versus their interest expenses.

a positive net interest margin suggests that an entity operates profitably, while a negative figure implies investment inefficiency.

Given the net interest margin increased from 2.03% to 2.61% which indicates that the bank more profitable.

1. Net NPA% to Net Advances :

'Non-Performing Asset or NPA’ is a classification used by financial institutions that refer to loans that are in jeopardy of default. Once the borrower has failed to make interest or principal payments for 90 days the loan is considered to be a nonperforming asset.

Gross NPA is the amount outstanding in the borrowal account, in books of the bank other than the interest which has been recorded and not debited to the borrowal account.

Net NPAs is the amount of gross NPAs less

1. interest debited to borrowal and not recovered and not recognized as income and kept in interest suspense
2. amount of provisions held in respect of NPAs and
3. amount of claim received and not appropriated.

The Net NPA as Percentage to Net Advances is calculated as follows:

Net NPA as Percentage To Net Advances = (Net NPA / Net Advances) x 100

The ratio has been decreased from 10.11 to 4.19 during the current year as the NET NPA has been decreased by Rs.9398 crores, which is a positive indication for the bank.

1. Provision Coverage Ratio:

Provisioning Coverage Ratio (PCR) is essentially the ratio of provisioning to gross non-performing assets (NPA) and indicates the extent of funds a bank has kept aside to cover loan losses

An Ideal PCR ratio is above 70%.

The PC ratio for the last two financial years were 82.88% and 93.74% and therefore it means most asset quality issues have been taken care of and the bank is not vulnerable.

1. CASA to % of total deposits

CASA stands for Current Account Saving Account. This is a unique feature which banks offer to their customers to make them keep their money in their banks. The account combines the benefits of savings account and checking accounts

The ratio is a proportion of current account and savings account deposits in the total deposits of the bank.

A low CASA ratio means the bank relies heavily on costlier wholesale funding, which can hurt its margins. The ratio has been increased by 5.2% being 42.54% in the previous financial year 2018-19 to 47.74% in the current financial year of 2019-20.

**Understanding of the Management Discussion and analysis (MD&A):**

The organizations today are using Management Discussion & Analysis route to demonstrate their commitment to the Company’s vision and strategy, and how the management has created value and delivered performance in light of their long term goals.

The work management in MD&A involves complete structure of organization including the Board of Directors, Chief Executive Officer and other Chiefs, their reporting officers/ controllers of various departments– Human Resources (People), Finance, Marketing, Production and Operations, etc and the remaining middle and lower management levels. Hence, MD&A does not only scrutinize financial figures/ results, but also looks into Human resources and operations side of the business, which the fundamental and key factors to any business organization.

Its main objectives are –

* Enabling readers of the financial statements to understand in better way the numbers, financial condition and to get into management’s shoes to understand certain strategic and operational decisions which are bold and largely impacting the future performance and position of the Company.
* Additional supplementary/ complimentary information provided in MD&A will help readers understand what exactly the financial statements depict and what is not reflected.
* Addressing the investors’ perception towards the risks associated with the business operations and outlining past trends to indicate the management’s efforts towards mitigating those risks and leading the path towards future financial statements.
* There might be certain information, which though not mandated to be disclosed in the financial statements, its additional reference and disclosure by the management can be of added value for the informed decision making by the stakeholders, which include Government authorities. Government authorities, let it be Taxation authorities, capital market watchdogs, fiscal policy makers, banking regulators, etc., try to formulate the operational, fiscal and monetary policies not only based on the quantitative information provided by the Corporate through financial statements, but also based on the qualitative information mentioned in the Management Analysis section on the economy and the industry performance and their future goals.

What serves as objectives of MD&A is the benefiting factor to the stakeholder community. First time investors in the equity markets can adopt qualitative and informed decision making based on the information provided by the company’s management in their annual reports.

**Some key information from the MD&A of IDBI annual report are as follow:**