

Report On
Profitability & Solvency of NBFIs in Bangladesh: An Overview of
GSP Finance (Bangladesh) Limited

By

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An internship report submitted to the BBS in partial fulfillment of the requirements for
the degree of

BBA

BBS

Brac University

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Declaration

It is hereby declared that

1. The internship report submitted is my/our 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/We have acknowledged all main sources of help.

Student's Full Name & Signature:

Sadia Fayrose
16104066

Supervisor's Full Name & Signature:

Supervisor Full Name
Lecturer, BRAC Business School
BRAC University

Letter of Transmittal

Ahmed Abir Choudhury,
BRAC Business School
BRAC University
66 Mohakhali, Dhaka-1212

Subject: Submission of Internship Report Under the Title, “Profitability & Solvency of NBFIs in Bangladesh: An Overview of GSP Finance (Bangladesh) Limited”.

Dear Sir,

This is my pleasure to display my internship position at GSP Finance to provide details regarding ‘Profitability & Solvency of NBFIs in Bangladesh: An Overview of GSP Finance (Bangladesh) Limited’, which I was appointed by my dedication.

I have attempted my best to finish the report with the essential data and recommended proposition in a significant compact and comprehensive manner as possible.

I trust that the report will meet the desires.

Sincerely yours,

Sadia Fayrose
16104066
BRAC Business School
BRAC University
Date: December 1st, 2021

Acknowledgement

I would like to show my utmost gratitude towards Mohammad Helal Uddin, former Managing Director of Trust Bank Ltd., a pioneer in the establishment of GSP Finance to point me in the direction of securing an internship position at GSP Finance Company Limited.

I want to show appreciation to Md. Mizanur Rahman, Deputy Managing Director and Company Secretary for taking a chance on me and providing me with the opportunity to complete my internship at GSP Finance Company Limited.

I am deeply grateful to my on-site supervisor at GSP Finance, Md. Ramzan Hossain, Assistant General Manager and Deputy Company Secretary, to guide me throughout my time there as an intern.

Last but not the least, I am truly grateful to Ahmed Abir Choudhury, Lecturer of BRAC Business School to have patience with me as I spent a difficult semester and giving me time whenever I needed it. He has helped me with proper guidelines to expand on how to proceed with the internship report and structure it efficiently.

Executive Summary

GSP Finance Company (Bangladesh) Limited since its inception in 1995 has held a place in the financial industry as a top-rated financial institution with predominantly assisting in efficient industrial development through its diversified and customized financial products and services. The report's main goal will be to analyze the company's financial situation as a non-bank financial institution.

In the first chapter, I shared my experience as an intern in GSP Finance as I am transitioning from being a student to transferring my knowledge and skills in the workplace. The second chapter gives an overview of the different departments and activities that form the company. The third chapter is the analysis of the financial position of GSP Finance against the industry average calculated through using three NBFIs of Bangladesh (IPDC Finance, IDLC Finance, and LankaBangla Finance).

Keywords: GSP Finance Company (Bangladesh) Limited; IPDC Finance; IDLC Finance; LankaBangla Finance; Non-bank Financial Institution (NBFI).

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List of Acronyms

BB	Bangladesh Bank
BDT	Bangladeshi Taka
CAR	Capital Adequacy Ratio
DSE	Dhaka Stock Exchange
EPS	Earnings Per Share
FDR	Fixed Deposit Receipt
FI	Financial Institution
GSPB	GSP Finance Bangladesh Limited
IAS	International Accounting Standards
ICB	Investment Corporation of Bangladesh
ICML	ICB Capital Management Limited
IDLC	Industrial Development Leasing Company of Bangladesh Limited
IFRS	International Financial Reporting Standards
IPDC	Industrial Promotion and Development Company Bangladesh
NBFI	Non-Bank Financial Institution
NPL	Non-Performing Loan
ROA	Return on Assets
ROE	Return of Equity
SEO	Search Engine Optimization
SME	Small and Medium-Sized Enterprise
WOM	Word of Mouth



Chapter 1
Overview of Internship

Chapter 1 Overview of Internship

1.1 Student Information: Name, ID, Program and Major/Specialization

Name: Sadia Fayrose

Student ID: 16104066

Program: BBA

Major/Specialization: Finance & Accounting

1.2 Internship Information

1.2.1 Period, Company Name, Department/Division, Address

Period: July 2021 to September 2021

Company Name: GSP Finance Company (Bangladesh) Limited

Department/Division: Finance

Address: 1, Paribagh, Mymensingh Road, Dhaka-1000, Bangladesh

1.2.2 Internship Company Supervisor's Information: Name and Position

Name: Mohammad Ramzan Hossain

Position: DCS & Assistant General Manager

1.2.3 Job Scope – Job Description

- Get practical experience in the ever-expanding world of finance.
- Documenting and analyzing reports.

- Using collected data to help prepare statements.
- Making observations of reported numbers as a means of understanding administrative aspects of the company.

1.3 Internship Outcomes

1.3.1 Student's contribution to the company

- Under the supervision of the company supervisor, I have collected and analyzed the financial reports of the previous years.
- Utilized the available data of the company that has assisted me in the preparation of reports.
- Helped with implementing different formats for writing business letters to send to different parties involved.

1.3.2 Benefits to me as a student

- Getting in touch with people working in the field of finance helped me to understand how to get a start on a career in finance.
- Since working in NBF is my primary target after graduation, working in GSP finance helped me get an insight into work that goes behind the scene.
- Working as an intern helped me realize the important transferrable traits from my studies are not just my textbook knowledge, problem-solving and time management is two crucial values I needed to apply in the workplace.

1.3.3 Problems/Difficulties

- Though I was supposed to work from home starting from July 5, 2021, due to back to back lockdown and Eid holidays meant I had a little over a month in total to work.
- Despite taking initiatives multiple times, I came to an understanding that the company's slow-paced nature of work during my time working there cannot help me contribute as much as I thought I could before I joined.
- The internal email system of the company is a bit disjointed which caused it to be down often. Sending emails did not always seem successful, calling back each time to get a confirmation as well as resending again, these seemed particularly challenging as working from home is supposed to be based on the help of the online mediums of communication.

1.3.4 Recommendations

- Making the chain of command easily understandable to an intern joining since not being a regular job holder at the company makes it harder to get acquainted with the company.
- Setting up an email system where company email is regularly monitored based on priority since the current system seems to crash quite often.
- Setting up a day-to-day plan according to the job description for interns to understand what is expected of them during their three months period working at the company.



Chapter 2
Organization Part

Chapter 2 Organization Part

2.1 Introduction

2.1.1 Objective

The general object of the report is to understand the position of GSP Finance in the sector of Non-bank financial institutions of Bangladesh. Through this report, we will take a look at this sector that is heavily impacted through Covid-19 but some companies may be more than others. Depending on the time-sensitive policies implemented at the correct time, the trajectory of stability may have invited an accurate amount of competition for survival. The two types of objectives that are covered by this report are discussed below:

The primary objective of the report is to position GSP Finance in the sector of NBFIs in Bangladesh in terms of services. The NBFIs established after the independence of Bangladesh in the 80s and 90s today dominate the growing economy of the country. This report will reflect the services the company is currently providing.

The secondary objectives are the following sides of the company this report will reflect on are:

- Reflecting on internal management practices.
- Analyze financial performance and accounting practices.
- Interaction with the industry and environment around the company.

2.1.2 Methodology:

- **Research Design:** This segment of the report will provide descriptive data collected through publicly available information about GSP Finance.

- **Sources of the Data:** To fulfil the objectives of this report the primary and secondary sources used are as follows:
 - ✓ Primary Sources:
 - Observations were made throughout the internship at the company.
 - Talking to my supervisor and managers.
 - Collecting information from colleagues.
 - ✓ Secondary Sources:
 - Annual reports of the previous years
 - Official website of the company
 - Newspaper, journals and other websites online
 - Internship reports on similar topics as well as on different NBFIs.

2.2 Overview of GSP Finance Company (Bangladesh) Limited

GSP Finance is a premium financial institution assisting in economic and national development through giving financial and products and services. It is a Financial Institution (FI) incorporated as a public limited company in Bangladesh on October 29, 1995, according to the Companies Act 1994.

2.2.1 Vision:

To be a premier financial institution in Bangladesh with a strong commitment to the development of society and the national economy.

2.2.2 Mission

- High-quality financial services with state-of-the-art technology.
- Working closely with our clients.
- Maximizing return on equity.
- Maintaining a high standard of professional ethics.
- Securing a sustainable growth strategy.

2.2.3 Strategic Objectives

- Create a high-quality investment portfolio.
- Strengthening our position in capital market operation.
- Continuous diversification for maximization of shareholders' value.
- Maintain long-term business relationships with our clients.
- Retaining most dynamic people with good aptitude.
- Responding quickly to new opportunities.
- Balanced diversification of funding sources.
- Strengthening corporate governance practices.

2.2.4 Core Values

- Integrity
- Commitment
- Transparency
- Service Excellence
- Business Ethics

- Teamwork
- Prudent risk-taking
- Clients Focus
- Friendly Environment
- Equal opportunity
- Trust & Respect

2.2.5 Company History

GSPB was established in Dhaka, Bangladesh on 29th October 1995 within the Registrar of Joint Stock Companies and Firms. It began its business activity on the 17th of April 1996 under a permit provided by Bangladesh Bank (Central Bank) as per the Financial Institutions Act of 1993. It began with an ideal environment for monetary organizations, which can address the needs and difficulties of this day and age, by giving efficient financing and skill to support the modern development of the country. A couple of people well acquainted in the finance world with the essential vision to work out these difficulties approached to shape GSP Finance Company (Bangladesh) Limited. Their objective was to give financing and aptitude and essentially to turn it into a modern establishment that cooperated with the People's Republic of Bangladesh. It was conceived building on the well-established experience established in the scenarios of the Far East; its ability developing to adjust to present settings.

2.2.6 Shareholding Structure

Name	Designation	Percentage
Mr. Feroz U. Haider	Sponsor Director	8.06%
Mr Wolf Peter Berthold	Sponsor Director	3.59%
Karnaphuli Industries Limited	Director	9.07%
Tai Ping Asian Investment Limited	Director	10.42%
Mr Moin U. Haider	Director	2.00%
Ms Silwat Haider	Director	2.00%
AVM(Retd) Altaf Hossain Choudhury	Sponsor Shareholder	0.36%
Institutional Shareholders		17.17%
Foreign Shareholders		0.00%
Public Shareholder		47.33%
Total		100.00%

Table 1: Shareholding Structure of the company as on 31.08.2021

2.2.7 Products and Services

Financial segments

- Lease Finance
- Term Finance
- Working Capital Finance
- Bridge/ equity finance
- Syndication finance
- SME finance
- Term Deposit

Deposit schemes

- Monthly income deposit
- Quarterly income deposit
- Half-yearly income deposits

- Yearly income deposit
- Double income deposit

GSP Investments Limited (A Subsidiary of GSP Finance Company (Bangladesh) Limited)

- Issue Management
- Underwriting
- Portfolio Management
- Margin Loan
- Securities Trading Services

Lease Finance

- Assist them in procuring capital machinery and equipment from both local and foreign sources
- Facility mostly extended for 2-5 years as per our customers' requirement and convenience of their payment

Term Lending

- Short-term and long-term finance facilities to modernize and expand customers' businesses
- Meet their requirement for long term permanent working capital
- Offered for 1-5 years mostly to be repaid in equal monthly/quarterly/yearly instalments

Syndicate Finance

- GSPB organizes and participates in syndicate finances to support the establishment of large projects in consortium
- Foster industrial development in Bangladesh

Secured Loan

- Recognize the emergency of customers' finance requirement
- This offer will enable you to meet customers' immediate financing needs at competitive interest rates against the fund deposited to GSP finance

SME Finance

- As a key player in the finance industry in Bangladesh, GSP understand the importance of Small & Medium Enterprise (SMEs)
- To grow towards our national economic development
- GSP provide tailor-made services to their SME clients and assure flexibility, reliability and financial progress

Women Entrepreneurs Loan

- Offer term loans to women entrepreneurs to expand and operate their business at the desired level
- Help meeting working capital requirements and/or purchasing fixed assets

Bridge/Equity Finance

- Assist clients in raising money during their inception of the business
- Support their ongoing operation for an upcoming cash outflow
- Offer custom-made service extended to GSP's institutional customers

2.2.8 Organogram

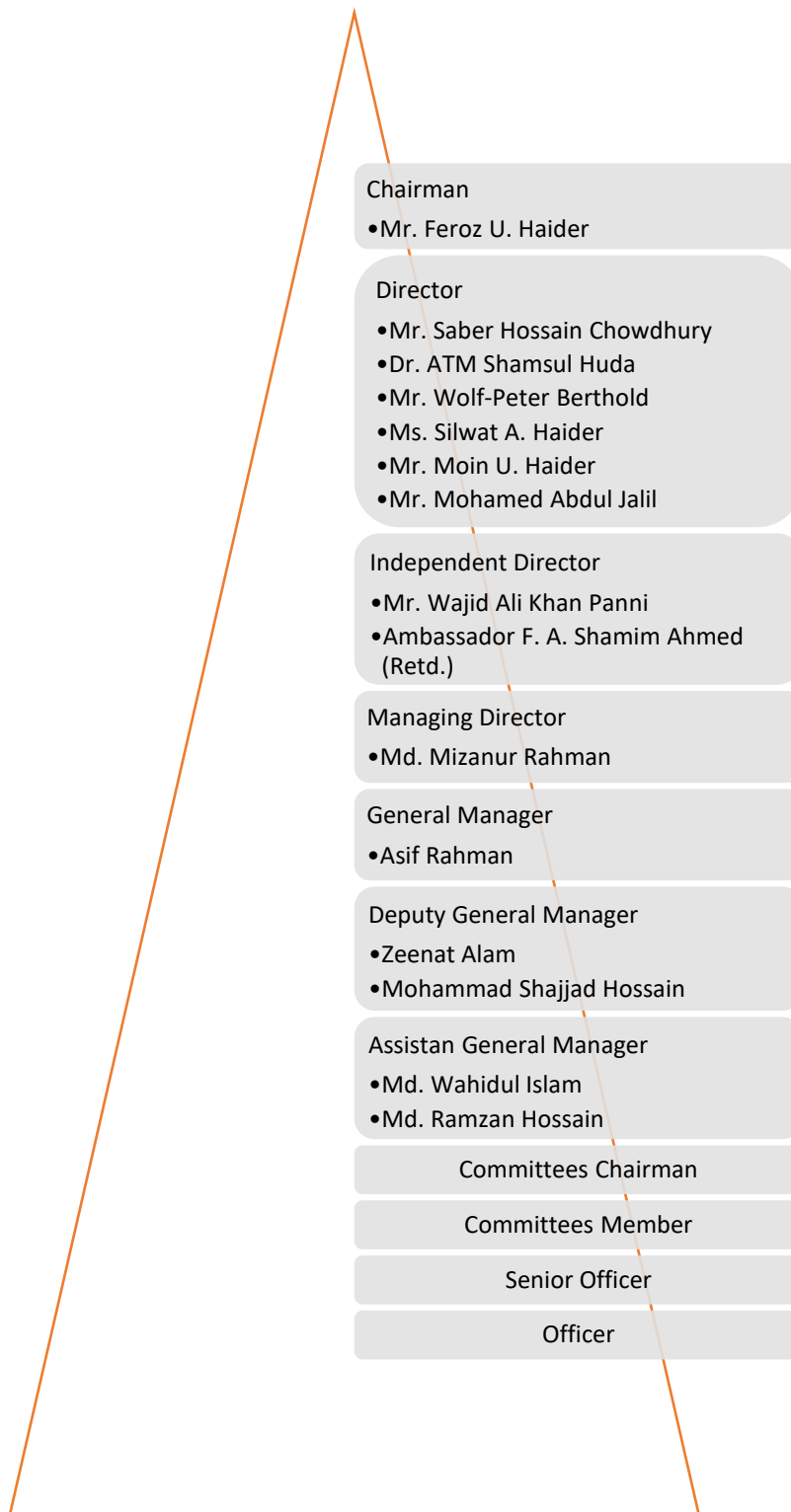


Figure 1: Organogram of GSP Finance

2.3 Management Practices

2.3.1 Leadership Style

As an intern, in the three months working in GSP Finance, the leadership style of the organization appeared to resemble a participative style of leadership. The participative style of leadership is known to be the most effective of leadership styles. The company is led by a group of managers who seem to have 30+ years of experience in the field of finance. They are assigned to take the final decision for any case. But to set and execute the goals and objectives, the managers take the inputs provided by the lower employees into consideration. The managers take the lower-level employees with the potential to rise above in the field under their wings to teach them the processes, for example, appropriate languages to write letters. This style provides a stable environment for inexperienced subordinates to learn and grow which ultimately helps retain the employees.

2.3.2 Human Resources

GSP Finance Company (Bangladesh) Limited constantly audits its human asset approaches and executes compelling management strategies and practices to improve its representatives. They accept that their HR have a competitive advantage as far as their experience and expert aptitude. Thinking about this, they position themselves to select the most appropriate people for the right positions, furnish them with satisfactory training and carry out projects to build their efficiency as well as retain the employees. The company cautiously investigates the inspirational perspectives, wellbeing and security of the workers. Efficiency building exercises are empowered and advanced by GSP continuously

2.4 Marketing Practices

2.4.1 Marketing Strategy

GSP Finance arranges seminars, organizes board meetings and Annual General meetings promoting their services and brand. Shareholders attend the Annual Board Meetings where they are informed about the growth of the company as well as new policies and services introduced by the Company. This ensures an increase of goodwill for the company through word-of-mouth. The meetings are attended by local, foreign & independent Directors, honourable shareholders and other senior officials of the Company. Meeting credible personnel of the Company promotes a better relationship with all the stakeholders.

Additionally, they are invested in Press Releases of any new changes for the company.

Some of the mention-worthy press releases are:

- GSP Investments Limited Signs with LankaBangla Securities Limited
- Bond Issue: Signing an Agreement for Issue Management & Trustee Services for issuance of “GSP Non-convertible Fully Redeemable Coupon Bearing Bond of Tk. 200 Crore” with ICB Capital Management Limited (ICML).
- Cash Dividend: The Shareholders of GSP Finance approved an 18.00% Cash Dividend for the year ended December 31, 2018.
- Stock Dividend: 23.50% Stock Dividend for the year ended December 31, 2017, for the year ended.
- GSP Finance elects the new Chairman to the Executive Committee of the Board.
- GSP Finance appoints two Vice-Chairmen to the Board of Directors.
- Exchange documents of refinancing schemes for setting up agro-processing units in rural areas.

- GSP Signs with LEADS for BankUltimus

Apart from these, GSP Finance gathers leads from the website traffic and various financial seminars to convert them through telemarketing. Telemarketing has been a decisive tool for any organization to reach and facilitate in-person meetings for better and smoother conversion. And GSP Finance properly utilizes this tool.

GSP Finance also takes an active involvement in CSR activities, donating money to good causes. For instance, GSP Finance donated 3,46,800 taka in a single year, 2013. After the Rana Plaza tragedy, GSPB was affected in multiple ways. The employees of GSPB have donated one day salary given to the victims and 5 lac taka to the Prime Minister's Fund for the rehabilitation of the victims. GSP Finance has given BDT 1 lac to Enam Medical College and hospital since they provided free medical services to the victims of the tragedy.

2.4.2 Target customers, targeting and positioning strategy:

GSPB's target customers are mainly businesses in various sectors such as Textile, Garments, Pharmacy, etc. providing loans at efficient rates and benefits. A huge portion of their targeted market is portfolio loans to diversify their risk.

GSP Finance positions their company in a way that they target a specific market and stands out from the other financial institutions but provide similar services and benefits. Through building years of trust and goodwill, they have set aside their brand from the rest. They are a small company but focused and goal-oriented which helps them to maintain a good relationship with their trusted clients.

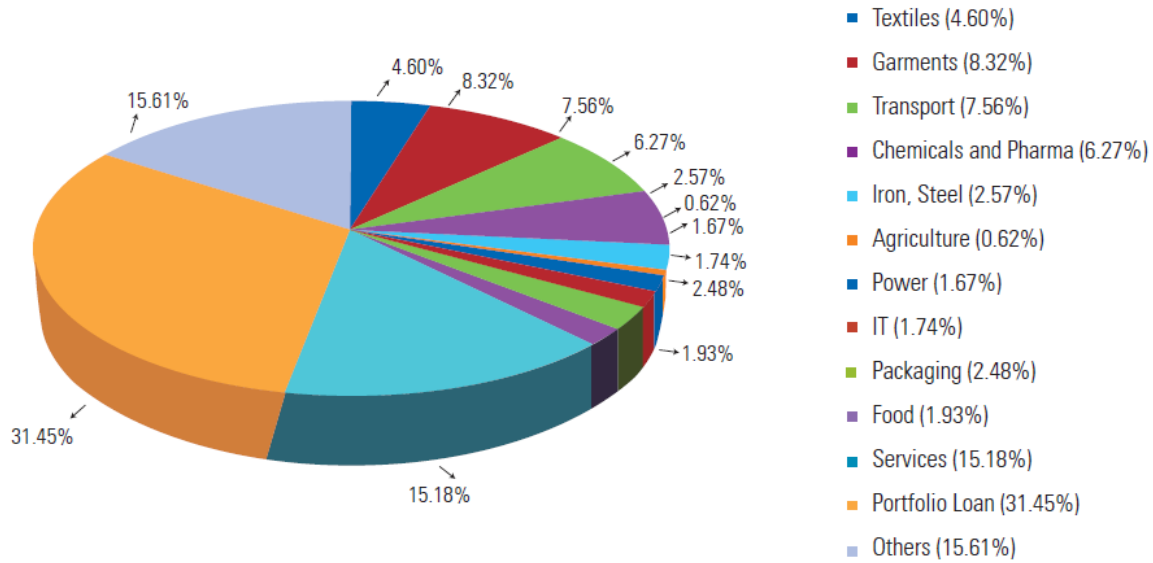


Figure 2: Investment in Industries by GSP Finance

2.4.3 Marketing channels

GSP Finance promotes its brand through a few sharp marketing channels that consist of Websites, Press Releases, Seminars, WOM, etc. Through SEOs GSP Finance drives prospective clients to their detailed and informative website. Through mostly print and somewhat online media, they publish press releases about the new additions to their services and the inclusion of the benefits they provide.

2.4.4 Product/New product development and competitive practices

GSP Finance has introduced new services over the years. They have increased their Cash Dividends and Stock Dividends as well as signed contracts with other financial institutions to better solidify their position in the market. To combat competitor benefits and prices, GSP Finance has planned out and executed new strategies for product development.

2.4.5 Critical Marketing issues and gaps

Designing marketing media for a focused, specified target market has its downside as well. GSP Finance can expand its target market and ultimately generate more reach and conversion. The marketing strategies are effective but for a growing industry, in the long run, they may fall too behind their milestones. Outdated strategies such as telemarketing have become obsolete. Additionally, their website may be informative but it lacks innovative structure and design. Traditional marketing in this sector has always been successful but it is generalized by clients and customers amongst all the companies. In this sector, having differentiated, eye-catching branding (Logo, music, colour, ads) has been appreciated more such as IPDC, IDLC or renowned Banks etc. At the end of the day, apart from the marketing strategies, a better financial backup and performance is also very important to promote a brand in the financial sector. GSP Finance can promote their company's strong points and most unique services and benefits to better position themselves and extend their target customers. Adapting to new strategies for branding and renovating their website will be a good start for their successful marketing missions.

2.5 Financial Performance and Accounting Practices

2.5.1 Financial Performance

Let us take a look at the financial highlights of GSP Finance in the past 5 years-

Operational Performance	2016	2017	2018	2019	2020
Operating revenue	922,101,313	1,038,570,606	1,047,456,390	1,071,766,750	811,847,282
Financial expenses	311,603,594	379,714,179	422,564,307	461,775,809	496,277,580
Operating expenses	63,698,887	65,560,469	66,962,296	72,692,877	59,685,833
Profit before taxation	480,310,705	513,340,910	471,250,389	286,719,104	328,543,463
Net Profit after tax	286,252,109	307,099,348	293,678,772	177,970,719	203,121,144

Financial performance	2016	2017	2018	2019	2020
Lease & term finance	4,791,656,232	6,627,994,210	5,734,165,448	5,364,849,807	4,808,329,512
Investor's portfolio loan (Loan to GSPI)	1,345,966,755	1,442,570,276	1,619,839,926	1,884,773,562	2,206,076,458
Investment in Share	245,856,625	309,186,018	507,040,024	506,075,833	508,537,103
Other assets	341,886,709	364,812,748	365,550,895	354,225,009	342,955,105
Current assets	3,310,697,748	3,732,765,320	3,302,774,377	3,366,821,587	3,054,517,410
Total asset	8,134,124,311	9,961,488,185	9,591,342,540	9,455,555,493	9,215,527,719
Term deposits	3,689,298,401	4,177,070,229	3,113,838,775	2,809,991,267	2,269,458,671
Current liabilities	2,829,211,791	3,029,386,585	2,782,619,965	2,485,509,434	2,462,174,932
Long term liabilities	2,790,173,832	4,340,455,493	3,923,397,696	4,134,773,415	3,719,534,525
Total Liabilities	5,619,385,623	7,369,842,078	6,706,017,661	6,620,282,849	6,181,709,457

Financial ratios	2016	2017	2018	2019	2020
Current ratio (Times)	1.17	1.23	1.19	1.35	1.24
Financial expense coverage (Times)	2.54	2.35	2.12	1.62	1.51
Debt/Equity (Times)	1.84	2.32	2.02	1.64	1.35
Equity Multiplier	3.23	3.84	3.70	3.34	3.04
Net interest margin %	7.61	6.36	5.44	4.54	2.87
Net profit margin (%)	31.04	29.57	28.04	16.61	25.02
Return on equity (%)	13.50	12.03	11.50	6.29	6.70
Return on assets (%)	3.52	3.08	3.06	1.88	2.20
Rate of Dividend (%)	22.00	23.50	18.00	10.50	11.00
Price earnings ratio (Times)	8.37	10.46	8.98	11.01	14.06
Dividend (%)	22.00	23.50	18.00	10.50	11.00
Financial expense to total expenses (%)	83.03	85.28	86.32	86.40	89.26
Operating expense to operating revenue (%)	6.91	6.31	6.39	6.78	7.35
EPS (TK.)	2.74	2.94	2.27	1.25	1.42

Equity statistics	2016	2017	2018	2019	2020
Authorized capital	2,000,000,000	2,000,000,000	2,000,000,000	2,000,000,000	2,000,000,000
Number of shares	104,632,695	104,632,695	129,221,378	129,221,378	142,789,623
Paid up Capital	1,046,326,950	1,046,326,950	1,292,213,780	1,292,213,780	1,427,896,230
Year end market price	22.90	30.70	20.40	15.20	20.00
Net asset value per share	24.03	24.77	22.33	19.82	21.25

Table 2: Financial Highlights of GSP Finance in the Past 5 Years

Findings:

Capital

Going through unprecedented times, GSP finance managed to hold capital adequacy ratio (CAR) 22.39% in 2020 from 20.34% in 2019 against Bangladesh Bank's stipulation of 10%. This shows GPSB is on track for sustainable growth in the future.

Liquidity

Lease and loan portfolios decreased by 235 in comparison to 2019. Despite the liquidity shortage, the company managed to stay in a good position in terms of its liquidity requirements.

Profitability

In the bearish market, GSPB managed to reach 14.13% growth in profitability. Net profit after tax reached BDT 203 million in 2020 compared to BDT 177 million in the year before.

Interest Income

Interest income decreased by 15.32% due to a decrease in the portfolio of lease and loan in 2020.

Interest Expenses

Interest expenses hiked by 7.47% which stood at BDT 496 million in 2020 from BDT 462 million in 2019.

Investment Income

Decrease in transaction volume at DSE and liquidity shortage decreased investment income by 67.12%, share trading by 98.75% and dividend income by 30.63%.

Operating Expenses

Operating expenses fell 17.89% in 2020 due to the efficiency achieved in GSPB's operation. Salary and allowances reduced 11.04% due to effective control in human resources.

Revenue

Negative growth of 24.25% in revenue reduced it to BDT 811.85 million, 94.12% of that is from interest-earning products.

Portfolio

Lease, loans and advances fell by 3.24%

Credit Quality and NPL

NPL ratio decreased to 17.36% in 2020.

Share Performance

Going through fluctuations between BDT 21.70 and BDT 11.30, the market price of the share finally settled to BDT 20.00 by the end of the year.

Total Asset

Total Asset reduced by 2.54% to BDT 9,215.53 million in the year 2020.

2.5.2 Accounting Practices

Basis of accounting

The financial statements of GSP Finance are prepared using historical cost convention by following accrual basis of accounting which is in compliance with the Companies

Act 1994, Financial Institution Act 1993, International Financial Reporting Standards, (IFRSs) International Accounting Standards (IASs) requirements.

Statement of Compliance

GSP Finance prepared its financial reports on a going concern basis upon following accrual basis of accounting apart from marketable securities and cash flow statement which have been stated at their market value. This has been done following the rules and regulations of International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs).

Direct Finance

To state long-term and short-term loans of direct finance, the accrual basis of accounting was used.

Depreciation

To depreciate the fixed assets of GSP Finance, a range of 10% to 20% was applied in a straight-line method to be implemented throughout their estimated useful life span which are ranging from 5 to 10 years.

2.6 Operations Management and Information System Practices

Following list shows key advancements in operational and information system practices in GSP Finance:

- Diversifying their products and services.
- Making strides in adopting a system that will be modern and fully automated.
- Devising a focused marketing plan.

- Prioritizing monitoring of non-performing loans to strengthen asset quality.
- Implementing successful development programs for the human resource department to increase the knowledge and skills of the employees.

2.7 Industry and Competitive Analysis

2.7.1 Porter's Five Forces

1. Bargaining power of buyers: High

- In the NBFBI sector, the industry incurs large initial capital so borrowers utilize the advantage of the situation and bargains further.
- The products are not differentiated enough and could be replaced by substitute products from traditional banks which helps borrowers to have more bargaining power.
- Switching to an alternative product is relatively simple and involves very low cost for the borrowers which eventually provides them with higher bargaining power.

2. Bargaining power of suppliers: High

- The bargaining power of suppliers is high as there is a rise in investment choices like Mutual Funds, Tax-free bonds, Equity market etc. Providers of funds could be more demanding as the quality of services provided with minimum time has a higher impact.
- The depositor's customers are fragmented as the investors who provide money to the NBFBI sector are fragmented in many areas.

3. Competitive rivalry: High

- Rivalry among NBFIs is high as there is huge competition in the market for non-banking financial institutions and they are competing high as buyers are flexible.
- Rivalry is strong as switching cost is negligible. In the NBFIs sector, there can be a switchover to another if the competitor is providing more beneficial services.
- Bolstering strategies of rivals are ongoing. Firms that are losing ground or in financial trouble often react aggressively by introducing new products, boosting advertisement, flexible product mix to capture market share.
- Competition from the external sector is more volatile as the related industry competes with the NBFIs sector in areas including purchase, lease, loan etc. too.
- Many of the companies are following strategies for expansion and this is the reason a large number of similar products is available to customers.

4. Threat of substitutes: Moderate

- Increased consumption demand may lead to fewer savings thus less investment.
- There's a moderate threat of substitute products that are being offered with more interest rates and less risk.

5. New entry: Low

- NBFIs sector is dominated by a few large companies and it requires high capital to operate. Government regulations are high and brand equity is important for trust.
- Therefore, the threat for new entrants is low as per the current economic circumstance.
- However, the influx of foreign investments in companies is imminent as the regulation eases and it is easy for small players to enter the marketplace.

2.8 Conclusion

GSP Finance is a non-bank financial institution focused on sustainable growth. Its primary concentration while forming its strategies is prudence. Despite the adverse profitability condition of the economy over the past few years, GSP Finance has remained competitive in the industry while managing to fulfil its obligation set by Bangladesh Bank.

2.9 Recommendation

- GSP Finance may consider working on branding to earn a media presence.
- The company need to be more proactive to start transitioning into using available technologies as the post-pandemic world is very likely to be more technology-oriented.
- GSP Finance should invest in its employees to develop their skills and efficiency.
- The company should increase monitoring of its NPL to restructure them appropriately.



Chapter 3
Project Part

Chapter 3 Project Part

3.1 Introduction

3.1.1 Background

Non-bank financial institutions are financial institutions without a full banking license and cannot accept deposits from the public but can provide alternative financial services. This sector is a growing segment of Bangladesh that is helping bridge the gap through financial intermediation for specific sectors of the economy. This is noteworthy in the case of existing commercial banks existing in Bangladesh where non-bank financial institutions are upholding the balance. The financial stability report of Bangladesh Bank suggested Covid 19 has magnified the existing problems for the government and non-government NBFIs. The report will help reveal the position GSP Finance is holding within the industry as the benefits and shortcomings are faced to thrive in the economy of Bangladesh.

Ten years post-independence of Bangladesh, non-bank financial institutions began their journey. Since then, a total of 35 NBFIs have been established which were licensed by Bangladesh Bank to have regulations and control in place under the Financial Institutions Act, 1993. These companies are also subjected to follow prudential regulations and guidelines by Bangladesh Bank under section 18 (Chha) of FI Act 1993 for NBFIs. A minimum of 1.0 billion paid-up capital is the requirement for an ongoing financial institution according to Circular no. 5 issued on 24 July 2011.

Table 7.1 Trends in Structure of NBFIs

	2014	2015	2016	2017	2018	2019	2020*
No. of NBFIs	31	32	33	34	34	34	35
Government-owned	3	3	3	3	3	3	3
Joint-venture	10	10	11	12	12	12	13
Private	18	18	19	19	19	19	19
New branches	20	15	14	30	8	11	3
Total branches	195	210	224	254	262	273	276

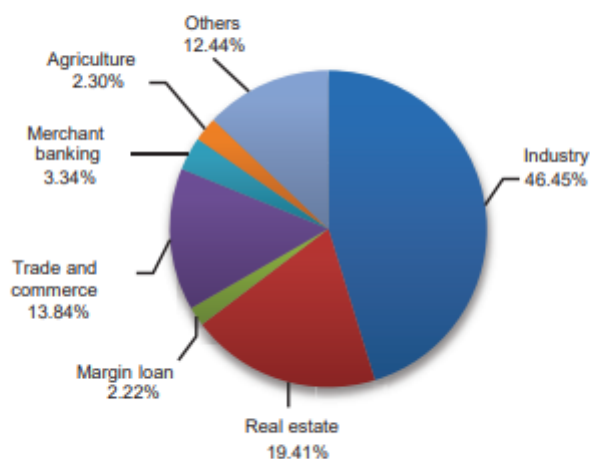
* As of 30 June 2020.

Source: DFIM, BB.

Figure 3: Trends in Structure of NBFIs

Non-bank financial institutions have had key roles to provide financial services that banks are not capable of. The ever-changing demands of customers are catered to by NBFIs through diverse products and services.

Chart 7.2 Investment Pattern of NBFIs as of 30 June 2020



Source: DFIM, BB.

Figure 4: Investment Pattern of NBFIs as of 30 June 2020

The major sectors NBFIs have invested in are industries, real-estate, margin loan, trade and commerce, merchant banking, agriculture. Most of NBFIs' investments are concentrated in the industrial sector (46.45%). NBFIs' contribution reaches not just only the capital market but the real estate sector (19.41%) too.

3.1.2 Objectives

The broad objective of the study is to understand the financial position of GSP Finance against the present industry of non-bank financial institutions of Bangladesh. The specific objectives of the study include:

- Evaluating the profitability of NBFIs of Bangladesh
- Evaluating the solvency of NBFIs of Bangladesh
- Finding relation with an economic scenario for further context
- Drawing conclusions and suggestions based on the findings

3.1.3 Significance

This project will help me to learn how to interpret the financial conditions of a rising industry of the economy that is the NBFIs of Bangladesh. My time working in GSP Finance and researching other key competitors in the market will serve to bridge the gap between traditional learning and work experience in the field. To understand the situation of a financial institution, the profitability and solvency of the company are two major indicators of its position and ability to survive in the long term. An investor wanting to invest in an NBFIs needs to be able to have insights into these indicators before making a decision. As a finance and accounting major, going into any job in the

related fields will be crucial as well to be able to present the condition a company is currently in.

3.2 Methodology

The information collected to be integrated into the report required the use of both primary and secondary sources. Interviewing current and former employees of the company helped me ascertain the role of management's influence towards setting and achievement of the goals and objectives. The official website of GSP Finance and other competitors provided me with the annual reports necessary to do the analyses of their financial behaviour in the market. Other websites, newspapers, reports were used to gather insights on the reason behind their success, failure or plateau.

3.3 Findings and Analysis

3.3.1 Financial Performance Analysis of Non-Bank Financial Institutions

The report will focus on four non-bank financial institutions to determine the industry average to compare it against GSP Finance as a means to analyze its financial position in the market. The companies other than GSP Finance the report will be using are:

1. IPDC Finance
2. IDLC Finance
3. LankaBangla Finance

To better comprehend the industry, the report will take a look at the growth or decline of certain ratios for the past five years of GSP Finance against the three other NBFIs of Bangladesh. These ratios are as follows:

1. Profitability Ratios:

- 1.1. Return on Equity (ROE)
- 1.2. Return on Assets (ROA)
- 1.3. Earnings Per Share (EPS)

2. Solvency Ratios:

- 2.1. Debt Equity Ratio
- 2.2. Current Ratio
- 2.3. Financial Expense Coverage Ratio

1. Profitability Ratios

Profitability is a class of tools used to analyze how much earnings a business can generate with regards to shareholders' equity, revenue, assets, operating costs over a certain period. These ratios are indicators of the sustainability of the resources available in a company.

Table 7.4 Trends in Profitability of NBFIs
(percent)

	2012	2013	2014	2015	2016	2017	2018	2019	2020*
Return on equity (ROE)	10.4	7.5	9.9	9.9	6.9	8.3	7.45	7.64	2.21
Return on asset (ROA)	1.9	1.5	1.8	1.8	1	1.14	0.98	1.04	0.24

* As of 30 June 2020.

Source: DFIM, BB.

Figure 5: Trends in Profitability of NBFIs

1.1 Profitability Ratios: Return on Assets (ROA)

Return on Assets (ROA) is used to find the net income returned as a percentage of the total assets. It measures the efficiency of the management to bring in earnings on their economic resources. The formula used to calculate return on assets is-

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Total Assets}}$$

NBFI	2016	2017	2018	2019	2020
IPDC	2.00%	1.10%	1.00%	1.00%	1.00%
IDLC	2.33%	2.60%	2.12%	1.50%	2.08%
LankaBangla	1.39%	2.58%	0.51%	0.59%	1.18%
GSP	3.52%	3.08%	3.06%	1.88%	2.20%
Industry Avg.	2.31%	2.34%	1.67%	1.24%	1.62%

Table 3: ROA of NBFIs in the Past 5 Years

Return on Assets (ROA)

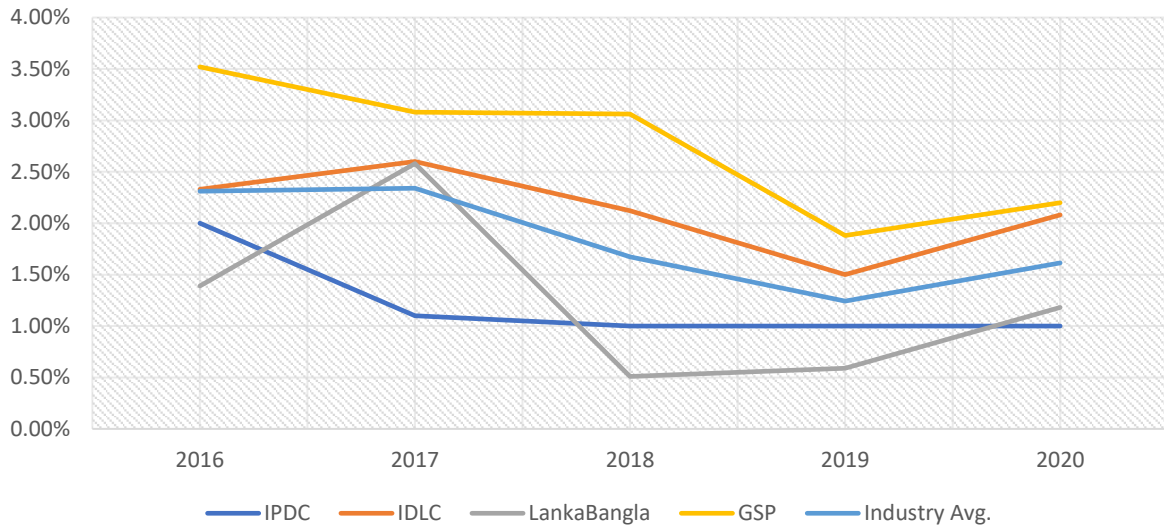


Figure 6: ROA of NBFIs in the Past 5 Years

Findings:

- An ROA comparison is most successful when companies in the same industry are used to analyze.
- In 2020, the ROA of GSP Finance was 2.20% which means for every BDT 1 worth of asset generated BDT 1 net income. It is a very simple bang-for-the-buck way of measurement.
- ROA of GSP Finance remained way above the industry average as well as all of its competitors throughout the past 5 years even though NBFIs being a service industry generally have higher ROA.
- This high ROA means GSP Finance is more efficient at using its assets by generating more money with fewer assets used.
- It is a testament to the feasibility of the company in the long term.

- But looking at the trend, till 2019, the ROA of GSP Finance has been falling which may indicate trouble within its management. They may have invested too much in lower-quality assets that are failing to add to the revenue stream.
- In the year 2020 though, it seems to have gone up slightly showing progress in efficiency.

1.2 Profitability Ratios: Return on Equity (ROE) volatile

According to Fuhrmann (2017), return on equity (ROE) is the net income returned as a percentage of shareholders' equity. As a tool measuring profitability, it shows the earnings over the money invested in the company by the shareholders. ROE can be calculated as-

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Average Shareholders' Equity}}$$

NBFI	2016	2017	2018	2019	2020
IPDC	11.50%	11.40%	13.10%	12.10%	12.10%
IDLC	21.29%	21.15%	16.55%	12.29%	17.37%
LankaBangla	12.29%	25.66%	4.90%	5.27%	10.00%
GSP	13.50%	12.03%	11.50%	6.29%	6.70%
Industry Avg.	14.65%	17.56%	11.51%	8.99%	11.54%

Table 4: ROE of NBFIs in the Past 5 Years

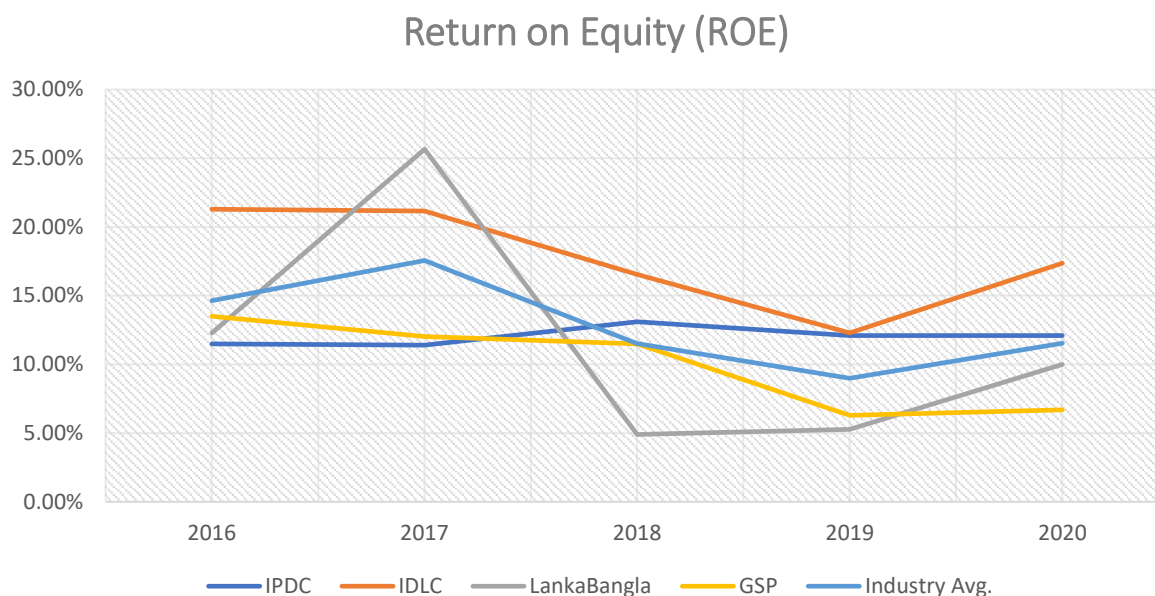


Figure 7: ROE of NBFIs in the Past 5 Years

Findings:

- An ROE can be deemed as good only when it is compared to the company's competitors and industry.
- At the end of the fiscal year 2020, the ROE of GSP Finance stood at 6.70% which mean for every BDT 1 worth of equity generated BDT 6.70 net income.
- This is far below the industry average of 11.54%. It may mean mismanagement of the company as well as reinvestment in lower-quality assets.
- Every company should target to remain equal or just above the average of the industry, it is existing in. Here, GSP has stayed below average throughout the past 5 years
- The fact that ROE is going downward still means declining efficiency of GSPB to generate profit and growing value of shareholders.

- This shows that GSP is below average at creating income using the assets since equity is considered a net asset.
- When financial leverage in form of debt is taken into account, GSP seems to be very less efficient compared to its competitors with its low ROE and high ROA.

1.3 Profitability Ratios: Earnings Per Share

Investopedia suggests EPS is the portion of the profit of a company allocated to each common stock outstanding. It is one of the major tools to measure the profitability of a company. It is calculated using the formula below-

$$\text{Earnings Per Share} = \frac{\text{Net Income} - \text{Preferred Dividends}}{\text{End of Period Common Share Outstanding}}$$

NBFI	2016	2017	2018	2019	2020
IPDC	0.93	1.03	1.38	1.72	1.90
IDLC	5.49	6.13	5.76	4.51	6.74
LankaBangla	1.48	3.52	0.81	0.94	1.81
GSP	2.74	2.94	2.27	1.26	1.42
Industry Avg.	2.66	3.41	2.56	2.11	2.97

Table 5: EPS of NBFIs in the Past 5 Years

Earnings Per Share (EPS)

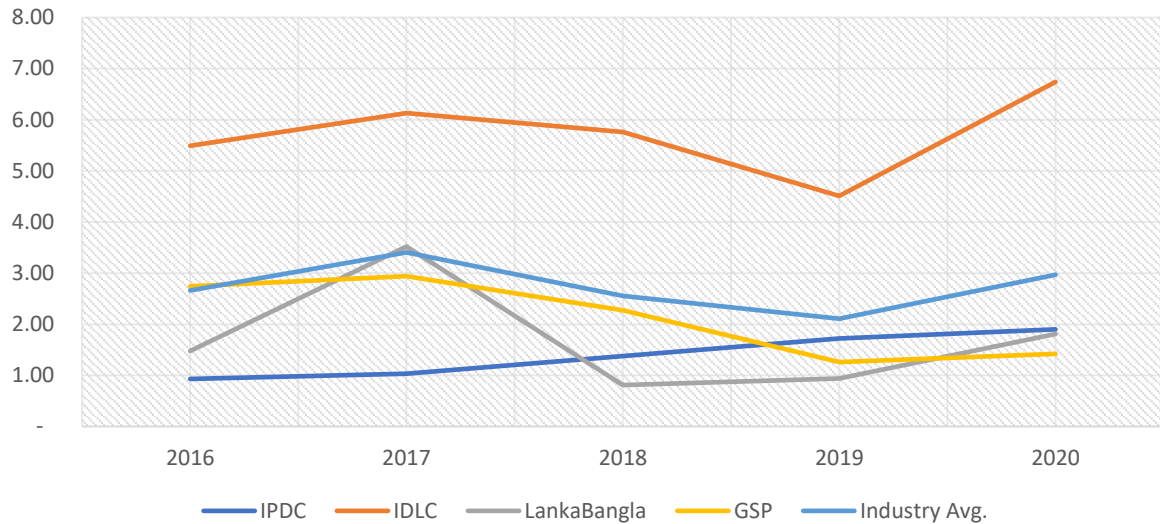


Figure 8: EPS of NBFIs in the Past 5 Years

Findings:

- EPS of a company is the number of earnings it has generated for one share. For one share of GSP Finance's stock, it has created BDT 1.42.
- Starting slightly above of industry average of BDT 2.66 at BDT 2.74, GSP Finance's EPS has gone down and remained well below the industry average in the past five years.
- It shows the amount to an investor the market was willing to pay at the time for BDT 1 of earnings in the past 5 years. This is why stock prices are highly influenced by EPS.
- The chronically falling EPS of GSP Finance means investors were predicting for the stock price to fall. It may also increase in price if the investors predicted it to fall further.

- Since in the year 2020, EPS went from BDT 1.26 to BDT 1.42, it may mean increased profitability. It can lead to an increase in price but it can also decrease in price if investors were expecting it to go higher.
- Nevertheless, investors are aware of the distortion in the portrayal of EPS by companies which may be intentional or unintentional causing the EPS to inflate.

2. Solvency Ratios

Profitability is a class of tools used to analyze the ability of a company to be able to pay off its long-term liabilities. These ratios measure the financial health of a company whether it has sufficient cash flow.

2.1 Solvency Ratio: Debt-To-Equity Ratio

To evaluate a company's financial leverage this ratio is used. It gauges how much a company is using debt to finance itself instead of wholly-owned funds. The formula for the ratio is-

$$\text{Debt to Equity} = \frac{\text{Total Liabilities}}{\text{Total Shareholders' Equity}}$$

NBFI	2016	2017	2018	2019	2020
IPDC	0.40	1.40	1.60	1.30	1.80
IDLC	7.88	6.60	7.00	7.37	7.33
LankaBangla	7.61	8.42	7.07	6.90	6.12
GSP	1.84	2.32	2.02	1.64	1.35
Industry Avg.	4.43	4.69	4.42	4.30	4.15

Table 6: D/E Ratio of NBFIs in the Past 5 Years

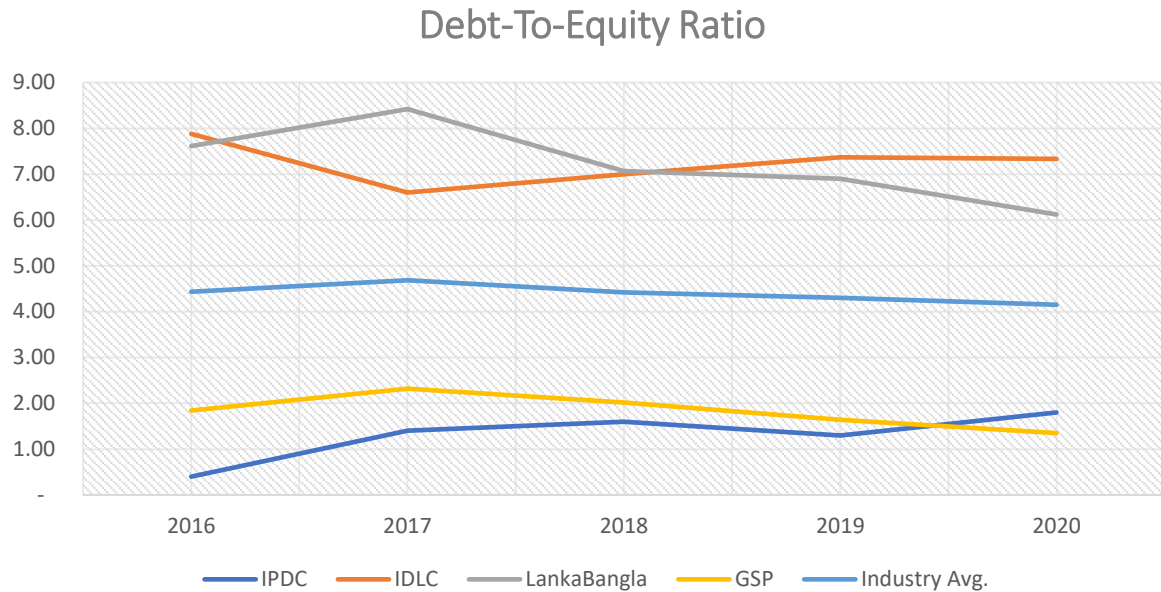


Figure 9: D/E Ratio of NBFIs in the Past 5 Years

Findings:

- D/E ratio is a metric to calculate a company's financial leverage which means in 2020, GSP Finance had BDT 1.35 worth of debt for every BDT 1 of equity.
- Throughout the 5 years, the D/E ratio of GSP Finance stayed far below the industry average.
- A Low D/E ratio indicates a lower risk for its shareholders and to its lenders because in case of a financial crisis GSP Finance will be able to cover its debts
- To further analyze the cause and effect of a very low D/E ratio, let us measure the current ratio to give the very low D/E of GSP Finance more context-

2.2.1 Solvency Ratio: Current Ratio

The current ratio reflects on a company’s ability to pay its short-term debt obligations due within one year. It helps to ascertain how the current assets of the company can match up to supplement the current debts and payables. The formula for this ratio is-

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

NBFI	2016	2017	2018	2019	2020
IPDC	1.00	1.00	1.00	1.00	1.00
IDLC	1.17	1.18	1.12	1.06	1.18
LankaBangla	1.14	1.11	1.08	1.04	1.13
GSP	1.17	1.23	1.19	1.35	1.24
Industry Avg.	1.12	1.13	1.10	1.11	1.14

Table 7: Current Ratio of NBFIs in the Past 5 Years

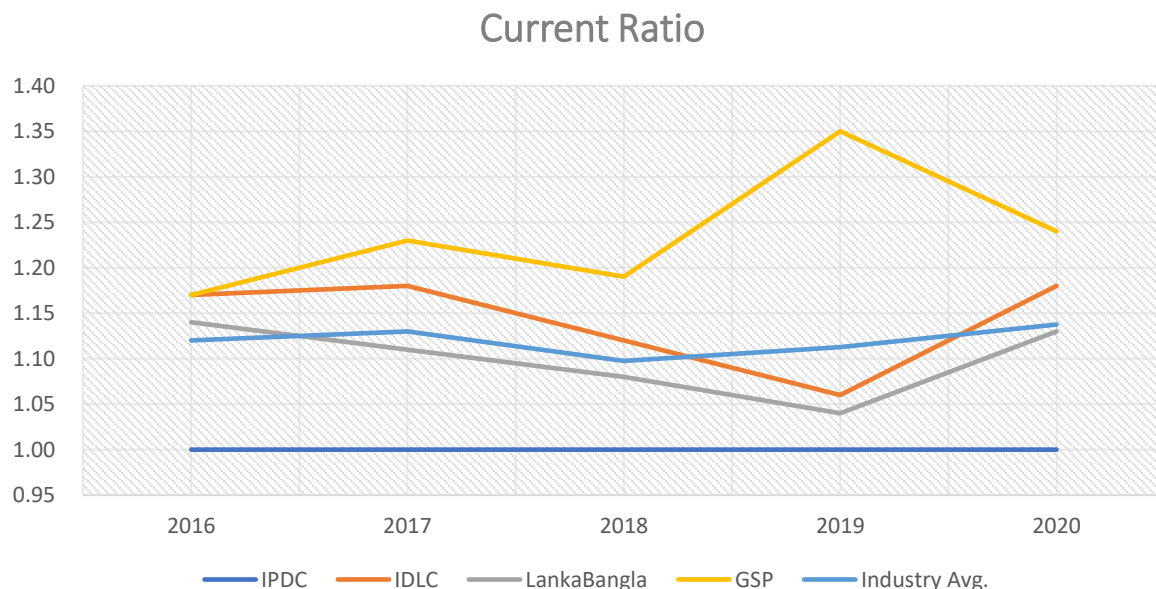


Figure 10: Current Ratio of NBFIs in the Past 5 Years

Findings:

- Throughout the past 5 years, the current ratio of GSP Finance remained significantly higher.
- In general, a high current ratio suggests the company is highly capable of paying its debt because of the higher relative value of short-term assets to its short-term liabilities.
- But having a current ratio that is not only above industry average, but is also above all the competitors this report is using as GSP Finance seem to have, there is likely inefficiency in asset and working capital management.

Using the findings of current ratio analysis and combining the information with D/E ratio it shows-

- More often than not, having leverage when it is not too much is a good sign especially while operating in the banking industry which is known to be highly leveraged.
- In this instance, having a quite low D/E ratio may come across as a red flag because GSP Finance may not be utilizing the chances to expand their business.
- This point is reiterated by the finding of the current ratio since the company has excess cash remaining unutilized.

2.3 Solvency Ratio: Interest Coverage Ratio

The interest coverage ratio iterates the ease of a company to pay its interest on the debt its currently holding. Often called times interest earned, the ratio determines the relative risk of a company's current and potential future debt.

$$\text{Interest Coverage Ratio} = \frac{EBIT}{\text{Interest Expense}}$$

NBFI	2016	2017	2018	2019	2020
IPDC	14.90	4.40	3.80	3.20	4.00
IDLC	1.56	1.54	1.35	1.28	1.43
LankaBangla	1.34	1.51	1.26	1.22	1.22
GSP	2.54	2.35	1.12	1.62	1.51
Industry Avg.	5.09	2.45	1.88	1.83	2.04

Table 8: Interest Coverage Ratio of NBFIs in the Past 5 Year

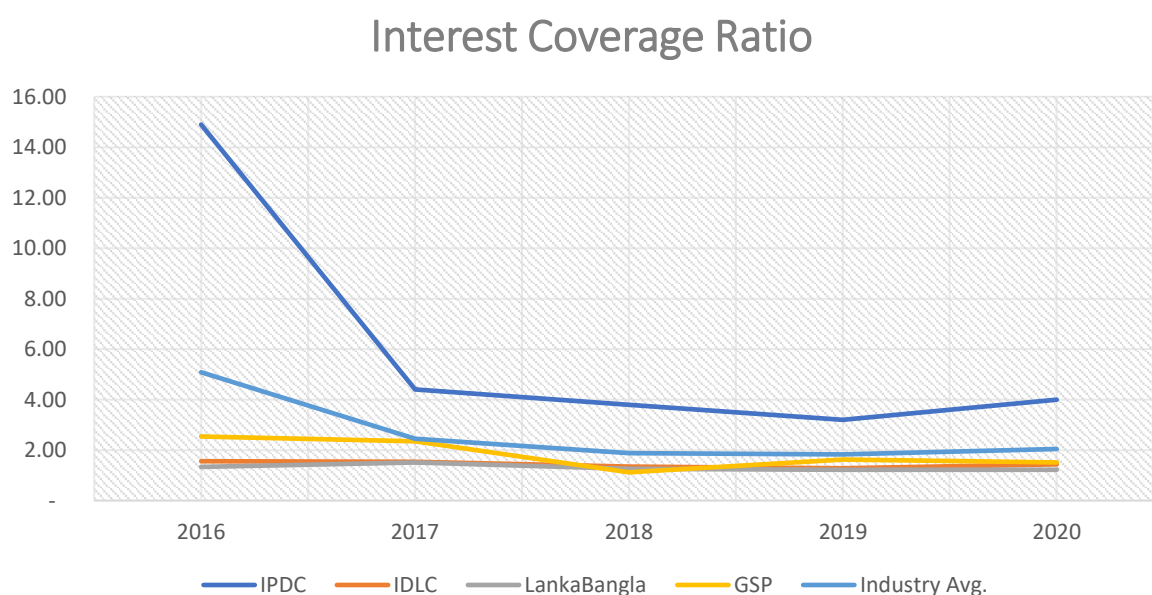


Figure 11: Interest Coverage Ratio of NBFIs in the Past 5 Year

Findings:

- Since 2018, when the interest coverage ratio of GSP Finance fell to its lowest in the past 5 years at 1.12 times, the ratio has been falling from the industry average.
- Though what is a good interest coverage ratio depends on the industry, 1.5 times is usually an acceptable ratio.
- In 2020, the companies used in this report is reaching a higher interest coverage ratio than in 2019, but GSP Finance's interest coverage ratio has fallen from 1.62 in 2019 to 1.51 in 2020.
- This may be leading analysts to believe that the relative risk of the company is increasing as the interest coverage ratio is an indicator of the trajectory of the company's ability to remain an ongoing concern.
- Though GSP Finance has more than maintained the level of compliance with regulatory requirements, a low-interest coverage ratio will raise the question of its solvency.

3.3.2 Influence of the Economic Fallout

Since 2019, the NBFIs of Bangladesh seem to be going through a tough couple of years that is testing their resilience to stay above water. Throughout the analysis of different profitability and solvency ratios, it became apparent that asset management of GSP Finance may have been the leading cause of underperformance in the industry set up of NBFIs. As the company has stated in the annual report 2020, "severe liquidity crunch, non-renewal of existing and new credit facilities by the banks, huge FDR encashment pressure from depositors and non-payment of instalments by the borrowers on time" were the causes of several decisions made by Bangladesh Bank that have negatively affected the NBFIs.

In January of 2018, Bangladesh Bank lowered the loan-deposit ratio of conventional and shariah-and banks to decrease aggressive lending. This reduced lending opportunities for NBFIs causing a credit crunch in the economy raising the number of defaulters.

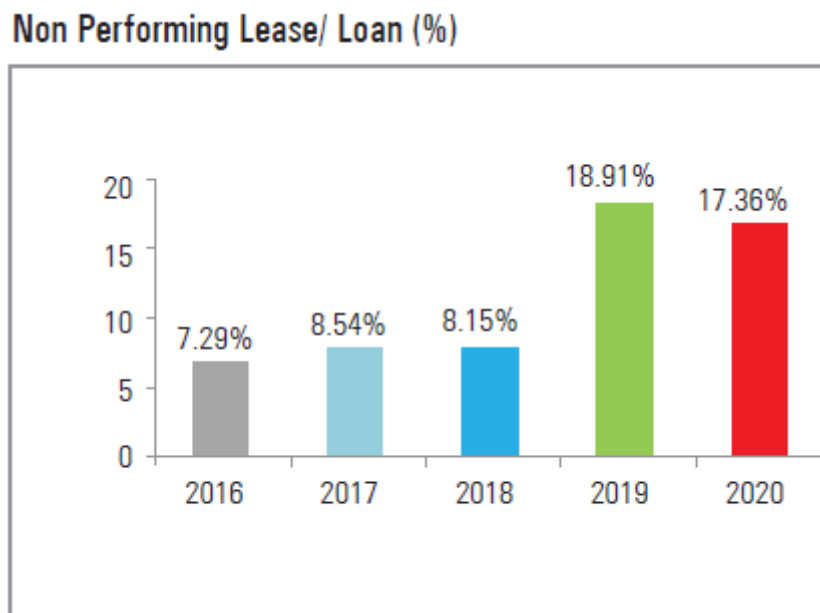


Figure 12: Non-Performing Lease/Loan of GSP Finance in the Past 5 Years

By the end of the year, the economic fallout caused demand to fall as clients of NBFIs were not able to pay back the loan taken. Consequently, the asset quality of NBFIs fell sharply. To magnify the issues, the pandemic of Covid 19 hit at the beginning of 2020 that brought the economy to a standstill. This whole situation is strongly evident in the non-performing loan of GSP Finance which may justify its unwillingness to take risks as the low D/E ratio suggested.

3.4 Conclusion

Non-bank financial institutions in Bangladesh occupy a space in the economy that acts as a buffer between systematic risks and the specific industries they focus on. Their ability to diversify and customize long-term and short-term investment plans helps them in this process. The purpose of the report was to position GSP Finance in the industry. Unprecedented macroeconomic factors have thrown most of the financial institutions in disarray. Being on the smaller size of the NBFIs, GSP Finance has taken a hit that may take a long while to recover from as most of part of the economy is slowly beginning to return to normalcy.

3.5 Recommendation

- Supervision is required from Bangladesh Bank for GSP Finance like many other NBFIs to carefully use its regulation to change the situation in ways that will factor in long term preservation above everything.
- Investment in low-risk short-term assets to put working capital to better use.
- Being proactive to recognize and classify imminent insolvency of borrowers to take provisions for it.
- Determine viability of debtor to let them recover with loan restructuring.
- Loan restructuring will include a reduction of NPV.
- Keeping the NPV neutral, extend the period to pay debt obligations of the borrower.
- GSP Finance needs to cut back on the amount of cost it is incurring to push its interest margin higher.
- Enforcement of collateral with or without the involvement of the court.
- Starting insolvency petition to force the borrower into liquidation

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