Financial Efficacy of the Exim Bank of India in the Post Economic Reform Period

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Abstract

This paper have analysed the financial efficacy of the EXIM Bank of India in the Post Economic Reform Period**.** EXIM Bank is a wholly government – owned financial institution, set up for the purpose of financing, facilitating and promoting India's foreign trade. The main focus of the EXIM bank of India is export finance relating to export of capital goods and other manufactured goods, consultancy and technology services involving deferred payment terms. Financial statement analysis is largely a study of relationship among various financial factors in a financial institution as disclosed by a set of financial reports and a study of these factors as shown in a series of statements. In this paper an attempt to analyse liquidity, solvency and profitability of EXIM Bank of India through its financial statement information so as to ascertain the financial efficacy of EXIM Bank.

Key Words: Liquidity, Solvency, Profitability, Financial Statement, EXIM Bank.

Introduction

The EXIM Bank of India came into existence on 1st January 1982, and started functioning from March 1st 1982. It has its headquarters' in Mumbai and its branch offices in important centre in India and abroad. EXIM Bank is a wholly government – owned financial institution, set up for the purpose of financing, facilitating and promoting India's foreign trade. The main focus of the EXIM bank of India is export finance related to export of capital goods and other manufactured goods, consultancy and technology services involving deferred payment terms. The bank also provides Pre – shipment finance where the production process exceeds months.

In addition to extending non fund based assistance by way of guarantees on behalf of Indian exporters for construction, turnkey and consultancy projects abroad, the EXIM bank provides various financial assistance for the export of Indian goods under its various schemes of assistance such as direct assistance to exporters includes post – shipment term finance; pre – shipment credit; term loans for export – oriented units; overseas investment finance; finance for export marketing, loans to foreign government, importers and financial institutions include overseas buyers' credit; lines of credit; re-lending facility to banks abroad, re- finance facility for banks in India include rediscounting of export bills; small- scale industry export bills; refinance of export credit; bulk import finance.

Financial statements are indicators of two significant factors such as profitability and financial soundness. Analysis and interpretation of financial statement therefore refers to such a treatment of information contained in the financial reports so as to afford full diagnosis of the profitability and financial soundness of the financial institutions. A distinction can be made between analysis and interpretation. The analysis means methodical classification of data given in financial statements in a simplified form. The interpretation means explaining the meaning and significance of the data so simplified. However both analysis and interpretation are complement to each other. Financial statement analysis is largely a study of relationship among various financial factors in a financial institution as disclosed by a set of financial reports and a study of these factors as shown in a series of statements.

In this paper the researcher have made an attempt to analyse liquidity, solvency and profitability of EXIM Bank of India through its financial statement information. Besides, CAMEL rating metrics and Altman's discriminate analysis were also used to diagnose the financial efficacy of EXIM Bank.

Objective of the Study

1. To evaluate the financial efficacy of EXIM Bank of India in terms of liquidity and profitability through ratio analysis and CAMEL Rating Scale.
2. To assess the solvency position of EXIM Bank through Altman's Multiple Discriminate Analysis.

Methodology of the Study

It is an evaluatory type of research based upon secondary data. Case study method has been adopted and the case being EXIM Bank of India. The secondary data have been collected from various Annual Reports of Export – Import bank of India, CMIE-Prowess, Report on Currency & Finance, RBI Bulletin, Newspapers and Internet sources etc. The official of the EXIM bank and few exporters were also been contacted to elicit first-hand information.

Tools Used in the Study

The researcher has analysed the financial efficacy of EXIM Bank of India in the post economic reform period. The following tools have been applied to derive the results in accordance with the objectives.

Financial ratios: To measure the Liquidity, Solvency & Profitability. Percentage, graphical representations and other relevant sophisticated tools has been used for deducing meaningful and practical findings.

Solvency Position

The solvency position refers the financial soundness of the financial institution in short term as well as long term. It can also be stated in terms of liquidity. The solvency position of the financial institution can be explained with the help of the financial statement of the institutions. The various short term and long term solvency ratios of the EXIM bank have been exhibited in table 1.

Table:1 SOLVENCY POSITION

Year	Current Ratio (in times)	Debt Equity Ratio in times	Fixed Assets Ratio in times	Proprietary Ratio in Times
1991-92	1.14	2.88	0.006596	52.69
1992-93	1.00	2.98	0.005469	61.37
1993-94	0.91	2.82	0.004335	81.89
1994-95	0.52	2.66	0.004729	79.64
1995-96	0.72	2.37	0.004931	85.62
1996-97	0.96	2.78	0.009059	39.74
1997-98	0.74	2.45	0.008316	49.01
1998-99	0.84	2.52	0.007558	52.57
1999-00	0.87	2.70	0.007693	48.19
2000-01	0.82	2.63	0.008226	46.20
2001-02	0.59	2.83	0.009488	37.22
2002-03	1.44	4.54	0.005559	39.65
2003-04	2.23	5.49	0.005286	34.47
2004-05	2.11	5.59	0.004138	43.25
2005-06	0.82	5.64	0.003596	49.30
2006-07	0.83	7.45	0.003749	35.79
2007-08	2.31	9.79	0.002375	43.02
2008-09	2.12	9.52	0.002378	44.16
2009-10	2.59	8.86	0.002241	50.36
2010-11	2.48	8.95	0.001822	61.31
2011-12	1.95	9.04	0.001665	66.44

Source: Compiled from various annual reports of Exim Bank of India 1991 -92 to 2011 -12.

A. Current Ratio

A current ratio is an index of the institutions financial stability. Since it shows the extent of working capital which is the amount by which current asset exceeds current liabilities. It also exhibits the short term solvency of an institution. Higher the solvency ratio states a strong financial position. Lesser the solvency ratio indicates weaker financial position. It is an indicator of the EXIM Bank‘s commitment to meet the short term liabilities. It establishes the relationship between two variables that is current assets and current liabilities.

The table 1 depicts Current ratio of the EXIM Bank of India. The financial soundness of EXIM Bank was high during the second decade of the reform period, in 2009-10 was 2.59 as compared with that of the first decade of the reform period very low, in 1994 -95 was 0.52.The current ratio states the banks short term solvency is in a better position.

B. Debt Equity Ratio

Long term solvency enables the financial institution like EXIM Bank of India to ascertain the soundness of the financial policies of the institution or Bank. It states the relationship between long term borrowing and the shareholders fund. The ratio indicates the proportion of owner stake in business. Excessive liabilities tend to cause insolvency. The ratio indicates the extent to which the firm depends upon outsiders for its existence. The ratio provides a margin of safety to the creditors it also tells the owners the extent to which they can gain the benefits or maintain control within a limited investments.

The table 1 reveals the Debt Equity ratio of Exim Bank of India. The ratio indicates the proportion of owner stake in business. During the second decade of the reform period which is very high in 2007–08 as 9.79, when compared to the first decade of the financial sector reform period, the debt equity ratio was low in 1997–98 as 2.45 times which establishes the financial instability in the long run because of its huge borrowing in both the decades of the reform period.

C. Fixed Asset Ratio

The ratio explains whether the firm has raised adequate long term funds to meet its fixed asset requirements. The purpose of calculating this ratio is to ascertain the proportion of long term funds invested in fixed assets. The ratio should be less than 1. If the ratio is less than one it indicates that portion of working capital has been financed by long term funds.

The table 1 reveals the relationship between the net fixed assets and long term borrowings of Exim Bank of India. The Exim Bank has not raised long term funds to meet its fixed asset requirements. The ratio also indicates during the reform period it is less than one, and explains the same.

D. Proprietary Ratio

This ratio shows the general soundness of the company. It is a ratio which compares the shareholder's funds and total tangible assets. It is of particular interest to the creditors of the company as it helps them to ascertain the shareholder's funds in total assets of the business. A high ratio indicates safety to the creditors and a low ratio shows greater risk to creditors.

The table 1 reveals the Proprietary ratio of EXIM Bank of India. It further elicits a very high proprietary ratio which states the greater soundness of the EXIM bank of India during the reform period.

Profitability Position

The profitability position indicates the optimum utilization of the financial resources of a financial institution to prove the overall profitability of the institution. It can be measured with the help of the financial statement of the concern. The various profitability ratios of the EXIM Bank have been elicited in the table 2.

A. PBT to Capital Ratio

This is ratio between profit before tax and Capital. It explains the relationship between the variables profit before tax with capital. It states the return that a firm has earned. Higher the ratio, higher the profitability of the firm and vice versa.

The table 2 elicits the ratio between the profit before tax and capital of EXIM bank of India. It also further state about the profitability of the EXIM Bank of India. It has been recorded that a higher profitability of 49.27 % during the year 2008 – 09 in the second decade of financial sector reform when compared with the first decade of the reform it has been recorded a lower profitability of 14.86 % during the year 1992 – 93.

B. PBT to Net worth Ratio

This ratio compares the relationship between profits before tax to net worth. It explains return on net worth. It also further states more the ratio more is the return on net worth of the firm and vice versa. It is a measure of profit before tax and net worth.

The table 2 elicits the ratio between the profits before tax to net worth of EXIM bank of India. It also further state about the profitability of the EXIM Bank of India. It has been recorded

Table:2 PROFITABILITY POSITION

Year	PBT to Capital Ratio in percentage	PBT to Net worth Ratio %	Return on Capital Employed Ratio %	Interest Spread (Rs. Crores)
1991-92	18.98	10.00	2.57	660.0
1992-93	14.86	10.28	2.65	596.5
1993-94	16.98	9.13	2.29	711.5
1994-95	18.43	9.87	2.58	866.1
1995-96	22.81	10.33	2.82	1161.7
1996-97	31.38	12.17	3.61	1646.3
1997-98	40.69	14.77	3.91	2054.9
1998-99	48.38	16.60	4.81	2477.0
1999-00	41.77	17.83	5.07	2399.7
2000-01	37.67	15.01	4.06	2244.6
2001-02	34.42	12.63	3.48	1776.9
2002-03	41.67	11.91	3.11	2050.0
2003-04	47.13	13.58	2.45	2456.1
2004-05	37.18	14.10	2.17	2897.3
2005-06	39.87	12.43	1.89	3342.9
2006-07	29.32	13.35	2.01	3332.5
2007-08	48.75	10.09	1.19	4327.5
2008-09	49.27	16.55	1.53	7161.5
2009-10	45.61	17.66	1.68	7876.7
2010-11	43.53	16.96	1.72	9962.2
2011-12	44.21	16.51	1.66	12691.2

Source: Compiled from various annual reports of EXIM Bank of India

that a higher profitability of 17.66 % during the year 2008 – 09 in the second decade of financial sector reform when compared with the first decade of the reform it has been recorded a lower profitability of 9.13% during the year 1992 – 93.

C. Return on Capital Employed

Return on Capital Employed is a ratio that indicates the efficiency and profitability of a company's capital investments. It is a measure of business performance. The amount of capital employed is calculated by subtracting current liabilities from total assets. It is a measure of pre- tax earnings belonging to all sources of finance and represents total financing.

The table 2 elicits the ratio between the profits before tax to Capital Employed of EXIM bank of India. It also further state about the profitability of the EXIM Bank of India. It has been recorded a lower return of 1.19 % during the year 2006 – 07 in the second decade of financial sector reform when compared with the first decade of the reform it has been recorded a higher return of 5.07% during the year 1998 – 99.

D. Interest Spread

Interest Spread is the difference between the interest income earned and interest expended. It explains the spread of the interest income over the interest expenditure. The spread between the interest income and interest income is useful for Banks and Development Financial Institutions.

The table 2 reveals the interest spread of the Exim Bank of India. It also further states there is an increasing trend in the both the decades of the financial sector reform period. During the second decade of the reform period the Exim bank records a highest spread is `.12691.2 crores in the year 2011–12 as compared with the first decade of the reform period lowest spread is `. 596.5 in 1992–93.

Activity Ratios

Management of financial institution is generally evaluated in terms of capital adequacy, asset quality, earnings and profitability, liquidity and risk sensitivity ratings. In addition, performance evaluation includes compliance with set norms, ability to plan and react to changing circumstances, technical competence, leadership and administrative ability of the bank. Sound management is one of the most important factors behind financial institutions ‘performance. Indicators of quality of management, however, are primarily applicable to individual institutions, and cannot be easily aggregated across the sector. Management efficacy of a bank could be measured by parameter like: (i) Compensation per employee, (ii) business per employee, (iii) Profit per employee etc.

Table: 3 Activity Ratios of Exim Bank of India				
Year	**Compensation per employee Rs Millon**	**Business per employee Rs Millon**	**PBT per employee Rs. Millon**	**PAT per employee Rs.Millon**
1991-92	149.24	122618.94	4257.58	4257.58
1992-93	171.43	146380.16	3958.73	3958.73
1993-94	194.26	179228.69	4973.77	4973.77
1994-95	219.67	226273.77	6652.46	6652.46
1995-96	309.49	224316.79	8326.28	8326.28
1996-97	220.13	236123.49	10530.87	10530.87
1997-98	246.36	255817.22	13474.83	13474.83
1998-99	261.73	263911.11	14930.86	10260.49
1999-00	363.33	356393.33	15316.67	11103.33
2000-01	476.62	384731.82	13453.90	10107.14
2001-02	330.67	418824.54	13724.54	10601.23
2002-03	403.59	525418.56	16219.16	12464.07
2003-04	360.00	567155.26	16122.63	12142.11
2004-05	490.16	694883.42	16376.17	13419.17
2005-06	571.50	879697.00	18940.00	13600.50
2006-07	586.32	1079579.72	13832.08	9480.19
2007-08	453.15	1296284.23	24155.41	15088.29
2008-09	530.17	1472296.98	29731.03	20719.40
2009-10	767.67	1682609.05	33418.97	22216.38
2010-11	1089.75	1871174.59	35677.87	23995.90
2011 -12	938.34	2130064.43	40194.86	26798.81

Source: Compiled from various Annual Reports of EXIM Bank of India1991 -92 to 2011 -12.

The table 3 shows the activity ratio of EXIM Bank of India. It also depicts the various activities such as compensation per employee, business per employee, profit before tax per employee, profit after tax per employee. It states during the second decade of the reform period compensation per employee is highest during 2010-11 is Rs.1089.75 business per employee is highest during 2011-12 is Rs.2130064.43 Million, profit before tax is highest in 2011 -12, is Rs. 40194.86 Million, profit after tax is highest in 2011-12, is Rs. 26798.81 Million when compared with the first decade of the reform period compensation per employee is lowest during 1991-92 is Rs. 149.24 Million, business per employee is lowest during 1991-92 is Rs. 122618.94 Million, profit before tax is highest in 1991-92, is 4257.58 Million, profit after tax is highest in 1991-92, is Rs. 4257.58 Million.

Camel Ratings of Exim Bank of India

"CAMEL" as acronym CAMEL refers to the five components of a bank's financial condition Viz., Capital adequacy, Asset quality, Management, Earnings, and Liquidity characters of a commercial bank. CAMEL is basically a ratio-based model for evaluating the performance of the banks periodically. Various ratios forming this model have been explained individually and collectively.

Ratio Taken for the Study

C Capital Adequacy ratio

A Non-performing assets (NPAs)

M Business per employee, Profit per employee, Return on equity, Return on advances

E Interest Income ratio, Net Interest Margin ratio, Return on Assets ratio

L Current Ratio

A. Capital Adequacy of Exim Bank of India

Maintaining adequate capital fund is the mandatory norms for all the financial institutions. It helps to impose confidence in the minds of stake holders. The capital adequacy affects the financial position of the financial institutions. The international banking regulators, BCBS (Basel Committee for Banking Supervision) have stipulated a minimum Capital Adequacy Ratio (CAR) of 8 percent. In India, the minimum CAR is stipulated as 9 percent by the Reserve Bank of India. To assess the capital adequacy of the EXIM bank parameter under CAMEL framework Capital Adequacy Ratio has been used in this paper.

B. Asset Quality of Exim Bank of India

Asset quality of commercial banks helps to diagnose the efficacy viability of the assets held by the banks. It could be measured by the ratio of non-performing assets (NPAs) in the total advances of Exim Bank of India.

C. Management Efficacy of Exim Bank of India

Management efficacy of a bank could be measured by parameter like: (i) business per employee, (ii) Profit per employee (iii) RoE (iv) Return on advances. The management efficacy of the Exim Bank of India has been derived with the help of these ratios

D. Earning Ability of Exim Bank of India

To survive in the competitive financial environments, banks have to generate adequate earnings to meet out all the non operating expense and to maintain adequate spread by avoiding burden. Earning ability of Exim Bank could be ascertained by computing the various ratios like Net Interest Margin ratio, Operating Profit ratio, Return on Assets.

E. Liquidity of Exim Bank of India

An adequate liquidity position refers to a situation, where institution can obtain sufficient funds, either by increasing liabilities or by converting its assets quickly at a reasonable cost. The liquidity of the Exim Bank is measured by Liquidity Ratio.

Overall Camel Ratings of Exim Bank of India

The performance of Exim Bank's overall assessment has been diagnosed by evaluating the various parameters of the CAMEL rating mechanism.

Table: 4 Overall Camel Ratings of EXIM Bank of India

YEAR	CAPITAL ADEQUACY (%)	ASSET QUALITY	MANAGE -MENT EFFICACY	EARNING ABILITY	LIQUIDITY	MEAN	RANK	STANDARD DEVIATION	GRADE
1999-00	24.4	0.0733	15.3	133.82	0.87	34.89	7	50.30	M
2000 - 01	23.8	0.0720	13.5	163.40	0.82	40.31	8	62.17	M
2001 - 02	33.1	0.0788	14.0	412.94	0.59	92.14	12	160.08	P
2002 - 03	26.9	0.0613	16.3	524.25	1.44	113.79	13	205.47	P
2003 - 04	23.5	0.0119	17.0	191.45	2.23	46.83	9	72.84	M
2004 - 05	21.6	0.0081	16.4	203.85	2.11	48.79	10	77.97	M
2005 - 06	18.4	0.0057	19.2	308.20	0.82	69.32	11	119.72	M
2006 - 07	16.4	0.0048	19.0	2.52	0.83	7.75	1	8.20	E
2007 - 08	15.1	0.0028	24.6	2.77	2.31	8.95	2	9.43	G
2008 - 09	16.8	0.0022	26.9	13.38	2.12	9.68	3	10.47	G
2009 - 10	18.9	0.0019	33.3	13.38	2.59	13.63	6	12.02	G
2010 - 11	17.0	0.0020	36.5	6.25	2.48	12.44	4	13.36	G
2011 - 12	16.4	0.0028	40.7	6.51	1.95	13.11	5	14.91	G

SOURCE: Compiled from Various annual reports of Exim Bank of India1991 -92 to 2011 -12

The table 4 states the camel ratings of Exim Bank of India. It has been observed that under the CAMEL rating of Exim Bank of India, based on overall ranking score (

Mean = 7.75; Std. Dev. = 8.20)the researcher classified score into 4 grade namely, Excellent (E), Good (G), Moderate(M), and Poor (P). Performance of the bank is indicated by the grade in the above table. It exhibits excellent during 2006 – 07, good during 2007 – 08 to 2011 – 12 in the second decade of the reform period as compared with first decade of the reform period.

Altman'S Multiple Discriminate Analysis of Exim Bank

The Multiple Discriminate Analysis (MDA) is a multivariate techniques used by altman to predict corporate failure. Under this technique, a single discriminant score, called Z, is calculated for each year by using five financial ratios variable as follows

$Z = 0.012X1 + 0.014X2 + 0.33X3 + 0.006X4 + 0.999X5$

Where,

X1 = Working Capital / Total Assets (a measure of liquidity)

X2 = Retained Earnings/Total Assets (a measure of reinvested earnings and past profitability)

X3 = EBIT / Total Assets (a measure of profitability)

X4 = 1 (a measure of financial structure or leverage)

X5 = Loans and Advance /Total Assets (a measure of asset efficiency)

Table: 5 Altman's Multiple Discriminate Analysis of EXIM Bank

YEAR	LIQUIDITY	REINVESTED EARNINGS	PROFIT-ABILITY	ASSET EFFICIENCY	Z SCORE
1991-92	0.02434	0.018512	0.022519	0.711643	1.71
1992-93	0.00508	0.013903	0.018307	0.701731	1.70
1993-94	-0.00762	0.015962	0.020749	0.724506	1.72
1994-95	-0.07636	0.017892	0.022285	0.715479	1.71
1995-96	-0.04492	0.023467	0.028457	0.733218	1.73
1996-97	-0.00106	0.025431	0.031692	0.697879	1.69
1997-98	-0.03590	0.031604	0.039579	0.744682	1.74
1998-99	-0.02005	0.022839	0.042520	0.750143	1.75
1999-00	-0.01663	0.018063	0.032581	0.721295	1.72
2000-01	-0.02437	0.014688	0.027904	0.760382	1.76
2001-02	-0.04992	0.015753	0.026943	0.822287	1.82
2002-03	0.05022	0.012743	0.021932	0.710676	1.71
2003-04	0.11836	0.011425	0.019697	0.693057	1.69
2004-05	0.10628	0.010020	0.017118	0..726467	1.72
2005-06	-0.01144	0.008564	0.018742	0.897785	1.90
2006-07	-0.00721	0.004003	0.011141	0.893530	1.89
2007-08	0.08567	0.006255	0.014324	0.791350	1.79
2008-09	0.08177	0.008223	0.015539	0.795187	1.80
2009-10	0.07202	0.007729	0.016400	0.832224	1.83
2010-11	0.06665	0.007308	0.015885	0.839871	1.84
2011-12	0.04829	0.007422	0.015957	0.853267	1.85

SOURCE: Compiled from Various annual reports of Exim Bank of India1991 -92 to 2011 -12.

The table 5 depicts that the Exim Bank's Z score. It has been noticed through Altman's Multiple Discriminate Analysis of EXIM Bank's Z score for the second decade of the financial sector reform was above 1.81 which was satisfactory, an indication for better solvency position when compared with that of first decade of the financial sector reform were below 1.81 was a sign of financial unsoundness of the EXIM Bank of India.

To conclude, financial statements are indicators of two significant factors such as profitability and financial soundness. Analysis and interpretation of financial statement therefore refers to such a treatment of information contained in the financial reports so as to afford full diagnosis of the profitability and financial soundness of the financial institutions. The financial efficacy of EXIM Bank of India has been measured in terms of liquidity, profitability, solvency, activity, CAMEL metrics and Altman's multiple discriminate analyses.

It is clear from the analysis of financial ratios of the Export Import Bank of India; the liquidity position during the period of study is good. The solvency position of EXIM exhibits a declining trend during the entire period of the study. The CAMEL metrics reveals the financial soundness of EXIM Bank is better during the study period.

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