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SECURITY LEVEL OF INVESTORS IN IFCI LTD.

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Abstract:- IFCI was established in the year 1948 by an Act of Parliament to provide institutional finance for industrial development in the country. It was subsequently corporatized in July 1993 after passing of the Industrial Finance Corporation (Transfer of Undertaking and Repeal) Act, 1993 by the Parliament of India. Since its inception, IFCI has been meeting the changing requirements of the clients through various schemes and financial products. As the first development financial institution of India, IFCI has been instrumental in development of industry in the country in the immediate post-independence period when the Indian capital market was not developed and banks were not in a position to provide long term assistance. Initially, the funding of its resources was from Reserve Bank of India, Government of India, Bonds guaranteed by Government of India and from international multilateral agencies. Post-corporatization, the resources are being mobilized from the market through equity, bonds and loans. IFCI, at present, is a non-banking financial company as per the Reserve Bank of India Act, 1949. IFCI is also a notified public financial institution under Section 4A of the Companies Act, 1956. The present study aims at finding out the status of security of shareholder's investment in IFCI Ltd.

Keywords: Development Banks, Loan Capital, Owned Capital, Conservative Investor, Adventurous Investor, Risky Investments, Capital Structure.

INTRODUCTION: -

The survival and expansion of every economic activity is based on the availability of sufficient funds. The availability of adequate finance at appropriate time and at minimum cost is the matter of concern for every person engaged in an economic endeavor. With the growth of capital market the sources of funds to the establishments has increased. An establishment can now choose amongst the various sources of finance. The choice can be between internal or external source of finance which is also referred to as owned capital and loan capital respectively. Both the sources have their own merits and drawbacks. The selection of either or both the sources depends upon the desirability and preferences of the establishment which makes a comparative analysis of both the sources of finance. Loan capital includes debentures etc. and is a comparatively cheaper source of fund with no interference from their holders in the management of the enterprise. Owned capital though a comparatively expensive source of fund but its holders being the owners do not demand fixed returns and can be paid or not paid dividends depending upon the availability of distributable profits. It costs more to finance with equity shares than with other securities as the selling costs and underwriting commission are paid at a higher rate on the issue of these shares.

From the investors point of view it is generally found that there are two types of investors –one who is a conservative investor and wants to play safe. Such investors do not want to face the risks of uncertain returns and so they invest in debentures or preference shares in which the returns are fixed and have priority in the time of liquidation. The adventurous investor is ready to face risk in order to get higher returns; such investors go for equity shares. The most outstanding feature of equity capital is that its holders control the affairs of the company and have an unlimited interest in the company's profits and assets. They enjoy voting right on all matters relating to the business of the company. They may earn dividend at a higher rate and have the risk of getting nothing. The importance of issuing ordinary shares is that no organisation for profit can exist without equity share capital. This is also known as risk capital.

Thus the efficacy of any establishment rests on the fact that how secure is the investment of its equity shareholder's? If the equity shareholders are being paid regular dividends and their share in profits is increasing it is a sign of economic soundness of the establishment. How secure the equity shareholder's find their investment in IFCILtd.is the subject matter of our present study.

PROFILE OF IFCI LTD.:

Immediately after Independence in 1947 demand for new capital was urgently felt. But the Indian capital market was not sufficiently developed. As a result there was lack of sufficient providers of capital in the country. The services of Merchant bankers and underwriting firms were not present and commercial banks were not in a position to provide long-term industrial finance to the needy concerns. It was at this time that government realised the need for establishing a development bank for assisting the industrial growth of the country. Thus, The Industrial Finance Corporation of India (IFCI) was established on July 1, 1948, as the first Development Financial Institution in the country to cater to the long-term finance needs of the industrial sector.The newly-established DFI was provided access to low-cost funds through the central bank's Statutory Liquidity Ratio or SLR which in turn enabled it to provide loans and advances to corporate borrowers at concessional rates.

LIBERALIZATION- CONVERSION INTO COMPANY IN 1993:

with the increasing role of the IFCI as a provider of finance the need was felt to make its operations more flexible so that it could respond to the changing financial system. Thus, to enable IFCI to have direct access to the capital market to meet its increasing financial needs, the constitution of IFCI was changed in 1993 from a statutory corporation to a company under the Indian Companies Act, 1956. After this change the name of the company was also changed to "IFCI Limited" with effect from October 1999.

Share Capital: IFCI started its operations with an initial equity share capital of Rs.5 crores in 1948-49. The share capital was gradually increased to Rs.10 croresby 1973 and Rs.202.50 crores by June 1993. After incorporation as a company, IFCI came out with its public issue in December 1993 and its equity capital stood at Rs.339.07 crores as at the end of March 1994. Subsequently, through a rights issue in the year 2000-01, its equity share capital was increased to Rs.638.67

TABLE-1 SHAREHOLDING PATTERN OF IFCI LTD.(Rs.in crore)

Categories of shareholders	As on 31.03.2007	As on 31.03.2008	As on 31.03.2009	As on 31.03.2010	As on 31.03.2011
Banks & Financial Institutions	6,71,24,758 (10.51)	13,40,15,583 (17.58)	12,98,25,723 (17.03)	10,76,16,834 (14.59)	10,24,74,190 (13.89)
Insurance Companies	9,07,52,900 (14.21)	13,14,16,805 (17.24)	13,14,16,805 (17.24)	10,68,40,639 (14.48)	10,61,98,758 (14.39)
Mutual Funds	1,36,14,843 (2.13)	1,41,07,302 (1.85)	1,58,23,636 (2.07)	2,37,42,034 (3.22)	80,73,340 (1.09)
Other Bodies Corporate	8,74,66,098 (13.69)	10,60,39,046 (13. 91)	10,58,66,857 (13.89)	9,44,04,762 (12.79)	7,89,28,933 (10.70)
FIIs & NRIs	14,26,69,608 (22.34)	10,13,60,526 (13.30)	5,47,17,391 (7.18)	10,35,83,928 (14.04)	16,26,28,805 (22.04)
Public	23,70,47,555 (37.12)	27,54,74,235 (36.12)	32,47,63,085 (42.59)	30,16,49,134 (40.88)	27,95,33,305 (37.89)
TOTAL	**63,86,75,762 (100.00)**	**76,24,13,497 (100.00)**	**76,24,13,497 (100.00)**	**73,78,37,331 (100.00)**	**73,78,37,331 (100.00)**

Source: Computed from Annual Reports of IFCI Ltd. 2007 to 2011

It can be seen from the above table that the shareholding pattern of IFCI Ltd. is more or less consistent with public as a major holder of the majority shares and the least shares have been acquired by the mutual funds during the entire period of study. This is a clear indication that the Corporation holds a place of trust and confidence in the eyes of its shareholders who have not tried to transfer their holdings but retained their position in the Corporation.

Table -2 indicates the issue of shares-equity and preference during the study period. There has been an increase in the issue of equity shares during the years2007-08 while in the year 2009-10 these equity shares were reconverted into loans. The years 2006-07 and 2010-11 had no issue of either equity or preference shares. There has been no issue of preference shares during the study period of study, the figures in brackets indicate redemption of preference shares on due dates.

TABLE-2 ISSUE OF SHARES		(Rs.in crore)
YEARS	**EQUITY SHARES**	**PREFERENCE SHARES**
2006-07	Nil	Nil
2007-08	123.73	(1.36)
2008-09	Nil	(82.03)
2009-10	(24.57)	(82.03)
2010-11	Nil	Nil

Source: Computed from Annual Reports of IFCI Ltd. 2007 to 2011

The consistent share capital position indicated in the Table-3 reveals the fact that the Corporation is relying more on loan capital rather than share capital for meeting its financial needs which is not a good situation as it will eventually pose threat to the shareholders in the form of low returns and high risks.

TABLE-3 SHARE CAPITAL OF IFCI LTD.(Rs.in crore)		
YEARS	**EQUITY SHARES**	**PREFERENCE SHARES**
2006-07	638.68	429.27
2007-08	762.41	427.91
2008-09	762.41	345.87
2009-10	737.84	263.84
2010-11	737.84	263.84

Source: Computed from Annual Reports of IFCI Ltd. 2007 to 2011

The decrease in equity share capital in the year 2009-10 was due to its reconversion into loans while the decrease in preference share capital is due to its redemption at due dates.

ANALYSIS OF SECURITY OF SHAREHOLDER'S INVESTMENTS IN IFCI LTD:

The shareholders consider their investment to be safe in any establishment when they are confident of two things- firstly, their capital is secured and secondly there is regular dividend payment. Table-4 has been prepared to show the various financial and liquidity ratios of IFCI Ltd. during the study period. It is on the basis of these ratios that a clear picture would be revealed as to whether the shareholders of IFCI Ltd. are really secured with regard to returns and risks or not.

TABLE-4 FINANCIAL AND LIQUIDITY RATIOS OF IFCI LTD.								
Year	**Return on investment**	**Return on shareholder's fund**	**Return on equity shareholder's fund**	**Return on total assets**	**Return on gross capital employed**	**Earnings per share**	**Debt equity ratio**	**Current ratio**
2006-07	8.49	46.25	58.72	2.11	7.73	13.91	6.66	2.50
2007-08	12.32	30.69	34.88	3.15	11.19	15.22	3.07	2.82
2008-09	7.53	17.57	19.21	4.39	6.79	8.55	2.59	5.61
2009-10	6.14	14.55	15.43	3.39	5.69	9.08	2.94	7.67
2010-11	4.81	14.11	14.89	2.70	4.50	9.57	3.85	9.52

Source: Computed from Annual Reports of IFCI Ltd. 2007 to 2011

The above table shows that the Return on investments (ROI) of IFCI Ltd. is continuously declining since2008 during the entire period of study. This is not a good sign as ROI is a measure of overall efficiency or inefficiency of any enterprise and since it is continuously declining it indicates the inefficiency of IFCI Ltd.

The return on shareholder's funds and return on equity shareholder's funds also show a consistently declining trend indicating the fact that the shareholder's-both equity and preference, are not in receipt of adequate returns against their investments. This is supported by the figures indicated in the following table

TABLE -5 DIVIDEND PAYMENT IN IFCI LTD.		
YEARS	**RS. IN CRORE**	**RATE**
2006-07	Nil	Nil
2007-08	113.78 (incl. Rs.97.25crore to pref.sh.)	Nil
2008-09	4.37	8%(Re.0.08 per eq.sh)
2009-10	70.06	10% (Re.1 per eq. sh.)
2010-11	86.39	10% (Re.1 per eq. sh.)

Source: Computed from Annual Reports of IFCI Ltd. 2007 to 2011

During the year 2007-08, the accumulated loss had been fully written off and an amount of Rs.114 crores (including accumulated dividend and tax) was distributed as dividend to preference shareholders. In the absence of adequate profit, Directors are unable to recommend dividend on equity shares. As the Company made profits in the last three years and fulfilled the necessary pre-conditions for declaration of dividend, Dividend on Equity Shares @ 8% was paid for the year 2008-09. It was after a gap of 10 years that the Company was proposing a dividend. Further, dividend of Rs.5.11 crores (including Corporate Dividend Tax) on Preference Shares had been paid as Interim Dividend. The Corporation had paid a Dividend @ Re.1 per equity share (10%) of face value of Rs.10/- for the year2009-10. Further, Dividend at the applicable rate i.e. Rs.0.31crore (including Corporate Dividend Tax) on Preference Shares had been paid as Interim Dividend. A Dividend @ Re.1 per equity share (10%) of face value of Rs.10/- for the year 2010-11 was paid. Further, Dividend at the applicable rate i.e. Rs.0.31 crore (including Corporate Dividend Tax) on Preference Shares had been paid as Interim Dividend. Thus, the above discussion reveals the fact that no doubt, the shareholders were facing the trouble of non-payment of dividend in the initial period of study but the situation has been improving and both the equity as well as preference shareholders are getting dividend payments, though the rate of payment is low.

As can be seen from table-4 the company also does not depict a sound profitable position as its Return on total assets has been between 4.39% to 2.11% during the study period and the Earning per Share has been between 8.55 to 15.22 during the study period indicating that the equity capital has not been effectively used and its declining trend reveals that the Corporation has no good capacity to pay dividend to its equity shareholders.

Debt Equity Ratio of the company is on an average 3.82 times, which is an adverse situation, as it should be 0.50 times (1:1). The above analysis does not show good solvency position of the company, as capital mix of IFCI Ltd. is mainly contributed by Loan Fund whereas participation of Shareholders' Fund is comparatively less. This is a risky situation for the shareholders of IFCI Ltd.

The usual standard current ratio is 2:1 which indicates sound liquidity position of any organization. But during the entire study period the current ratio of IFCI Ltd is much more than the standard and it is found to be continuously increasing with the only exception of the year 2008-09. Current ratio measures the short term solvency of a concern. But in the case of IFCI Ltd. it is found that the long term funds are unnecessarily blocked in financing the short term assets thereby affecting the profitability of the financial institution. Thus the liquidity position of the institution is too high causing an adverse effect on its profitability.

Thus, the entire analysis reveals the fact that the status of security of shareholder's investment in IFCI Ltd. is worth consideration.

CONCLUSION:

The basic purpose behind investing in the shares of any organization is to earn good returns at minimum risks. But the above analysis reveals the fact that the shareholders investing in the shares of IFCI Ltd. have not been given the opportunity to get adequate returns. Unnecessary blocking of long term funds in financing short term assets and improper investment of share capital in profitable avenues has affected the profitability of IFCI Ltd.The financial policy of IFCI Ltd. is also not prudent as most of its capital structure is constituted of loan funds which have made the situation all the more risky and unprofitable for the shareholder's both with regard to their capital investment and dividend returns.

SUGGESTIONS:

The above analysis has provided scope to find the lacunae in the performance of IFCI Ltd. which have been affecting adversely the interests of its shareholders. Some suggestions have been put forward to overcome the problem:

The Corporation should try to reduce its dependency on loan funs so that the level of risk to the shareholders may reduce and the profitability position may improve due to less pressure of fixed interests.

The long term funds should be invested in profitable avenues to improve the profitability of the Corporation rather than blocking them in undesirable places.

IFCI Ltd. should adopt a prudent policy of investing in profitable avenues so that the returns to shareholders may increase.

Thus, it can be concluded that the position of the shareholders of IFCI Ltd. is really pathetic with regards to returns and profitability. They are facing the problem of low returns at high risks. But the Corporation with a prudent financial policy can improve upon the situation thereby providing security to the shareholders with respect to returns and risks involved in their investments.

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