

Report on:
Financial performance analysis of IDLC Finance Ltd and prospect of
IDLC SME products in future

By
Abdul Wakeel
14204027

An internship report submitted to the Brac Business School in partial fulfillment of the
requirements for the degree of
Bachelor of Business Administration.

Brac Business School
Brac University
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Declaration

It is hereby declared that

1. The internship report submitted is my own original work while completing degree at Brac University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I have acknowledged all main sources of help.

Student's Full Name & Signature:

ABDUL WAKEEL

14204027

Supervisor's Full Name & Signature:

MD. SHAMIM AHMED

Lecturer & Assistant Dean

Letter of Transmittal

Md. Shamim Ahmed
Lecturer & Assistant Dean
Brac Business School
Brac University
Mohakhali, Dhaka-1212.

Subject: Submission on Internship Report for semester Summer 2019.

Dear Sir,

With due respect, I am submitting this internship report on topic “**Financial performance analysis of IDLC Finance Ltd and prospect of IDLC SME products in future**”.

While preparing the report I left no stone unturned to make it worth and fit the purpose of it. Several information has been included to ensure analysis is done effectively and by following your guidance I have been able to accomplish it.

I hope this piece of work has met the standards required in course BUS400 and your evaluation of same will give it completeness.

Sincerely yours,

Abdul Wakeel
14204027
Brac Business School
Brac University
Date: 12th September, 2019.

Non-Disclosure Agreement

Being an intern in **IDLC Finance Limited**, I have had access to much information of which some may be subject to confidentiality. I understand that I am required to maintain confidentiality of this direct or indirect information at all times, both during and after my internship experience. I understand that I will not share, discuss, or reveal any of this information with anyone.

Intern's Full Name & Signature:

ABDUL WAKEEL

Organization's Supervisor Full Name & Signature:

Mr. Maher Ullah
Assistant Manager
IDLC Finance Limited

Acknowledgement:

To begin, I would like to thank the almighty Allah for giving me the strength and capability to complete this report and the entire under graduation program. Due to His immense blessing everything has been possible so far and I seek HIS blessing for rest of my life.

Secondly, I would like to appreciate and thank my university internship supervisor Mr. Md Shamim Ahmed sir for providing me the guidance and support. Without his guidance, it would not have been possible to complete this report effectively.

Besides that, I would like to spread my gratitude to the line manager of IDLC, Mr. Maher Ullah, who has been guiding me throughout the internship program. He has supported me and taught me all the necessary things to complete my task in the office premises. His guidance has added extra blend of practical knowledge in my life.

Moreover, I would like to thank all the faculty members of BRAC University. Their extraordinary talent and knowledge has given me the confidence and has created an energy to prove my hidden talent in the field of corporate.

Executive Summary:

This internship report is prepared for doing analysis on the performance of various SME Products of IDLC Finance Ltd. The SME team recommended me to work on this part and present a final report that will focus on overall performance and prospect of their SME products.

IDLC has been doing business in the economy of Bangladesh from 1985 and can be regarded as a successful venture in the business world. With their various SME products they have been serving their clients and stakeholders for many years. Their business operations has not only brought fortune for the business itself but has contributed in the development of the economy of Bangladesh as well. The non-banking financial institutions in Bangladesh have experienced a good growth from the time it was introduced. Among various competitors from the same sector of NBFIs, IDLC Finance Ltd has secured a good position in terms of earning a return on capital employed. The SME division of IDLC Finance Ltd has given the company a good edge in terms of enhancing their reputation and market share. A good portfolio of SME products and their customer satisfaction has brought fortune for the business.

In this report, IDLC's past financial statements has been analyzed to make a conclusion about how the business has performed in last five years. It was found that IDLC has experienced a growth in their revenues and employee number in recent years. Furthermore, a survey was also conducted, of which the participants were from the operations division of IDLC Finance Ltd. They had their say on various questionnaires' related to the SME performance of IDLC Finance Ltd. Besides the survey, competitor's financial performance analysis was also conducted against the performance of IDLC's. This was done to understand and draw a conclusion that whether IDLC has been able to secure a strong position in the market of NBFIs or not.

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List of Acronyms:

IDLC	Industrial Development Leasing Company
Ltd	Limited
DBH	Delta Brac Housing
EPS	Earnings Per Share
NBFI	Non-Banking Financial Institution
SME	Short Medium Enterprise
CAGR	Compound Annual Growth Rate
SEC	Securities and Exchange Commission
DSE	Dhaka Stock Exchange

Glossary

Trend analysis:	Analysis done by looking at the past performance of the company comparing it with the present.
Cross sectional analysis:	Analysis is done looking at the company's peer competitors and conclusion is drawn.
Net Cash inflow:	The remaining amount can be either positive or negative after subtracting cash outflow from cash inflow.
SME Products:	These are the various loans and deposit packages those financial institutions offers to their clients.

About IDLC Finance Limited:

IDLC (Industrial Development Leasing Company), initially it started its journey as leasing firm in the year 1985. During that period, it was the first ever leasing company to establish in the economy of Bangladesh. In the year 1995, IDLC was licensed as a financial Institution by the central bank of Bangladesh, “Bangladesh Bank”, following the enactment of the Financial Institution Act 1993. Over the last two decades, IDLC has grown in tandem with the country’s transition into a developing country and has emerged as Bangladesh’s leading multi-product financial institution. In the year 2012, IDLC Finance changed their business focus as more being a financial institution rather than being a leasing company.

Today in 2019, this company has been able to open branches of their institution across the country. With more than 39 branches in Bangladesh’s territory, IDLC has been able to manage them efficiently. Employee number currently in IDLC is more than 1500, working in more than 20 cities of Bangladesh. Furthermore, IDLC Finance the only financial institution, that has been able maintain a credit rating of AAA since 2012 is another remarkable achievement. The client number of this financial institution has seen a remarkable growth right after 2012, when they declared themselves as a financial institution. Currently, this institution is serving more than 45000 clients locally. With their name, followed by a tagline “financing happiness”, focuses on the needs of people, who they see as their potential clients. The happiness factors from human being are somewhat limited within the boundary of owning home, a car or starting a business. For the need to be fulfilled, IDLC has the solution for finance that can be used by a person who is willing to fulfill the dream of either having a car, business or a personal home. This is how their tagline “financing happiness” fits their strategy of doing business.

Mission, Vision, Core -Values and Strategic Objectives of IDLC Finance Limited.

Mission: To remain focused on business growth measures, deliver quality customer experience and client service as well as following strictly the path of sustainable business practices.

Vision: “To be the best financial brand of the country.”

Core Values: The basis on which IDLC Finance Ltd takes business decisions, plan strategies and interact with employees, clients, their customers and related stakeholders are as follows:

- ✓ **Integrity**
- ✓ **Customer Focus**
- ✓ **Equal Opportunity**
- ✓ **Trust and Respect**
- ✓ **Passion**
- ✓ **Simplicity**
- ✓ **Eco-Friendly**

Strategic Objectives:

- ✓ Making sure that all the branches are running smoothly following the business practices set by central management authority. This will allow the clients to have similar experience in whichever branch of IDLC Finance Ltd they visit regardless of their locations.

- ✓ Internal growth is focused so that it ensures that company can survive in any situation of downturn in the industry.
- ✓ Increase the revenue and client number is also being listed as top priority for IDLC. Company's growth can be ensured if the number of clients (depositors/borrowers) increases.
- ✓ To make sure that SME division grows with full potential and expertise. Especially making sure that products of SME are well designed to serve the clients by looking at their needs.
- ✓ To have the control over the institutions stock prices and making sure that investors of IDLC Finance Ltd are enjoying their benefits as promised.
- ✓ Making sure that IDLC is following the standards of Global Business Practices that includes giving importance to each employee ideas and giving them the platform to showcase their distinct talent.
- ✓ Making sure that IDLC has the talents in terms of sincere employees that can contribute in the development of the institution. Making sure that their knowledge enhances and reaches to new heights

IDLC Finance Ltd Awards and Achievements:

From the year 2007 till 2019 and onwards, IDLC has proven their expertise in the field of non-banking sector of our economy. Their constant growth and better corporate governance has brought them many awards and recognitions from all over the world. Some remarkable and prestigious awards are as follows:

1. **SAFA (South Asian Federation of Accountants) Award:** From the year 2007 till 2018, they achieved this recognition almost all of the years.
2. **ICMAB Award:** For outstanding performance in terms of corporate governance.
3. **DHL-Daily Star Best Financial Institution Award:**For the year 2012-13.
4. **Euromoney Awards for Excellence 2018 - 'Best Investment Bank in Bangladesh'.**
5. **ICSB National Award:** For Corporate Governance Excellence in 2017.

IDLC Finance Ltd FEATURED PRODUCTS:

1. **Home Loan:** Under this category, clients can apply for Construction Loan, Apartment Purchase Loan.
2. **Car Loan:** Under this category, clients can easily apply for New Car Loan, Reconditioned Car Loan and/or Pre-owned Car Loan.
3. **SME Loan:** This this category of loan service, a client can apply for Small Business SME type Loan, Medium Business SME type Loan and/or Supplier Finance Loan.

ORGANIZATIONAL CHART OF IDLC FINANCE LIMITED

Our Organization Chart

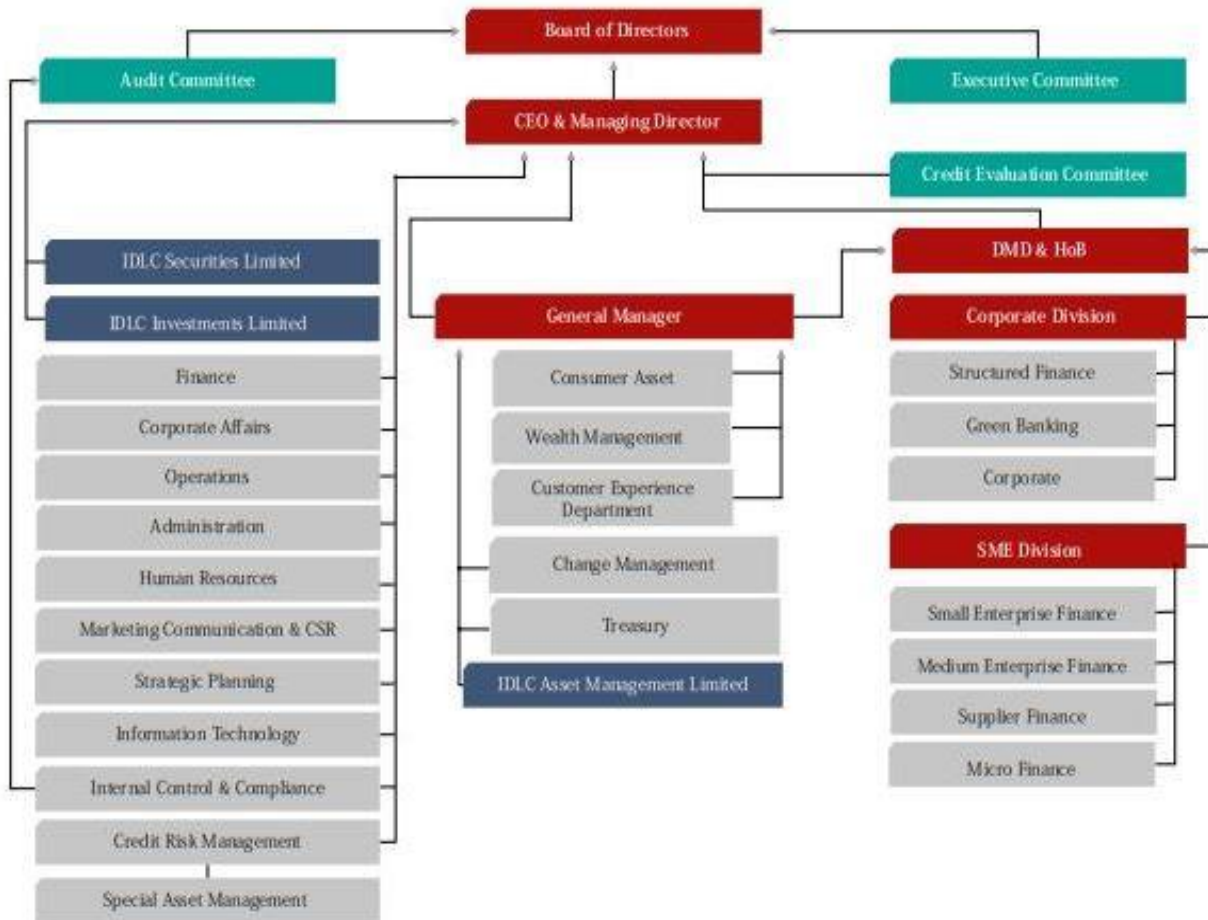


Figure 1: Organizational Chart

According to the chart, it can be seen that Executive committee and Audit committee reports directly to the Board of Directors.

However, the CEO & Managing Director is responsible of controlling overall other operational activities of the organization.

Methodology:

In order to make the report effective and meet the purpose, several methods were used to collect data. To divide data collection work broadly, both Primary and Secondary methods were applied so that data can be obtained and implemented in the report. However, during the collection task of data, several scopes and limitations were involved. These are discussed in the following section of the report.

Primary data: Primary data was collected in form of interviewing informally the employees of the SME division of IDLC Finance Ltd. Several relevant questions were asked from the related group of people and data was recorded. Also, information was collected from the RM (relationship managers) who used to visit IDLC's SME division for the purpose of SME loan disbursement purpose and create a positive vibe between potential client and officials.

Secondary Data: Secondary data was also fetched and used to make sure that report analysis is completed with enough grounds and information. For this purpose, the following procedures were used:

1. IDLC Finance Ltd website was toured and financial reports of previous fiscal years were downloaded.
2. Websites of related competitors were also toured and the financial annual reports were also collected for analysis purpose.
3. Several online and offline journals were used for understanding purpose and data collection purpose.

Scope and Limitation of this report & research:

Scope: The internship course BUS400 of BRAC University is designed in a way that it definitely creates various opportunity of getting exposure of the corporate world, right after completing the under graduation program. In order to obtain information related to this report, I have to reach to employees and other related individuals to find relevant data. For this purpose, my line manager Mr.Maher Ullah and my team members were enough helpful and provided me with the information that contained various necessary data to make this report meet its purpose. Furthermore, the survey conducted online has also revealed various data regarding the experience and performance of IDLC's SME products. Being an intern of IDLC Finance Ltd has helped me in a lot of ways to collect various data and information internally, which was not possible to collect by being an outsider.

Limitations: Working as intern in IDLC Finance Ltd indeed provided various scopes of collecting data. However, there persist many limitations while collection data for the report writing and analyzing purpose.

1. **Time:** This internship is designed for 3 months of period. During this significant period, most the time was used in learning new practical things. Therefore, time shortage was there and it was not possible to collect data during the time of learning and practicing work.
2. **Confidentiality:** Although I received enough and remarkable support for data collection purpose during my internship period. However, some questions were left unanswered due to organization's privacy policy.

3. Data availability: The annual financial reports were available online for the shareholders and it was used to analyze the financial past performance of the organization. However, the reports only contained information that was intentionally made for public reading. Some other relevant data was needed for the purpose of writing the report, that was not available to read freely.

Literature Review:

SMALL-MEDIUM Enterprises (SMEs) can be treated as the motors of development and drivers of advancement around the world. They can bring positive changes in the economy's financial sector and produce employments in a faster speed.

In Bangladesh, the segment is really changing the essence of the economy. SMEs are creating an example of how an economy can grow rapidly and create jobs, reduce the unemployment level, contribute in the GDP, better industrialization and so on. (Rahman, 2015)

SME can contribute in the development of economy; however there still lies several challenges ahead. According to Md. Joynal Abdin, there are many challenges that persists and can cause unsuccessful SME performances.

1. Absence of appropriate technology: To enhance productivity, the need of technology is a must.
2. Inadequate raw materials supply in justified price: If prices are changed higher, it will hike the cost of production and as an outcome the product may not be able to capture market share.

3. Absence of modern designing knowledge and technology: Learning and Knowledge sharing center are a must to ensure that production as well as service operations are done smoothly, keep in mind of the need of customers.
4. Absence of testing facility: To understand the success or failure and cause of failure after a cluster of production is done.
5. Access to finance: Ease of loan and finance facilities can help the SME business owners think about expansion.
6. Limited number of skilled labour and absence of qualified technicians: Number of these should not be less and inadequate.
7. Non-cooperation from relevant government agencies: Private and Government firms needs to work together to ensure that ventures are running smoothly. (Abedin, 2018)

SME Division of IDLC Finance Limited:

Small and Medium Enterprise (SME) plays a critical and significant role in the financial development and advancement of a nation, especially it has worked for Bangladesh economic development. In reality, SME functions as the stage for occupation creation, pay age, and advancement of forward and in reverse mechanical linkages and satisfaction of nearby social needs. SMEs involve a remarkable position in the economy of Bangladesh. From the time this system of categorization was introduced in our country, many banks and other financial institutions started to work on this project.

Products of IDLC Finance Ltd SME Division:

With several different packages designed according to needs of clients, the SME section of IDLC Finance Ltd is constructed. These are listed following:

1. **Seasonal Loan:** Basically a structured loan designed in a way that the installments of the principle amount remain dissimilar. This type of loan facility is reconstructed for the type of businesses that experience seasonal sales or revenue-turnover. For instance, for a fabric business owner, he/she mainly experiences higher sales during festive occasions. Therefore, during that period of time, they tend to have enough cash retained in hand. For them, **Seasonal Loan** scheme is there. During peak business period they are able to repay most of the loan outstanding. Thus reducing the loan burden and reducing the due amount overall.
2. **IDLC Purnota:** Mainly a loan scheme designed for the women entrepreneurs who seek for loan facilities either short or long term.
3. **Abashan Loan:** For the industries that need housing space and shelter for their workers, this loan scheme is organized. Industries/factories can apply for loan to IDLC Finance Ltd for building housing facilities for their respective workers.
4. **Commercial Vehicle Financing:** For the businesses that need their own fleet of vehicle they may apply for this type of loan. Especially designed for the purpose of vehicle buying for the companies in the shortest time possible. Once the loan is being repaid, the ownership is immediately transferred to the loan seeker and a business gets a new fixed asset in its portfolio of assets.

5. **Revolving Short Term Loan**: For the small and medium business that needs finance for short period of time, they may apply for this loan scheme. This may resolve the problem of underfinanced current asset portfolio of any business. In order to improve the liquidity position of business this loan can be obtained.
6. **IDLC Udbhavon**: For any type of business, where entrepreneurs face the problem of either short term or long term liquidity crisis they can obtain such loan. The word **Udbhavon** is used for the type of business owners or entrepreneurs who look forward to innovate and develop the existing business model.
7. **Start- Up Loan**: In order to encourage the infant businesses and new comers to the market, this loan scheme is well designed. The owner of the new firm may obtain loan for expansion of their business idea and give them a shape. The purpose of such loan is to help and encourage the startups so that they can later contribute in the economic growth of Bangladesh.

Introduction:

SHORT-MEDIUM ENTERPRISE:

The development of any economy largely depends on how the investments are done inside the territory. If we talk about a developing nation such as Bangladesh, it has greater potential to develop in the upcoming days. In Bangladesh, there is an advantage of cheap labor as well as greater supply of the same. All that it needs is investment and creating work place. This SME sector can be extremely helpful in creating jobs in the economy of Bangladesh.

Bangladesh is mainly agriculture based specialized country. Agriculture based works require more need of need of manpower as well as the use of machineries. Bangladesh has been exporting agriculture based products to many other countries. The reason for importing goods from Bangladesh by other countries is the quality and price. Our country can produce goods of better quality and in low cost. SME can also help to flourish this advantage even more greatly. The export industry on the other hand is the garment sector. There are many minor firms that are producing garments products for the domestic market. All they need is finance to expand their business and take it to international level. For such purpose, various helpful SME products can be helpful and businessmen can take advantage of it.

In Bangladesh, there is a greater prospects that SME can bring positive changes towards the development of our economy. If we talk about other developing nations, they also have experienced greater development in shortest time through the use of SME system. Distinguishing the firms according to their types (minor, small and/or medium) can help to under their need and government can take necessary steps to flourish the market and the enterprise itself.

According to Bangladesh bank the types of minor, small and medium enterprises be easily distinguished by looking at the business nature. Few criteria were published by our central bank that defines minor, small and medium enterprises.

SMALL ENTERPRISE:

According to the central bank of Bangladesh, a small enterprise is a type of firm that is not a publicly listed company and has the following characteristics:

Serial No.	Sector	Fixed Asset other than Land and Building (Tk.)	Employed Manpower (not above)
01.	Service	50,000-50,00,000	25
02.	Business	50,000-50,00,000	25
03.	Industrial	50,000-1,50,00,000	50

Table 1: Small Enterprise

Under the category of small enterprise, three sectors can be distinguished, of which having distinct reasoning and criteria.

MEDIUM ENTERPRISE:

According to the central bank of Bangladesh, a small enterprise is a type of firm that is not a publicly listed company and has the following characteristics:

Serial No.	Sector	Fixed Asset other than Land and Building (Tk.)	Employed Manpower (not above)
01.	Service	50,00,000-10,00,00,000	50
02.	Business	50,00,000-10,00,00,000	50
03.	Industrial	1,50,00,000-20,00,00,000	150

Table 2: Medium Enterprise

Despite of the size and volume of the enterprises, either they being small or medium, but they have the potential to make sure that Bangladesh is achieving its macro-economic objectives. Especially problems like reducing the unemployment level can be solved. These SME category firms have the highest potentials to grow bigger and greater in the future. SME has also created a new way of competition for the financial institutions, as well as for banks. Each of them are approaching with new ideas and ways of promoting their SME packages among the potential inventors. They are even incorporating women SME packages, so that in Bangladesh, the women entrepreneurship reaches to a new level and the gender discrimination can be reduced. Furthermore, this SME has also helped the banks and other non-banking financial institutions to earn more revenue. Since, people are find this most useful and taking advantage of the various SME schemes. By this, the banks and NBFIs are growing even more in terms of capital structure and market share.

Objective of the Study:

This report has been written with the objective to evaluate and analyze the performance of the several SME products of IDLC Finance Ltd. The objective and reasoning of the study can be categorized in two different aspects.

✓ Broad Objective of this study:

“Doing the financial performance analysis of IDLC Finance Ltd by observing the SME products of the company and the competitors.”

✓ **Specific Objective of this study:**

1. Analyzing the performance SME Division of IDLC Finance Ltd of past years.
2. Understanding the SME position and its prospects in the economy of Bangladesh.
3. Evaluating the performance of IDLC Finance Ltd compared to the performance of Banks in past years.
4. Evaluating the performance of IDLC Finance Ltd compared to the performance of other NBFIs in past years.
5. Growth prospects and challenges in upcoming days of SME.
6. Future course of action for IDLC Finance Ltd to mitigate the challenges identified.

Financial Performance Analysis of IDLC Finance Limited:

From the year 2014 till 2018, the last five years Balance Sheet data items are extracted from their final reports. Below there is a summary of overall the financial performance of IDLC Finance Ltd. (All amounts are in Millions taka)

Financial Performance	2014	2015	2016	2017	2018	5 years CAGR (%)
Total assets	58,927	73,434	79,311	95,687	109,166	16.70%
Long term liabilities	51,371	64,154	68,931	81,548	93,858	16.39%
Term deposit balance	35,240	46,039	47,475	59,854	70,258	19.31%
Loans & advances	47,069	55,212	62,217	71,499	83,934	15.44%

Table 3: Financial performance- Trend analysis

Total Assets:

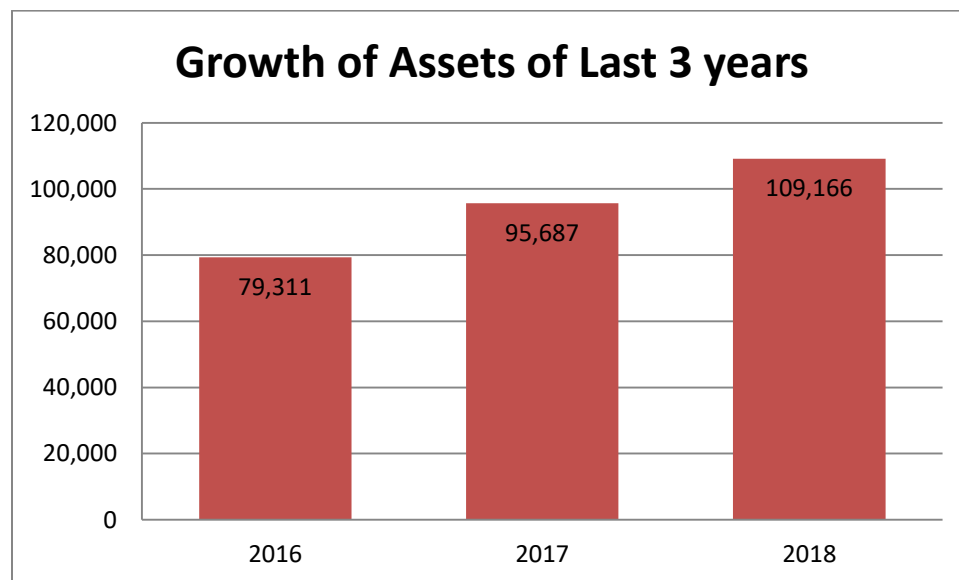


Figure 2: Growth of Assets

Analysis:

If we look at the chart, we can see that there has been a significant increase in the total assets amount of IDLC Finance Ltd. This shows that the company has been constantly increasing their assets (fixed and current). This also indicated that the amount of loans being disbursed is increasing and this contributes in the SME part as well.

Long Term Liabilities:

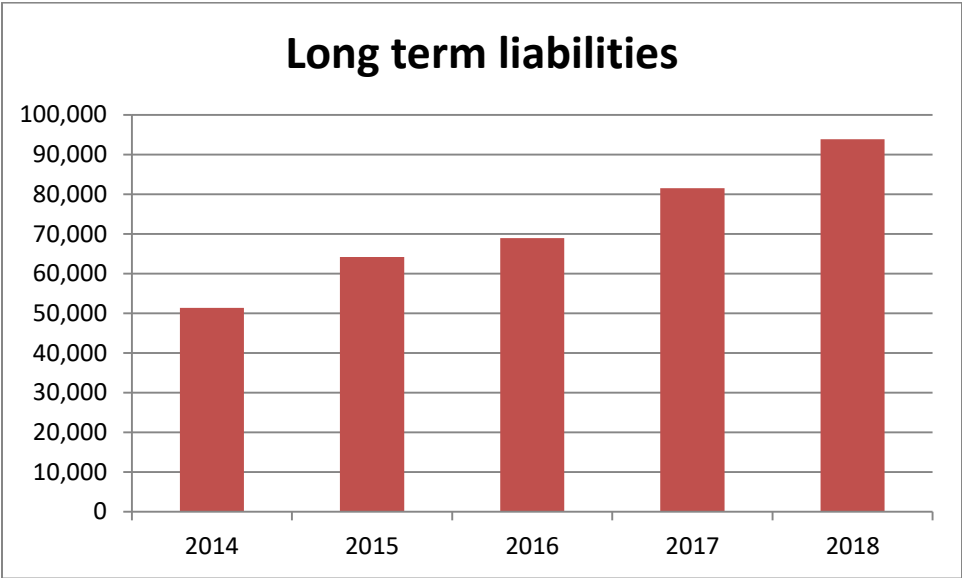


Figure 3: Long Term Liabilities

Analysis:

The chart above well explains that there has been a constant increase in the long term liability section of IDLC Finance Limited. However, if we compare against the increase in the total assets part, we can see that the last five years CAGR Ratio is higher for total assets than for Long Term Liabilities. Also, in contrast to Term Deposit Balances, the CARG for Long-term Liability is again lower. However, the company needs to look after the increasing ratio of Long Term

Liability section. For secured position in the market, they need to focus on reducing the rate at which it is increasing.

Term Deposit Balance:

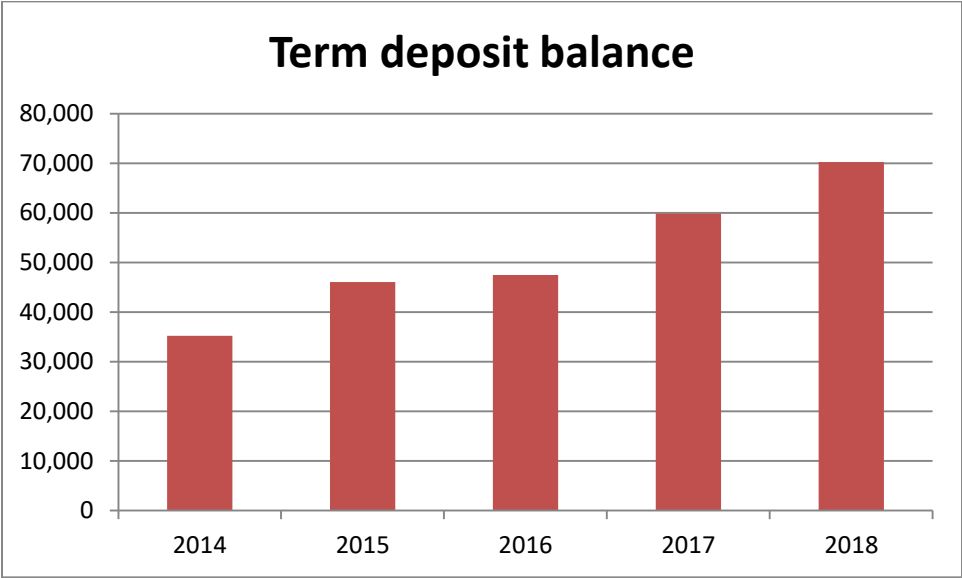


Figure 4: Term Deposit Balance

Analysis:

Term Deposit balances shows that how much money is the depositors are paying into the pool of finances available for the financial institution. The chart above clearly shows that from the year 2014 till 2018, there has been a constant growth in the deposit amounts. This is a positive scenario that illustrates that every year IDLC Finance is receiving adequate amount of increasing deposits from various clients. Perhaps this may be a reason that IDLC Finance Ltd is offering a

good interest rate on deposits. Therefore, clients are coming towards investing their money into the deposit pool of the institution.

A good amount of deposits received from clients can be used to provide loan at a higher rate than deposit rate. This will ensure that IDLC Finance will have more money to lend to the SME enterprises and earn revenue out of it.

Loans and Advances:

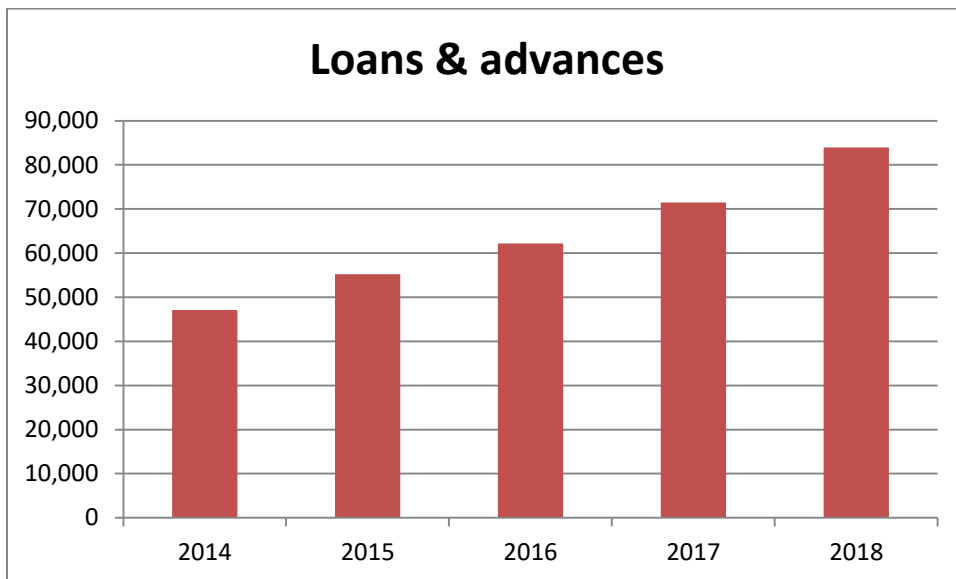


Figure 5: Loans & Advances

Analysis:

The company has the situation of increasing the Loans and Advances amount, starting from the year 2014 to 2018. This indicates that loans are disbursed and advances are provided at an increasing rate. The increasing trend definitely shows a positive performance as the major source of earnings for financial institutions are loans disbursements interest earnings.

However, there lies a matter of provision for loans and advances amounts. It should not increase at a higher rate than itself the principle amounts. Moreover, the performing loans should also higher in terms of percentage rate than non-performing loans.

Operational Performance Analysis of IDLC Finance Limited:

Operational Performance	2014	2015	2016	2017	2018	5 years CAGR (%)
Operational income	3,658	4,588	5,164	6,280	5,824	16.10%
Operational expenses	1,464	1,648	1,959	2,336	2,300	13.09%
Financial expenses	4,543	4,833	4,625	4,898	6,940	10.90%
Operating Profit	2,194	2,940	3,205	3,945	3,524	18.35%

Table 4: Operational performance analysis

Operational Income and expenses:

From the year 2014 till 2017 December, IDLC Finance Ltd has experienced a growth in the revenue amounts. However, there was a significant decrease of operational income in year 2018.

A fall in the operational revenue of 456 million is alarming followed by the fall in operational expenses. There are many close competitors for IDLC Finance limited in the NBFI's sector.

Cross sectional analysis is also done in later part of the report.

The graph below illustrates the findings:

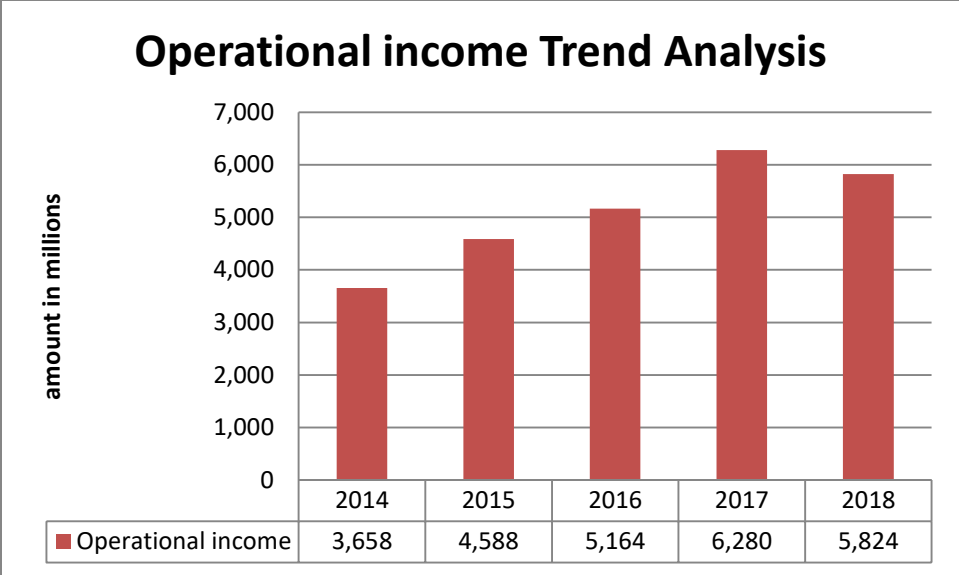


Figure 6: Operational Income Trend Analysis

✚ A fall in operational income for the year 2018 than compared to the year 2017.

Financial Expense:

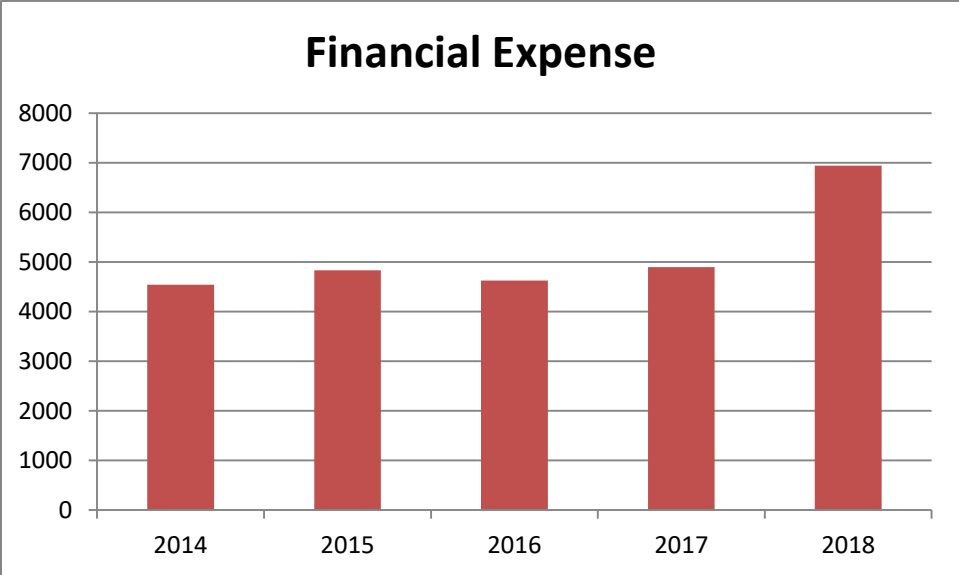


Figure 7: Financial Expense

Analysis:

If we consider the graph, we can see that financial expenses from the year 2014 till 2018 were within a limit of 4000 to 5000 million. However, in the year 2018, there was a sudden increase in the Financial Expenses of around 7000 million.

This will bring negative impact in the operating profit of the same year of IDLC Finance Limited. However, the impact can either be negative or positive, particularly depends on the revenue increase level.

Reasons: There are possible increase in the interest and related charges; foreign exchange losses on debt; net expense on the disposal of marketable securities; additions to provisions for financial liabilities and charges and impairment losses on investments, during the year.

Operating Profit:

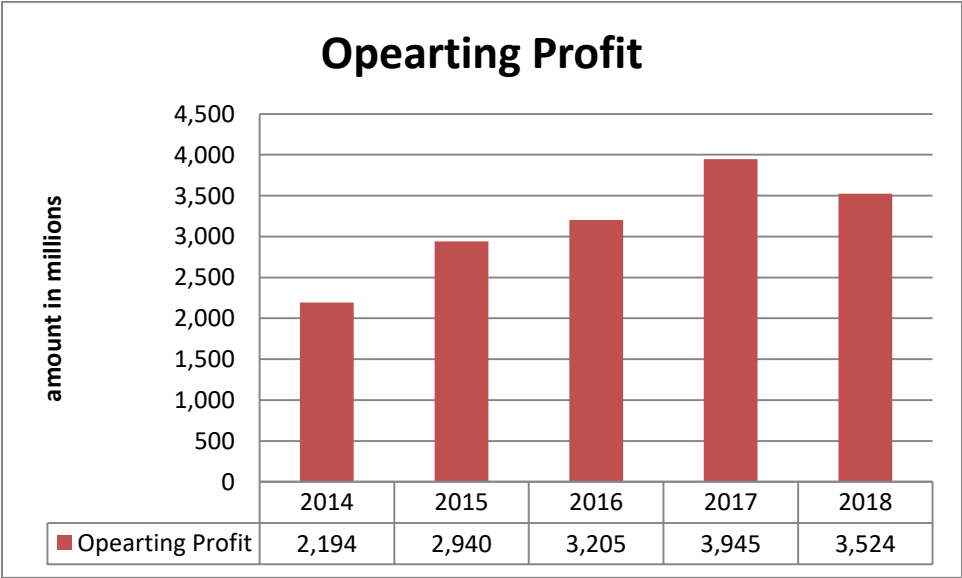


Figure 8: Operating Profit

Analysis:

The trend analysis of Operating profit shows a fall in the same during the year 2018. Previously it was identified in this report that there were high financial expenses. The causes are identified as reduction in the brokerage fees during the same year. Also, there was decline in the investment income of IDLC Finance Limited. In the year starting 2019, the MD and CEO of IDLC Finance reported that a fall in net and operating income was mainly caused due to fall in the profit from its subsidiaries.

Cross Sectional Analysis: IDLC vs. IPDC vs. LANKA-BANGLA vs. UNITED FINANCE vs. DBH:

In order to analyze the financial performance of IDLC Finance Limited against its peer competitor, there is a need to go through information from each of their annual reports. Data in this section are extracted from each of financial institutions annual reports as of September 2018.

Below are some essential information provided in the table that will help to analyze the overall situation and financial condition of the above mentioned institutions.

Items	IDLC Finance Ltd	IPDC Finance Ltd	Lanka Bangla Finance Ltd	DBH	United Finance Ltd
Deposit	73683.00	33691.00	54820.00	44673.00	16632.00
Revenue	3485.00	1251.00	2171.00	1401.00	801.00
Loans & Advances	78826.00	39763.00	62387.00	42712.00	17824.00
Net Profit	1214.00	286.00	319.00	810.00	210.00
Net Cash inflow	7462.00	192.00	-423.00	2457.00	-302.00

Table 5: Cross sectional financial analysis

(All amounts in million taka)

Deposit:

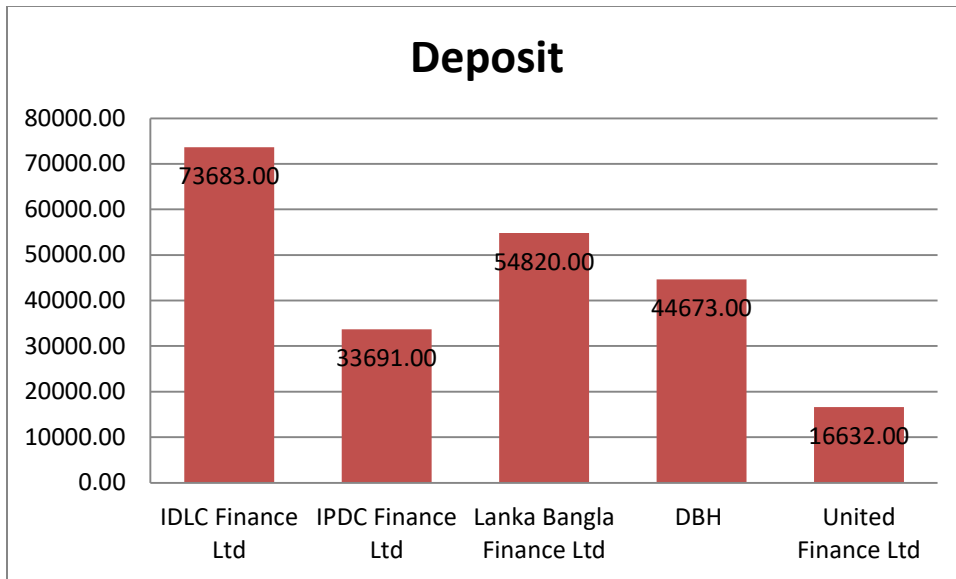


Figure 9: Deposit

Analysis:

Deposit: the sum of money that clients deposit for their saving purpose in most of the banks and financial institutions. The more a financial institution receives money in terms of deposit the more they have money in hand to disburse loans on demand. The current situation of Bangladesh economy is that most of the banks and financial institutions are running out of liquid cash.

However, in such crisis and downturn of banking sector, IDLC Finance Ltd has been able to call people to deposit money into their pool.

If we look at the graph above, IDLC is the top most institution in terms of receiving deposits from clients. The second position is taken by Lanka Bangla Finance and others.

This is going to work as the strongest tool for IDLC as they can disburse SME Loans to clients and can earn revenue far better and greater than its competitors.

Conclusion: In this cross sectional analysis, we can say that IDLC has been able to perform better than its peers.

Revenue:

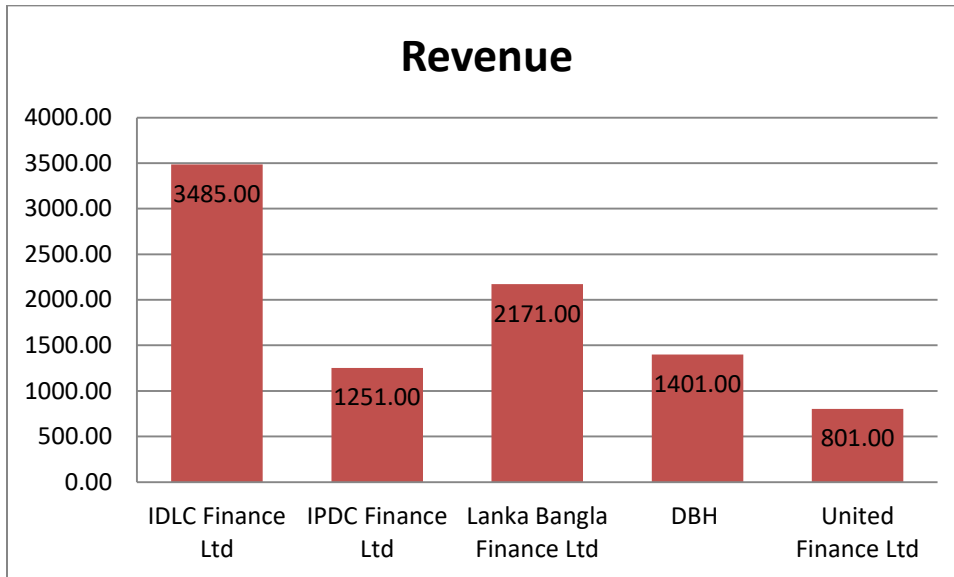


Figure 10: Revenue

Analysis:

For financial institutions, the revenue earning sector can be many, for instance, earning from loans interests, from investments, from its subsidiaries and so on. This revenue is used by these institutions to pay their financial and operating expenses and end up with either a negative or positive net profit.

The chart above illustrates that in the race of earning revenue through various sectors of business investments, IDLC Finance Ltd had shown an outstanding performance. With approximately 3500 millions taka revenue it has been able to generate within the first three quarters of year 2018.

Conclusion: In terms of generating revenue, IDLC has outperformed and can be said as gainer in the NBFi sector.

Net Profit:

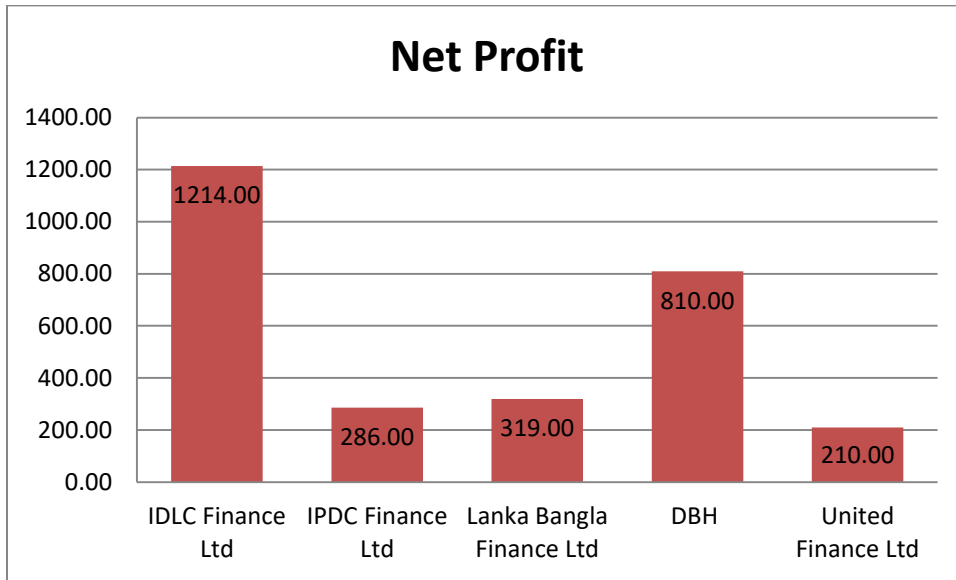


Figure 11: Net Profit

Analysis:

Net profit/net revenue is the amount remaining after paying all the expenses and taxes. For any company or firm this figure is necessary to remain higher and positive. Since the proportion of amount is used for keeping in the general reserve and in the retained earnings. Also, the distribution of dividends to respective shareholders also depends highly on this figure.

Above the chart clearly identifies that IDLC Finance has earned the highest amount of net profit during the first three quarters of year 2018. The second better performer is DBH followed by Lanka Bangla Finance. This will allow the company to make sure that they have enough money to keep in their general reserve and pay dividends to its shareholders.

Conclusion: In the race of earning higher net profit after taxes, IDLC Finance is the top performer among the leading NBFIs organizations.

Net Cash Inflow:

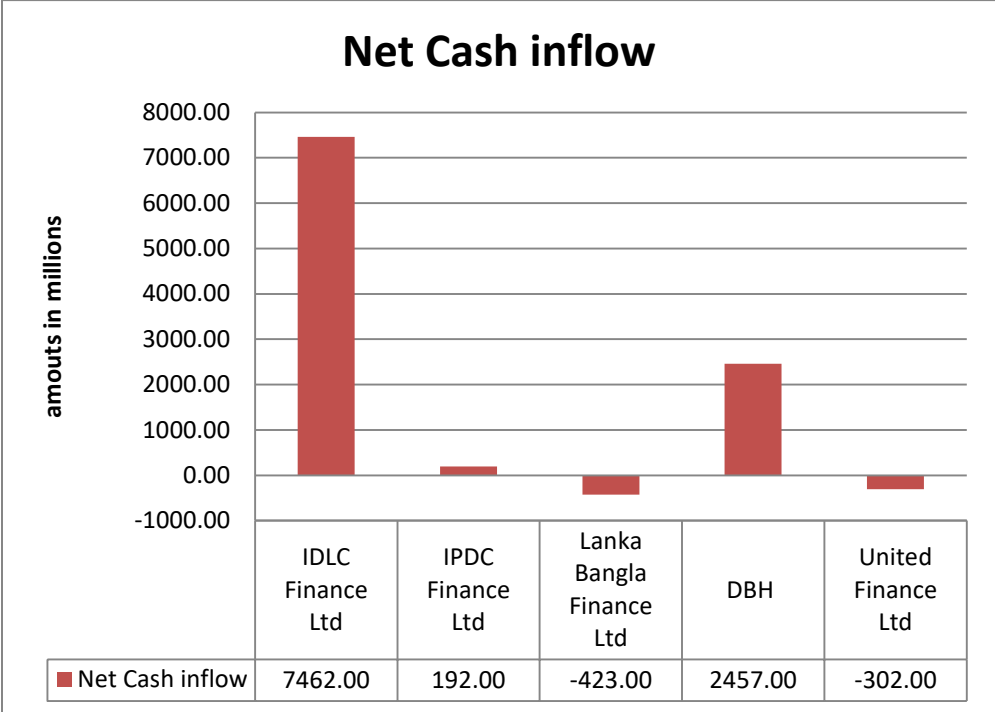


Figure 12: Net Cash Flow

Analysis:

Net cash inflow is the difference between a company’s cash inflow and cash outflow. After analyzing the cash flow statements of all the leading NBFIs organizations, it was found that only IDLC Finance Ltd and DBH have been able to maintain a positive cash inflow record. However, IPDC Finance is participating in the race with a very small amount of positive net cash inflow balance. Whereas, LANKA BANGLA and UNITED FINANCE are taking their net inflow balances to the negative positions.

Conclusion: Once again, within the selected and most relevant criteria, IDLC Finance has outperformed than its peer and most close competitors.

VERDICT OF THE CROSS SECTIONAL ANALYSIS: With all the information and with all the analysis, we can clearly say that IDLC FINANCE LIMITED has not only made a good sum of new profit but also performed well in the market of NBFI.

Ratio Cross Sectional Analysis:

To understand deeper the performances of each competitors of IDLC Finance Limited, it is necessary to evaluate each of the firm **Risk, Profitability, Solvency, and Efficiencies.**

The following table shows few important key ration of each companies:

Ratios	IDLC	IPDC	LANKA BANGLA	United Finance	DBH
Return on Assets	2.12%	1.00%	0.51%	1.15%	2%
Return on Equity	16.50%	13.10%	4.90%	9.01%	21%
Earning Per Share	5.76	2.06	0.85	1.48	8.6
Debt equity ratio	7	1.58	7.07	0.87	10.40858

Table 6: Ratio analysis –Cross sectional analysis 28

Graphical Representation:

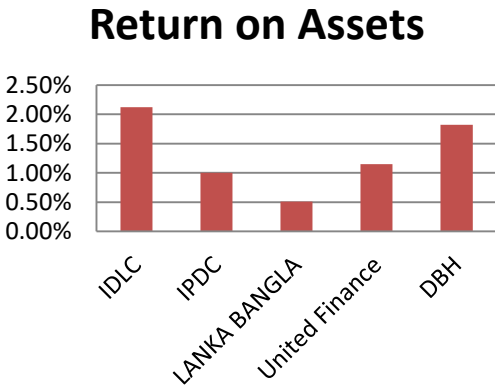


Figure 13: Return on Assets

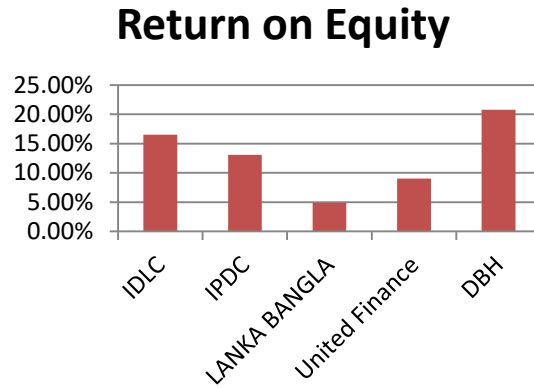


Figure 14: Return on Equity

Analysis:

Return on Asset: IDLC Finance Ltd has been able to generate more income by utilizing all its assets in the portfolio. Second better performer is DBH Finance Ltd.

Return on Equity: In terms of generating more income by using the shareholders equity, DBH has outperformed than IDLC Finance and IPDC Finance Ltd.

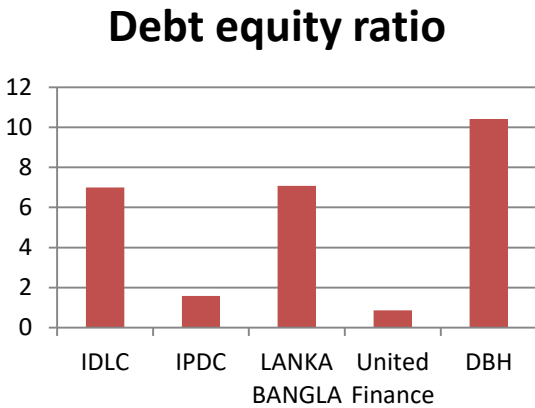


Figure 15: Debt Equity Ratio

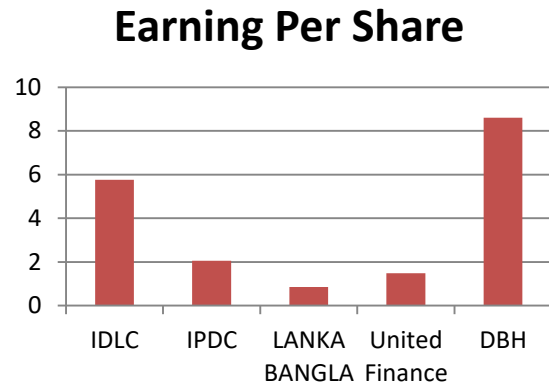


Figure 16: EPS

Analysis:

Debt Equity Ratio: If we look at the values of Debt Equity Ratio, we can see that DBH is more in risk, as most of its assets are financed by debt. However, on the other hand, United Finance Ltd has outperformed this time. IDLC Finance Ltd is also in risk, as the number is higher (close to 5). However, none of the companies have a debt to equity ratio less than 1.

Earnings per Share: In terms of making money for each share of stock outstanding, DBH has a better result than compared to other peer competitors. However, IDLC Finance Ltd has also made it to the second position. The shareholders of IDLC should be satisfied with the figure as the market trend is not very far than what IDLC has achieved.

Overall IDLC Limited Internal financial ratios at a glance of last five years:

Financial Ratios	2014	2015	2016	2017	2018	Growth over 2017	Remarks
Debt equity ratio (Times)	8.03	8.43	7.88	6.6	7	0.41	positive
Average effective tax rate (%)	43.04	44.48	41.61	38.65	30.58	-8.07	negative
Financial expenses coverage ratio (Times)	1.48	1.54	1.66	1.76	1.45	-0.31	negative
Return on total assets (%)	2.28	2.2	2.33	2.6	2.12	-0.48	negative
Return on shareholders' equity (%)	20.95	20.39	21.29	21.15	16.55	-4.6	negative
Earnings per share*	3.84	4.5	5.49	6.13	5.76	-0.37	negative
Price earnings ratio (Times)	12.06	10.96	8.05	13.91	12.11	-1.81	negative
Net interest income as a percentage (%) of working funds	6.56	6.68	6.36	5.98	5.43	(0.54)	negative
Operating Profit as percentage (%) of working fund	4.99	5.75	5.46	5.9	4.53	-1.37	negative

Table 7: IDLC Internal financial ratios

SME Sector of IDLC Finance Limited:

IDLC has been able to generate an increasing amount of revenue each year after the initialization of their SME packages. Packages include items, startup loan, and dedicated package for women entrepreneurs, vehicle financing loan and so on.

From the start of the SME journey, IDLC has been able to serve several thousand of their clients. These clients have also requested for refinancing of their loans. IDLC has provided easy SME Loan disbursement options. Therefore, in the shortest time possible and in the easiest manner, they can provide loan on demand.

On previous studies, we have seen that the amount of deposits that IDLC finance receives is more than its peer competitors. Therefore, it makes it easy for the institution to disburse loans whenever there is a demand for.

Here is a glance of IDLC SME Loan disbursements history.

(Amount in millions)

Year	2014	2015	2016	2017	2018
Loan in million	12053	15656	18708	22756	23805

Table 8: IDLC SME Loan Disbursements

If we look into the data of last 5 years, we can see that IDLC has disbursed loans each year at remarkable amounts. The business policy of IDLC and their process of loan application have made it possible.

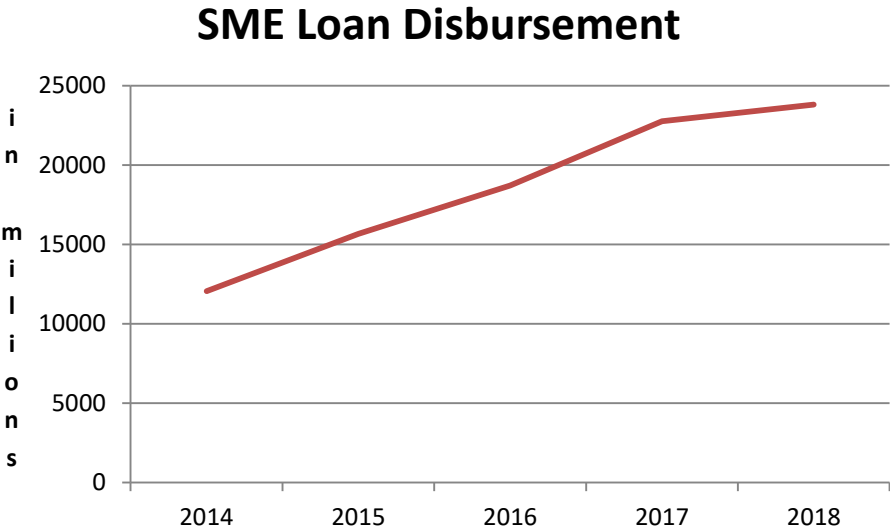


Figure 17: SME Loan Disbursements

IDLC SME Portfolio:

In 2018, IDLC Has disbursed SME loan of amounting 23508 million taka. This is the highest from 2005 till now.

In IDLC, SME is divided in to 3 variants.

1. **Service:** For business that provide service facilitates rather than physical products, to consumers. IDLC considers such business as a distinct variant.
2. **Trading:** For business that are specialized in merchandising (buying and selling), they are also clients for SME loans. IDLC also considers them as distinct variant.
3. **Manufacturing:** For the type of businesses that focuses on manufacturing items rather than merchandising. These producers are also valuable clients for IDLC Finance limited.

The chart shows below the composition of SME loans being disbursed by IDLC Finance Limited, in the year 2018. It comprises of three variants of loan type.

SME Portfolio Composition

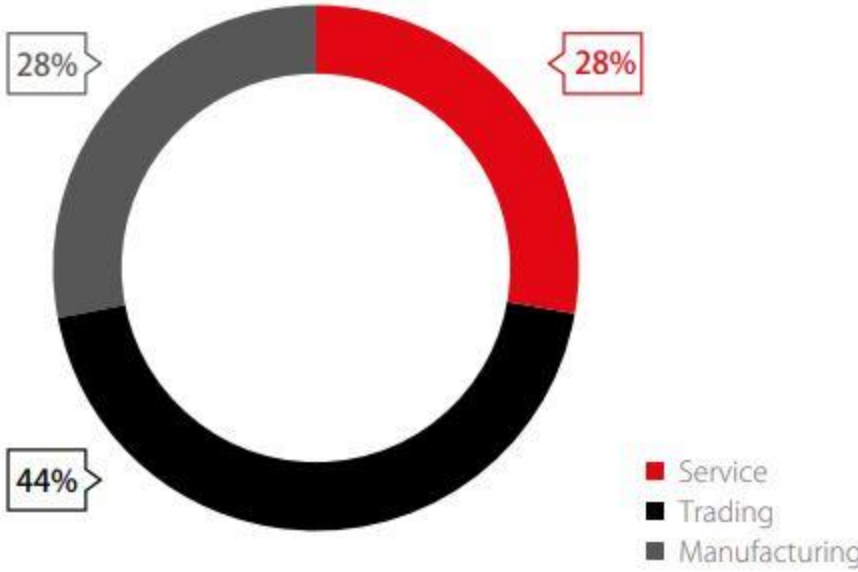


Figure 18: SME Portfolio Composition

Source: IDLC Annual Report

Overall Loan composition:

IDLC has not only disbursed loans to SME clients. However, their portfolio consists of other loans type and variants.

Mainly they categorize their loan portfolio, in to three variants.

- 1. SME
- 2. CONSUMER

3. CORPORATE

The chart below describes the overall loan composition of IDLC Finance Limited during the year 2018.

Portfolio Composition - 2018

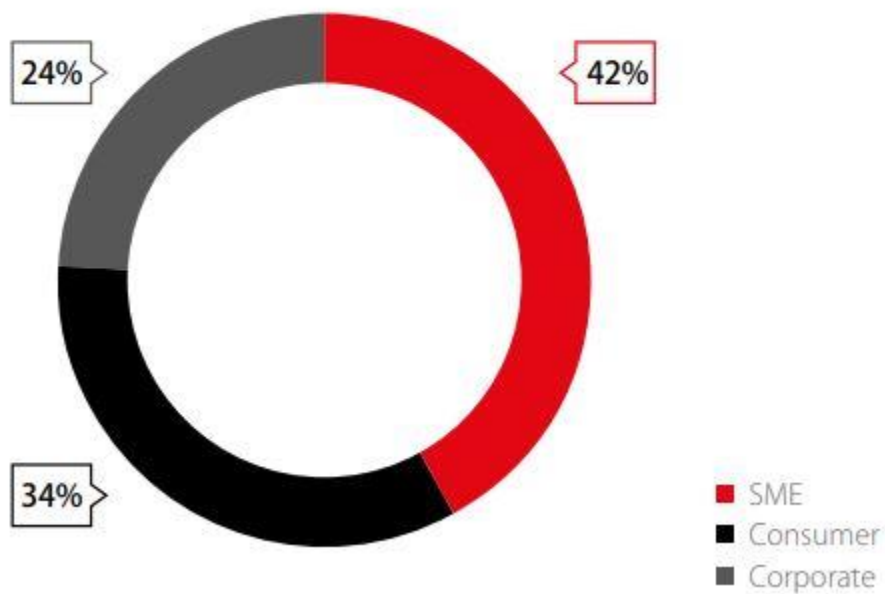


Figure 19: Portfolio Composition

Source: Loan composition annual report

ANALYSIS OF SME LOAN DISBURSEMENTS AMONG IDLC COMPETITORS:

In the field of SME Loan disbursements, besides IDLC, its peer competitors have also shown remarkable contribution. SME loans bring the potential entrepreneurs in a stage where they can

think beyond the boundaries. Each of the companies has their clients across Bangladesh and the number is also increasing at an increasing rate.

The chart below shows the amount of loans that each company has disbursed during the year 2018. (Amounts in millions)

Items	IDLC Finance	IPDC Finance	Lanka Bangla Finance
Loans	23805	12395	4495

Table 9: Competitors SME Loan Disbursements

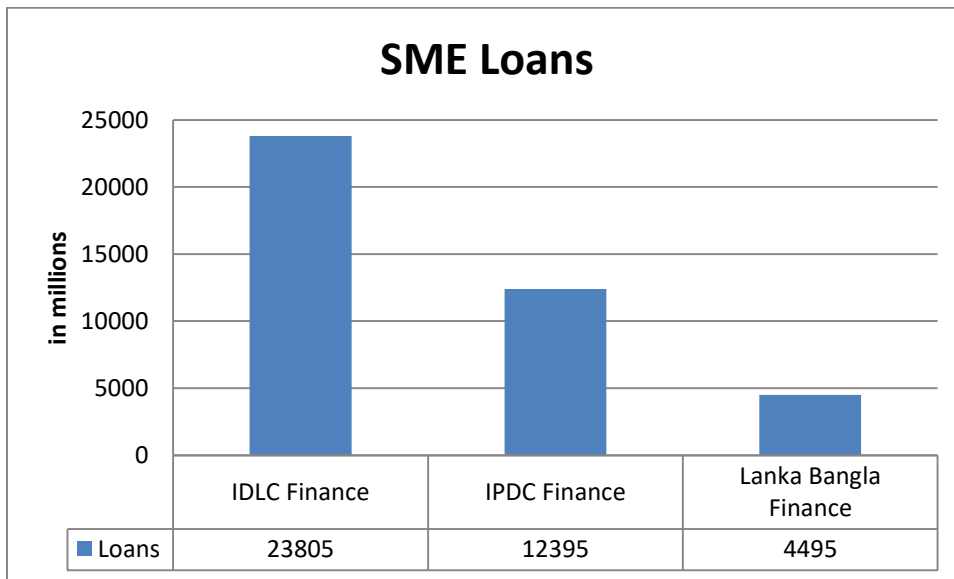


Figure 20: SME Loans

The bar chart above shows that IDLC Finance Ltd has disbursed more loans during the year 2018, than any of its close competitors did. IDLC has more SME packages designed looking at the needs of clients.

Compared with IPDC Finance Ltd, IDLC has disbursed 11410 million taka more SME loan than IPDC disbursed. In the field of SME and its positive impacts in the growth of Bangladesh GDP, IDLC has more contribution than its close peer competitors has.

Survey Analysis:

An online survey was conducted, that was internally shared. The participants were the employees currently working for IDLC SME Division. There were questionnaires regarding the loan that IDLC Finance Ltd disburses to its valuable clients. Number of participants in the survey were 11 and responses recorded accordingly.

The purpose of this survey is to get in depth knowledge about the SME division of IDLC Finance Ltd. As thought in earlier studies in this report; we have found that IDLC has been a top performer in most of the criteria's. However, the recommendation should be made by looking at the responses received.

A total of 6 questions were asked and the results are illustrated in pie charts below:

Question 1: How will you rate overall IDLC's SME loan disbursement process? (from application received till loan passed)

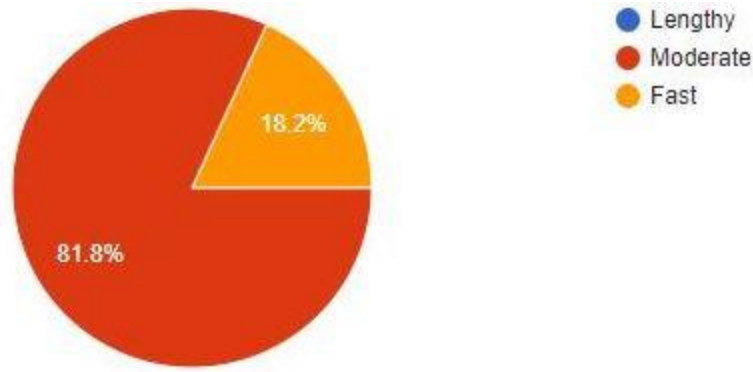


Figure 21: Question 1

Analysis: Out of 11 participants from the IDLC SME Division, majority have given their responses on favor of “moderate disbursements process”. This indicates that IDLC Finance has been trying to process all sort of loan SME request in the short time possible. However, if process is digitalized then there are high chances that the process can be even faster.

Question 2: On an average, specify the days required to process the IDLC SME Loans requests?

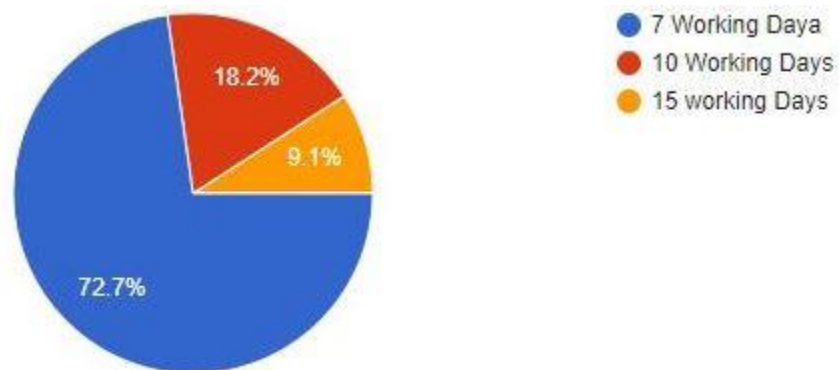


Figure 22: Question 2

Analysis:

According to the responses received, we can see that majority opted for an average of 7 days of time to process SME loan requests. If we look at the commercial banks that processes loan requests, the majority of them are doing it taking more than 7 working days, in case if the request is new.

The response shows that IDLC has managed efficiently the loan requests through their well skilled employees to accomplish tasks.

Question 3: According to you, what are/is the thing that clients remain bothered about? (chose one or multiple)

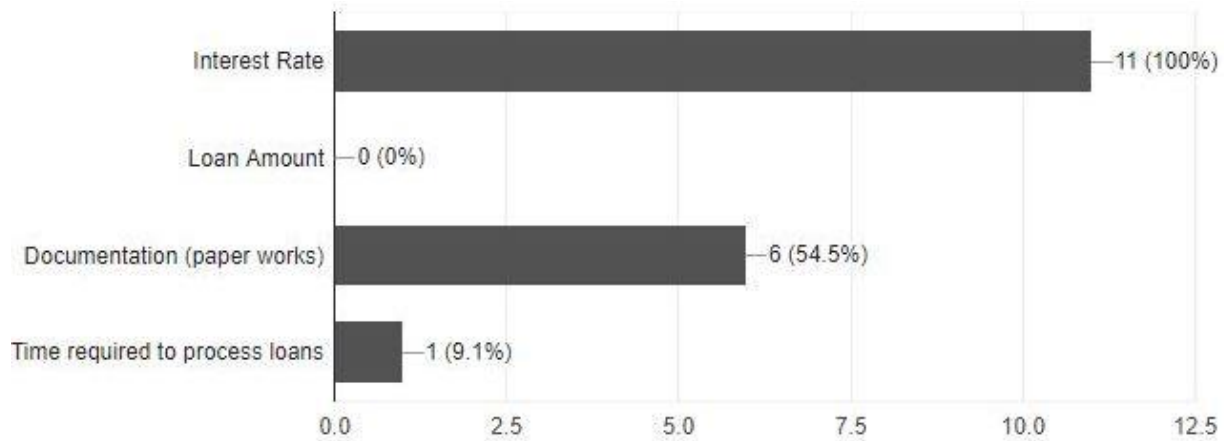


Figure 13: Question 3

Analysis:

The question was asked to understand where the clients find challenging when they are ask for SME loans from IDLC Finance Ltd. The responses recorded as, 100% of the participants said that Interest Rate is the thing that client’s remains mostly bothered about. If we analyze the current interest rate for SME loans that IDLC provides, the answer is:

Interest Rate (Unsecured)	18.50
Interest Rate (Secured)	15.00
Interest Rate (Cash)	18.00
Interest Rate (Woman)	10.00

The chart of Interest Rate above clearly shows that IDLC SME loans are disbursed at a rate of 15% and 18.5% for unsecured loans. The rate is pretty much higher, especially for the startups.

Question 4: Out of 100 SME loans Disbursed to clients, how many of the clients on an average make loan early settlement (early repayment)?

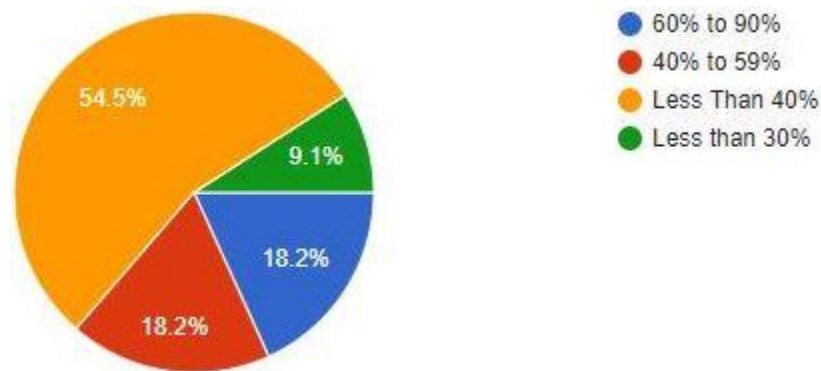


Figure 24: Question 4

Analysis:

The purpose of this question was to understand that how quickly clients are able to repay their loans before they meet the day of maturity. Since less than 40% of clients manage to go for early repayment, it shows that these clients may either find it a burden to go with the high interest rate till maturity or these clients have received enough return out of their business investments or capital employed.

Question 5: Out of 100 SME loans disbursed to clients, how many of the clients on an average apply for loan refinance?

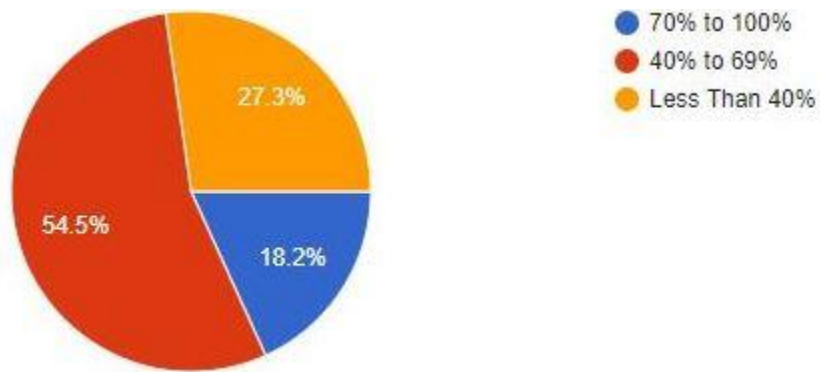


Figure 25: Question 5

Analysis:

Refinancing of loans means that clients are eager to go for further investment for the expansion of their business. Responses show that majority of the loan takers asks for refinancing their loans to further date. This scenario can be derived in a way that either the clients are satisfied with IDLC Loan system/policy that they are looking forward to ask for another loan, or the clients have met the desired success in the business that they can afford the high level interest rate.

Question 6: Suggestion for the SME Division of IDLC Finance Ltd (to make it perform well).

This question was asked individually to give their suggestions regarding the SME division of IDLC Finance Limited. All the participants responded to the questions being asked. The responses are recorded and are being printed below:

“

- i. *n/a*
- ii. *Should make the interest rate a bit lower*
- iii. *N/A*
- iv. *Documentation process/ required documents should have been much easier.*
- v. *Issue loans with lower interest rate.*
- vi. *Introduce new product to maximize customer satisfaction*
- vii. *Decentralization of operation division will help to make smoother*
- viii. *make interest rate lower*
- ix. *Make paper work process easier*
- x. *SME Interest rate is too high* ”

Recommendation:

Out of the responses received and the overall the report analysis, there are some recommendations for the financial institution IDLC Finance Ltd.

1. The financial ratios show that majorly the performance of this NFBFI has not been satisfactory, if compared with the performance of the year ended 2017. Although this institution has achieved top position in terms of loans disbursements and deposits received from clients, if compared with its peer competitors. However, an internally financial ratio shows a different scenario. They need to look especially on few issues, for instance EPS and Price Earnings ratios. These are directly related with the shareholders interest and they general shareholders do bother about it.
2. Interest rate for SME loans is high as mentioned by the respondents of the survey. For any NFBFI, interest is a major source of revenue. However, IDLC Finance Limited has many subsidiaries from where the company can earn revenue. IDLC's peer competitors are trying their best to secure a good position in the market and gain more number of clients for both loans and deposits. Therefore, retaining the clients and allowing more to register as new clients, IDLC needs to address the high interest rate issue.
3. Digitalizing the process of loan disbursement as much as possible can be helpful to reduce the time needed to disburse loans on demand. This will reduce the cost and ensure that company is earning good return on capital employed.
4. A fall in the operating profit and operational revenue is a matter of concern for IDLC Finance Limited. A fall in the operating profit indicates that there might be high operating expenses during the year 2018. Despite overall revenue earnings has hiked to a good level, but the operating profit performance was not satisfactory. IDLC needs to

address the this issue and ensure that operating expenses are not increasing at a much increasing rate than revenue.

5. Training and educational seminars outside of Dhaka is necessary to ensure that people remain aware about the SME packages of IDLC Finance Limited. This will not only help IDLC Finance Limited to generate more revenue out of SME products, but also help to contribute in the GDP of Bangladesh's economy. These educational seminars can help making people realize about the opportunity they can avail and start their own business. There are many people living in remote areas and outside of Dhaka city, having various innovative ideas about new business startups. However, they cannot proceed due to lack to financial support. If IDLC can encourage them to come forward and start investing, they can bring fortune for the company and for the economy as well.

Conclusion:

To conclude, it is not needed to mention that SME has the potential of bring development in the GDP of Bangladesh. Bangladesh is growing at a very remarkable rate from last 10 years. This indicates that local companies as well as foreign direct investments are rapidly coming to Bangladesh. For the new locals and infant industries to grow, they need to come up with ideas to innovate and make the Bangladeshi products earn recognition globally.

SME loans of IDLC Finance Limited are well designed in a manner to suit the need of clients. On the contrary, the competitors of the same are also constantly trying to manage new clients who can apply for loan and increase their business.

In many other countries, these SME organizations have proven that they have the potential to drive the economy to the point of peak and achieve economic growth. Similarly, this is also possible for Bangladesh, only if the challenges of SME are mitigated and the companies that provide loans to SME organizations are more supportive and helpful towards the need of clients.

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Appendix:

1. How will you rate overall IDLC's SME loan disbursement process? (from application received till loan passed)
 - a. Lengthy
 - b. Moderate
 - c. Fast

2. On an average, specify the days required to process the IDLC SME Loans requests?
 - a. 7 working days
 - b. 10 working days
 - c. 15 working days
 - d. (Specify)

3. According to you, what are/is the thing that clients remain bothered about? (chosed one or multiple)
 - a) Interest rate
 - b) Loan amount
 - c) Documentation
 - d) Time required to process loans.

4. Out of 100 SME loans Disbursed to clients, how many of the clients on an average make loan early settlement (early repayment)?
 - a) 60%-90%
 - b) 40%-59%
 - c) Less than 40%

5. Out of 100 SME loans Disbursed to clients, how many of the clients on an average apply for loan refinance?
 - a) 70%-100%
 - b) 40%-69%
 - c) Less than 40%

6. Suggestion for the SME Division of IDLC Finance Ltd (to make it perform well).

