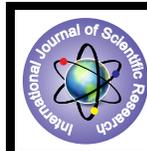


Long – Term Financial Strength of Gsfc



Management

KEYWORDS:

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Introduction:

Financial Statements are only the means of providing general information regarding operational results and financial position of a business firms. These statements merely contains financial data about business events which do not reveals any significant conclusions such as efficiency of management strength and weakness of the firm, index of future progress etc. therefore meaning and significance are not known till their user does not analysis and interpret them for their specific purpose. Financial analysis is a multipurpose and multidimensional technique which involves a systematic for a certain period. The use of technique is an art which requires pertinent knowledge experience and institution for its development. In the word of M. R. Agrawal "the science of financial analysis is assuming an increasingly important role as a tool for appraising the real worth of a going concern. It helps in drawing out the implications which are contained in the statements themselves" ¹

Concept and Meaning:

The analysis of such statements provides valuable information for managerial decisions. Analysis of financial statement is the systematic of numerical calculation of the relationship between one fact with the other to measure the profitability operational efficiency and the growth potential of the business. Thus the analysis of financial statement is basically a study of the relationship among various financial facts and figures as given in a set of financial statements i.e. balance sheet and income statement contain a whole lot of historical data. The complex figures as given in these financial statements are broken into simple and valuable elements and significant relationships are established between the elements of the same statement or different financial statement. In the Meccaff and Titard "Analyzing financial statement is a process of evaluating the relationship between component parts of financial statement to obtain a better understanding of a firms position and performance"²

There are three steps to be required for financial analysis the first step is to select the information second step is to establishment of relationship including with classification or grouping of information and the final step is to interpretation and growing of inferences and conclusions by studying these relationships. In short analysis refers to the process of fact finding and breaking down a complex set of figures into simple statement from the financial analysis owners or management interpreted the strength of the units.

This research work is concerned with Gujarat State Financial Corporation that offers personalized services. The bank uses various indicators from for measuring the financial performance through financial analysis. These indicators tell as the true financial position of the Gujarat State Financial Corporation. These indicators help in identifying the strengths and weakness of the Gujarat State Financial Corporation and suggesting improvements in its future. In other words these indicators are called ratio.

The financial appraisal of Gujarat State Financial Corporation has been done with the help of the balance sheet ratio. Thus, it becomes easier to know about the true position of the Gujarat State Financial Corporation in terms of its liquidity and strengthen and so on. The financial analysis and financial ap-

praisal have the same meaning and are generally used for synonymous. The techniques of financial analysis are used for purpose of financial appraisal. Obviously financial appraisal is the process of scientifically making a proper, critical and comparative evaluation of the profitability financial health of a Gujarat State Financial Corporation. The number of techniques was used by the financial analyst which was the financial indicators of banking business. The various financial ratios have been used under this research work.

Gujarat state Financial Corporation:

GSFC was set up as a premier regional development bank. Its major function was to provide long term finance to new industrial units for acquisition of fixed assets and provide finance to exiting units for expansion, modernization, diversification, up gradation of technology, etc. GSFC plays a major rule in the industrialization and development of Gujarat by providing tailor made assistance to suit individual requirements.

GSFC is Catering to the demands of credit from the small scale sector as well as from the medium scale sector. It has made major contributions in the industrial and economic growth of the state. GSFC has played an important role in decentralized industrial development and development of backward areas which has resulted in generation of massive employment opportunities. GSFC's emphasis has always been to promote first generation entrepreneurs and due to this it has been possible to achieve huge growth in industrial sector, throughout the state of Gujarat.

GSFC gives priority to financing a large number of small scale industrial units having potential for employment generation and thus giving Gujarat a balanced regional growth. GSFC is always open to tackle the problems faced by the small industrial units and see to it that the bottlenecks are minimized. It has always been an Endeavour of the GSFC to make its operations transparent and it has always tried to become more and more service oriented so that it can provide better service to clients.

Objective hypothesis:

Study the role of GSFC in the development of industrial Sector in Gujarat, and to analyze the financial strength of GSFC. The financial position of Gujarat State Financial Corporation under the study has not been an effective and efficient manner.

Period of the study:

The present study covers a period of ten years from 2002- 03 to 2011 – 2012. The period of ten years is covered enough to underline the trends in any activity.

Data Collection and Analysis:

Data have been collected from the websites of the Gujarat State Financial Corporation. The second sources of the information and data collection is annual published reports of Gujarat State Financial Corporation. Data have been analyzed by using of some financial ratios which are mentioned below.

Financial Strength of Banks under Study:

Ratio analysis has emerged as the principal technique of analysis of financial statements. It is attempted to present the information of the financial statement in simplified, systematized and summarized from establishing the quantities relationship of the

items or group of items financial statement. These ratio help in measuring the financial contribution of the owners as compared that of loan and advance and borrowers and also the risk in debt financing. Capital structure can be defined as the financial plan of an organization representing relation between owner funds and borrowed funds in such a way as to maximize owners equity or weal the minimize overall cost finance. According to some financial author capital structure refers to all source of capital, whether long term sources or short term sources of funds. In Gujarat State Financial Corporation, capital structure constitutes major parts of equity share, reserves and surplus, long – term borrowed funds and other liabilities. A bank is a development financial institution so long term borrowed constitutes major part of capital structure. Financial health of the Gujarat State Financial Corporation has been analyzed through analysis of capital structure of the Gujarat State Financial Corporation by using different ratio. Some other called financial indicator of banks these are likes, Long Term Debt – Equity Ratio, Total Debt – Equity Ratio, Total Debt – Total Assets Ratio and Fixed Assets – Long Term Debt Ratio.

- 1) $Long\ Term\ Debt - Equity\ Ratio = \frac{Long-term\ Debt}{Shareholders\ Equity}$
- 2) $Total\ Debt\ Equity\ Ratio = \frac{Total\ Debt}{Owners\ Equity}$
- 3) $Total\ Debt - Assets\ Ratio = \frac{TotalDebt}{TotalAssets}$
- 4) $Fixed\ Assets - Debt\ Ratio = \frac{Net\ Fixed\ Assets}{Long\ Term\ Debt}$

Table – 1: Ratio Analysis:

Year	Long-term Debt Equity Ratio	Total Debt Equity Ratio	Total Debt Assets Ratio	Fixed Assets Debt Ratio
2002 – 03	13.77	15.10	1.34	0.018
2003 – 04	13.75	15.16	1.70	0.017
2004 – 05	13.25	15.19	2.03	0.017
2005 – 06	10.77	11.46	2.20	0.019
2006 – 07	10.93	11.65	6.00	0.008
2007 – 08	11.52	11.93	8.89	0.008
2008 – 09	12.01	12.13	36.78	0.007
2009 – 10	13.52	13.60	40.27	0.005
2010 – 11	14.62	14.71	30.46	0.001
2011 – 12	17.01	17.06	28.11	0.002
Average	13.12	13.80	15.77	0.010

The long term debt – equity ratio shows decreasing trend during the initial four years of the study period and then, it shows increasing trend during the end of the study period. It decreased from 13.77 times in 2002 – 03 to 10.77 times in 2005 – 06. It increased to 10.93 times in 2006 – 07 to 17.01 times in 2011 – 12. It is range between 10.77 times in the year 2005 – 06 and 17.01 times in the year 2011 – 12 with an average ratio of 13.12 times. The Total Debt – Equity Ratio shows increasing trend during the study period except in the year 2005 – 06. It is range between 11.46 times in the year 2005 – 06 and 17.06 times in the year 2011 – 12 with an average ratio of 13.80 times. The Debt – Assets Ratio of GSFC has been presented in the Table No 5.3.2.3. In GSFC, the ratio shows increasing trend during the study period except in the last two years of the study period. It ranged between 1.34 times in the year 2002 – 03 and 40.27 times in the year 2009 – 10 with an average ratio of 15.77 times. The ratio shows decreasing trend during the whole study period except in the year 2005 – 06. It was less than one in the whole study period. However, the ratio as presented in chart 1 was less than average of 0.010 times except in the initial four years.

As a whole, from the study, it may be concluded that:

In GSFC, the owners’ contribution was less than borrowers during the whole study period.

Increasing trend of long-term debt equity ratio indicates that, the GSFC has been depending more and more on borrowed capital over the time.

The average long term debt – equity ratio of 13.12 implies that for every 13.12 rupee of outside liability, the GSFC has 1 rupee of owner’s capital.

The margin of safety to the borrowers is an average. However, it is observed to have the decrement over the time. This led to the acceptances of the null hypothesis.

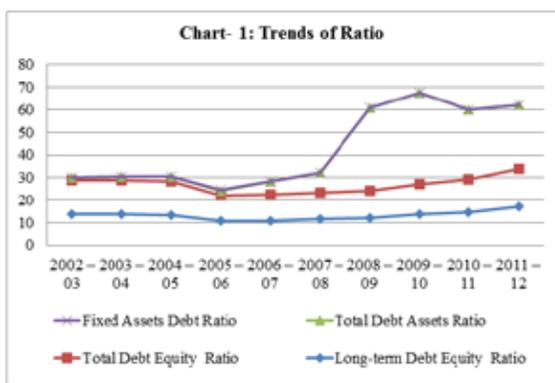
The average debt – assets ratio of 15.77, which indicates that in GSFC debt, exceeds assets and every 15.77 rupee of outside liability, the GSFC has only 1 rupee of total assets.

Increasing trend of total debt – total assets ratio indicates that, the GSFC has been financing more and more of its total assets from the outsiders fund over the time.

Thus, the capital structure of the GSFC is not sound and position is instable in long run. This led to the acceptances of the null hypothesis.

The net fixed asset not exceeds long term debt during the whole study period. It indicates that the acceptances the null hypothesis. Researcher concludes that the fixed assets not provided sufficient securities to long term fund and they cannot to be fully secured by the fixed assets of the GSFC during tenure.

Chart- 1: Trends of Ratio



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