

**Report on**  
**Functions of Credit Risk Management:**  
**A Study on IDLC Finance Limited**

**By**  
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An internship report submitted to the Graduate School of Management in partial fulfillment of the requirement for the degree of Master of Business Administration (MBA)

Graduate School of Management (GSM)  
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 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:**

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**Nazia Sultana Sumi**  
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## **Supervisor's Full Name & Signature:**

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**Dr. Nitai Chandra Debnath, FCMA, CGIA**  
Adjunct Faculty, Graduate School of Management (GSM)  
BRAC University

## **Letter of Transmittal**

Dr. Nitai Chandra Debnath  
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Subject: Submission on internship report on “Functions of Credit Risk Management: A Study on IDLC Finance Limited”.

Dear Sir,

It is great privilege and pleasure for me to submit my internship report on Functions of Credit Risk Management: A Study on IDLC Finance Limited under your kind supervision. This was assigned to me as a partial requirement to complete my MBA program.

I have closely observed the functions of credit risk management department. I really enjoyed and felt fortunate working at IDLC Finance Limited to fulfill my internship requirement. I have tried to collect the information needed to prepare my internship report and use them to make the report as informative as possible throughout my journey at IDLC Finance. I truly believe that the report will meet your desires. The report will also meet the requirements of my internship program.

Thank you for your encouragement to work on this interesting topic.

Sincerely yours,

---

Nazia Sultana Sumi  
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Date: June 12, 2021

## **Acknowledgement**

Firstly, I want to express gratitude toward Almighty Allah for everything. With the support of Almighty and guardian's endowments at last I have successfully finished my three months of internship program at IDLC Finance Limited. I would like to thank the entire "Credit Risk Management" department team for their help, direction and support in each and every step of my internship program. At first, I want to take the opportunity to express my gratitude towards Dr. Nitai Chandra Debnath, Adjunct Faculty, Graduate School of management of BRAC University for his endless support, inspiration and guidance during this internship. I am very thankful to him for appropriate direction without which the culmination of the report would not be understandable. I am grateful to him for contributing his important while watching my report and making all the essential rectifications. Also, I want to thank Md. Abu Musha, Head of Legal Department and my supervisor Sawgat Ibne Seraj, Senior Manager, Legal Team-Credit Risk Management, IDLC Finance Limited. Special gratitude goes to the whole Credit Risk Management office for helping me in all phases of my internship program. I would like to thank my other colleagues of IDLC who gave me enormous bits of learning and helped me to get comfortable with the condition of the present business world. Finally, I am grateful to BRAC University, which is the preliminary explanation I am staying here on the pinnacle of getting my master's certificate effectively.

## **Executive Summary:**

IDLC Finance Limited is a non-bank financial institution and started its journey in 1985. Now it has 38 branches and diverse segments in financial sectors to provide products and services to its customers across the country. It helps people to fulfill their dreams of owning home, car, starting and growing business and creating more jobs etc. with the support of highly qualified experienced, dedicated and professional workers. They also include expert security solution, executive portfolio, shared shop, board tool and company, corporate and consumer financing. The report is prepared with the intention of providing a detailed overview of IDLC Finance Limited and its Credit Risk Management Department. The Credit Risk Management is one of the most important departments of IDLC Finance Limited. I was fortunate enough to attain the opportunity to work with the Credit Risk Management team as an intern for three months. My primary task was helping my supervisor at the legal section, preparing bills of the lawyers, scanning case related documents and uploading them into the system. I was assigned to write a report as part of the internship that will show what I learned from my experience there. This report includes a complete overview of IDLC Finance Limited and its different departments and divisions. I clarified about the sort of advances credit risk management, customers division provides their potential customers as loans, their functions and confinements. I also added different analysis and figures for describing clearly. This report will provide a picture of what I have observed during the three-month internship and how not only the organization but also myself benefited from this internship program.

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## **Chapter One:**

### **1.1 Introduction:**

The financial sector plays a very significant role in the economic development of a country. The initial move of private sector has showed up as a motor of financial development and progression alongside the open division in Bangladesh. As an outcome, IDLC Finance Limited the largest multi-segment non-banking financial institution has gained noteworthy growth in all areas of business. It has expanded its zone to Consumer, SME, Corporate, Retail and Capital market proportions. Three subsidiaries were introduced by this institution which has amplified its existence in the countries emergent financial market. On the nearby markets, IDLC Finance Limited is one of the blue-chip organizations of Bangladesh, which promises to maintainable practices and solid budgetary execution. The company also commenced a subsidiary entitled as IDLC Securities Limited which is offering full grown brokerage service for institutional as well as retail clients.

### **1.2 Origin of the Report:**

Since practical experience is an essential part of the MBA degree requirement, I was assigned by BRAC University to IDLC Finance Limited to gain real life experience of the functions of the organization as a financial institution. I was fortunate enough to complete my internship from IDLC Finance Limited, the largest Non-banking financial institution which provided me real life practical knowledge and experience. I made an effort to identify the actual operations of Credit Risk Management (CRM) from the perspective of Bangladesh, procedure and policy of Credit Risk Management (CRM), constraints faced by CRM in IDLC Finance Limited and the overall financial performance analysis with the NPL condition through this report.

### **1.3 Objectives of the Report:**

The primary objective of this study is to attain particular idea of how CRM plays an essential role in managing the risk connected with each product and service of IDLC Finance Limited. The orientation is very significant to investigate whether theoretical knowledge matches real life scenarios or not. Although the title “Functions of Credit Risk Management- A Study on IDLC Finance Limited” is a very lengthy area, the specific objectives are as follows:

- a) To understand the significance of Credit Risk Management.
- b) To investigate about the whole CRM process.
- c) To realize the decision making process of CRM.

- d) To understand the operations of Special Asset Management part of CRM.
- e) To recognize the probable modifications that can be done in the entire CRM process.

#### **1.4 Methodology:**

I have considered two sorts of methodology for the formulation of the report. The two ways by which I have gathered data for preparing this report are:

- a) Primary Data: I have collected primary data by the help of the organization administrator and talk legitimately with the customers likewise utilized my immediate encounters as an understudy of this organization.
- b) Secondary Data: I have also assembled some unique data from the websites, experienced papers, journals and social battles. To be increasingly explicit, my sources are:
  - ✓ Annual reports of IDLC Finance Limited
  - ✓ Official website of IDLC Finance Limited
  - ✓ Published reports of SEC, DSE
  - ✓ Social media
  - ✓ Different books, newspaper and journals

#### **1.5 Limitations of the Report:**

I have to cover numerous subjects and terms to prepare this report. At the time of composing, I needed to confront different types of constraints to complete the entire report. The limitation which hinder work are following:

- a) Inflexibility in accessing data regarding its internal operation.
- b) Non-availability of some preceding and advanced information.
- c) Some data were restrained to hold the confidentiality of the organization.

## **Chapter Two:**

### **2.1 Company Overview:**

IDLC Finance Limited is the first non-banking financial institution of Bangladesh and was established in 1985. In modern times, it is the largest non-banking financial institution in the country with an estimated income of 1.59 million BDT in 2018. This is the biggest profit from any non-bank financial institution in our country. Being the greatest is not that easy and IDLC has had to face many obstacles and the proper story lies behind the journey.

In 1985, a collaboration occurred. Worldwide Finance Corporation (IFC) of the World Bank, German Investment and Development Company (DEG), The City Bank Limited, Aga Khan Fund for Economic Development, IPDC of Bangladesh Limited, Kookmin Bank and Korean Development Leasing Corporation of South Korea and Shadharan Bima Corporation joined their offers together and IDLC Finance Limited was shaped. In that point, lease financing was the center result of IDLC but now they have transformed into the greatest multi-item nonbank financial institution of Bangladesh. They have equal fixation and perfection in Retail, SME and Corporate sections.

IDLC Finance Limited won the First/Gold honor sequentially for the third time in fifth ICSB National honor giving function for Corporate Governance Excellence, 2017 which was hung on Saturday, November 10, 2018 at Radisson Blu Dhaka Water Garden.

At present, IDLC Finance Limited has 38 branches and booths in the entire country and all are automatically reporting to the main branch which is in Gulshan (Bay's Galleria). This multi-product business has more than 1400 workers and about 45000 clients joining all divisions. It offers a wide range of loans, deposits and capital market products and services to Corporate, Consumer and SME client segments. IDLC operates in the Capital Markets through its three wholly owned subsidiaries- IDLC Investments Limited, IDLC Securities Limited and IDLC Asset Management Limited.

### **2.2 Vision:**

The core vision of IDLC Finance Limited is to be the best financial brand in the country.

### 2.3 Mission:

With the intention of successful market leader, IDLC Finance Limited wants to dedicate more concentration on quality development, prevalent customer experience and justifiable strategic policies suitable for the organization.

### 2.4 Strategic Objectives:

- a) Growing and constructing the ability pool
- b) Fully influencing the new center financial stage
- c) Optimizing conveyance point
- d) Flourishing and broadening subsidizing sources
- e) Increasing deals and administration capacities in the Consumer Division
- f) Aggressively establishing the SME portfolio
- g) Focusing on top level customers in the corporate fragment
- h) Consolidating capital market tasks and developing capacities
- i) Embracing globally avowed corporate administration and manageable strategic policies.

### 2.5 Core Values:

Figure 2.1: Core values of IDLC Finance Limited



IDLC Finance Limited puts their stock in a reasonable and straightforward assistance. They are fully client oriented and consistently attempt to speak with them. By keeping up legitimate correspondence, they always give solid efforts to increase full client trust and their method of administration centers around common regard. They accept when somebody acknowledges

others. IDLC provides equivalent open doors for people and empowers them. IDLC maintains their business with enthusiasm by staying away from every single imaginable intricacy of the administration and gives just handled support of making clients satisfied through eco-friendly business condition.

## 2.6 Shareholders Portion:

Investors of IDLC Finance Limited can be differentiated into two general segments- sponsor/ directors and general financial specialists. General investors can also be partitioned into two unique classes- Institutional Investors and Individual Investors.

Table 2.1: Holding composition of IDLC Finance Limited

Serial No	Name of shareholders	Number of shares	Percentage
01	Sponsors/Directors:		
	The City Bank Limited	35,103,537	28.37
	Transcom Group		13.33
	Eskayef Bangladesh Limited	9,900,000	8.00
	Transcraft Limited	4,966,412	4.01
	Bangladesh Lamps Limited	1,633,500	1.32
	Sadharan Bima Corporation	9,428,512	7.62
	Mercantile Bank Limited	9,281,250	7.50
	Reliance Insurance Company	8,862,500	7.00
	<b>Sub-total</b>	<b>78,975,711</b>	<b>63.82</b>
02	General Investors:		
	Institutional Investors:		
	Bangladesh Fund	3,945,387	3.19
	Eastern Bank Limited	2,383,700	1.93
	Marina Apparels Limited	1,237,500	1.00
	ICB	1,111,062	0.90
	Other Institutions	8,744,634	7.07
	<b>Sub-total</b>	<b>17,422,283</b>	<b>14.08</b>
03	Individual Investors:		
	General Public (Individuals)	27,352,006	22.10
	<b>Sub-total</b>	<b>27,352,006</b>	<b>22.10</b>
	<b>Total Holdings</b>	<b>123,750,000</b>	<b>100.00</b>

## 2.7 Divisions and Departments:

IDLC Finance Limited includes several divisions which mainly trade with the products and services and departments which support in the operating activities. The divisions are:

- ✓ Corporate
- ✓ SME (Small and Medium Enterprises)

- ✓ Merchant Banking
- ✓ Personal Investment
- ✓ Factoring
- ✓ Structured Finance
- ✓ Operations

**The departments of IDLC Finance Limited are:**

- ✓ Credit Risk Management (CRM)
- ✓ Treasury
- ✓ Human Resource
- ✓ Account and Taxation
- ✓ Administration and PR
- ✓ Operation Risk Management (ORM)/ Internal Control Compliance (ICC)
- ✓ Special Asset Management (SAM)

**2.8 Products and Services:** The products and services provided by IDLC are following:



**Small and Medium Enterprises (SME) Finance**

▶ **Small Enterprise Finance**

- Small Enterprise Loan/ Lease
- Seasonal Loan
- IDLC Purnota - Women Entrepreneur Loan
- SME Shachal Loan
- Revolving Short Term Loan
- Commercial Space Loan
- Commercial Vehicle Loan
- IDLC Udbhabon
- SME Deposit

▶ **Medium Enterprise Finance**

- Medium Enterprise Loan/ Lease
- Commercial Vehicle Finance
- Machinery Lease
- Revolving Short Term Loan
- Commercial Space Loan
- Commercial Vehicle Loan

▶ **Supplier and Distributor Finance**

- Factoring of Accounts Receivable
- Bill/ Invoice Discounting
- Work Order Financing
- Distributor Financing



**Corporate Finance**

▶ **Corporate Finance**

- Lease Financing
- Term Loan Financing
- Commercial Space Financing
- Project Financing
- Short Term Loans (to meet working capital requirements)
- Specialised Products (for meeting seasonal demand)
- Green Financing

▶ **Structured Finance Solutions**

- Debt Syndication (Local & Foreign Currency)
- Working Capital Syndication
- Agency & Trusteeship
- Fund Raising through Zero Coupon & Coupon Bearing Bonds
- Commercial Paper
- Arrangement of Private Equity & Preference Shares
- Corporate Advisory for Mergers

& Acquisitions and Joint Venture Making

- Balance Sheet Restructuring
- Preparation of Feasibility Study

▶ **Green Banking Solutions**

- Over 50 products offered under Green Banking and Sustainable Finance department as per Bangladesh Bank Green Re-finance scheme



## Consumer Finance

### ▶ Loans

- Home Loans
- Car Loans

- Personal Loans
- Loan Against Deposit

### ▶ Deposits

- Flexible Term Deposit Package
- Regular Earner Package



## Capital Markets Operations

### ▶ IDLC Securities Limited

#### Products

- Cash Account
- Margin Account through IDLC Investments Limited and other enlisted merchant banks
- Easy IPO
- Premium Brokerage for High Networth Individuals (HNIs) and institutional and foreign investors

#### Services

- Trade execution through the Dhaka and Chittagong stock exchanges
- Custodial and CDBL services
- Bloomberg terminal for foreign clients
- Research and Advisory Services

### ▶ IDLC Investments Limited

#### Products

- Margin Loan
- Discretionary Portfolio Management

#### Services

- Corporate Advisory
- Issue Management
- Underwriting

### ▶ IDLC Asset Management Limited

- Mutual Funds
- Portfolio Management

## 2.9 Business Overview:

IDLC Finance Limited operates its varying business through its four weapons which are SME Consumer, Corporate and Capital Markets. The brief explanation are following:

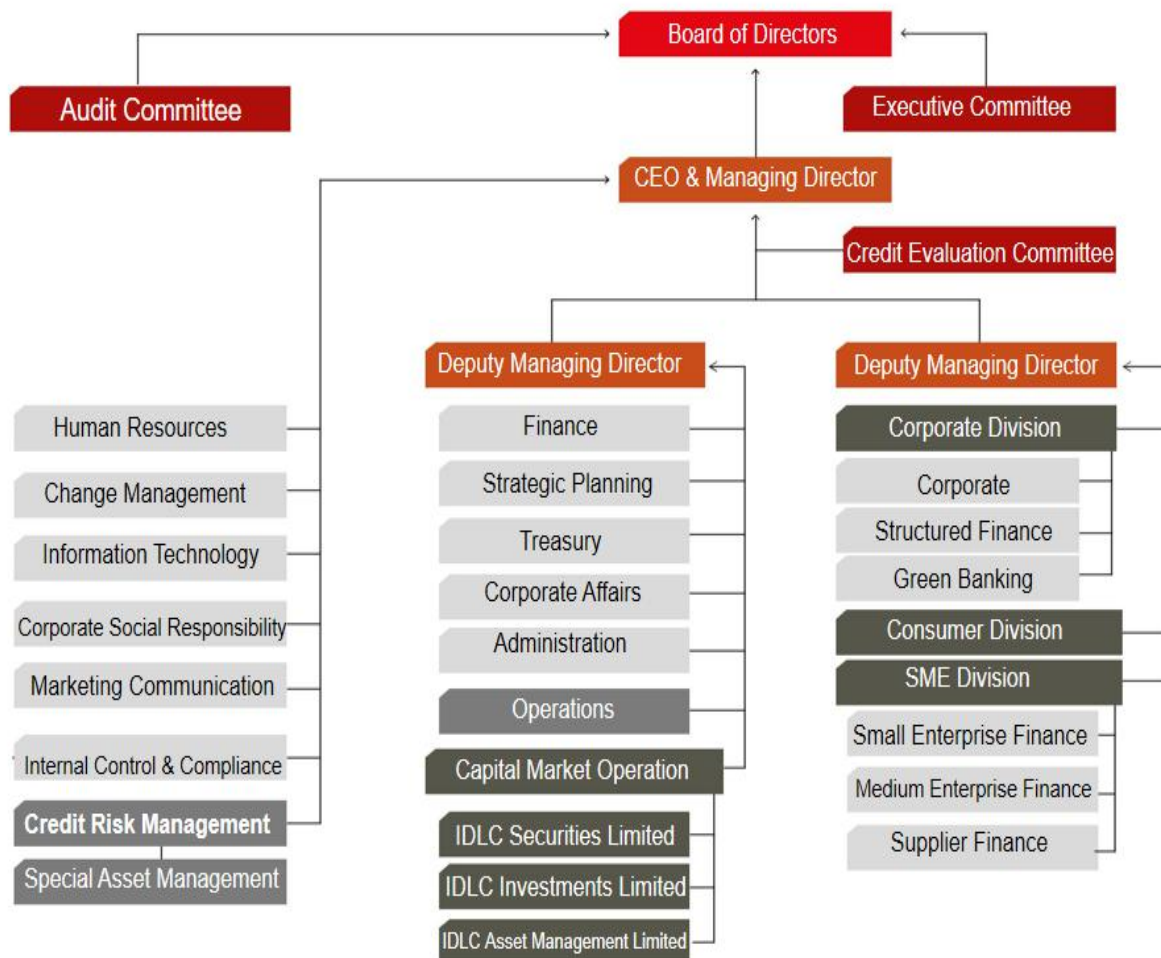
- SME:** This division is committed to provide credit facilities to little and medium estimated organizations like light designing, plastic and material business. This division provides a wide scope of administrations such as lease financing to fulfill the lapse of credits, working capital advances and differentiates client prerequisites. It also helps the women to be empowered by providing them adequate credit for their business.
- Consumer:** This division is concentrated on providing retail financial services. Its financial products include a small proportion of personal loans, home loans, car loans and loans against deposit. The highest market share and growth rate of the home loan industry of Bangladesh is enjoyed by this division. The hands of IDLC Finance Limited are actively involved in raising deposit rates with different interest rates and maturity through various retail saving products.
- Corporate:** The primary intention of corporate division is to provide quality administration to money related foundations of the nation. Corporate clients borrow credits from this division in the form of renting financing, term advances and capital consumption. This division gives organized money arrangements including corporate securities and syndication installments.



d) Capital Market: IDLC Finance Limited terminates capital market activities through IDLC Securities Limited and IDLC Investments Limited. Their solid business offers and execution helps them expand business and hold assorted customer base. The division recently launched portfolio management service. They are providing additional importance to extend this service particularly with inter departmental parallel with their buyer divisions.

## 2.10 Organogram:

Figure 2.2: Organogram of IDLC Finance Limited



## 2.11 PASTEL Analysis:

PASTEL analysis indicates political, economic, sociocultural, technological, environmental and legal analysis and refers a system of full scale natural components utilized in ecological checking. It is a very beneficial instrument for understanding business sector development or decay, business position, potential and course of activities. PASTEL analysis is also essential for estimating any organizations performance. It is fundamental to perceive where and in what

circumstance IDLC is playing out its activities to assess the situation of IDLC finance limited in the business. The following components are examined to demonstrate their impact on IDLC Finance Limited:

Figure 2.3: PASTEL analysis of IDLC Finance Limited

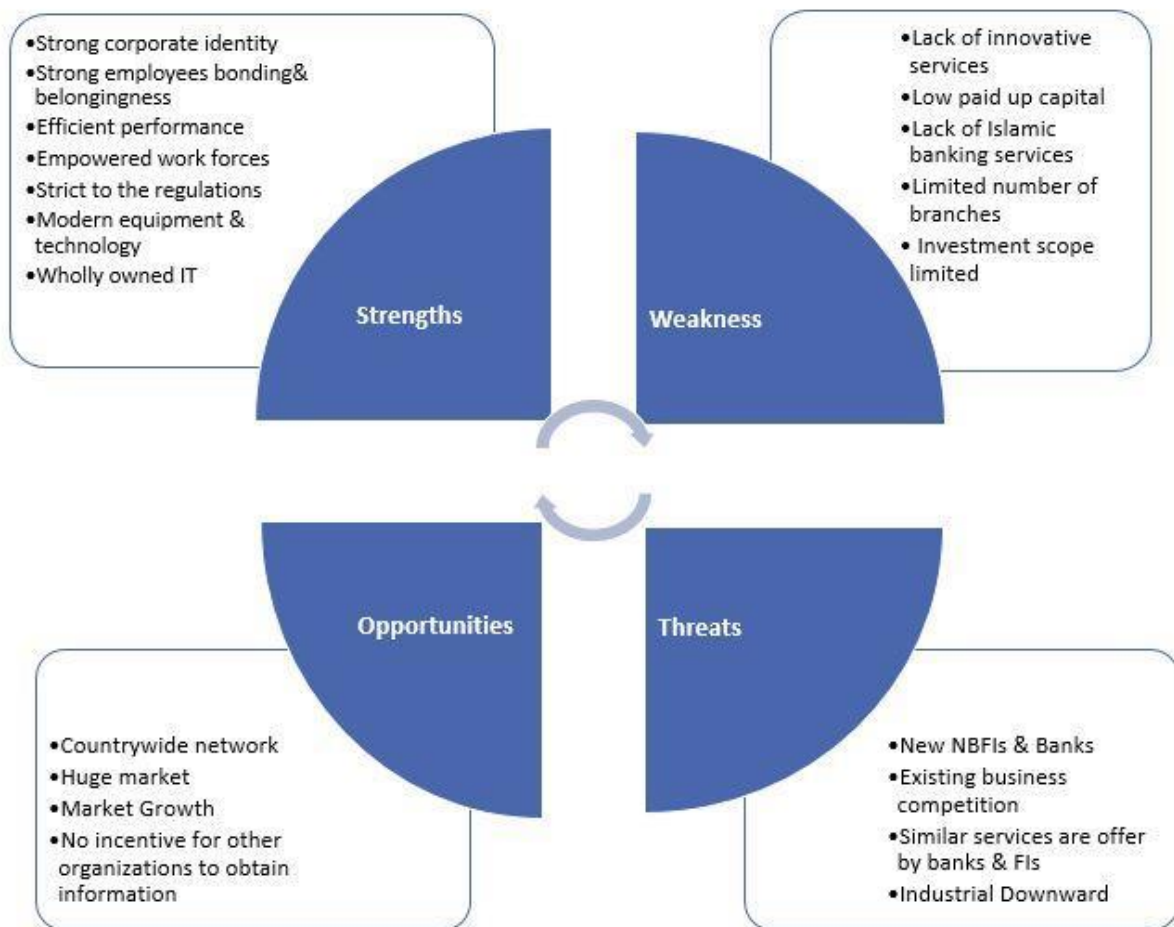


- a) **Political Factors:** The world of politics is very uncertain and it generally influences each part of the human life. Political factors incorporate charge arrangements, business laws, ecological guidelines, exchange confinements, expenses and political strength. Financial market managed the political change after the October 2006 issue. All improvement and venture exercises were shut during this period. The security market was also become very unstable. The political situation has changed again after the 1/11 occurrence.
- b) **Economic Factors:** Economic factors generally means economic growth, exchange rates, interest rates and inflation. Economic factors influence consumer behaviour and patterns of spending. Bangladesh recorded a record GDP growth of 6.7% in the year 2005-06. The export oriented manufacturing industry sector grew by 10.47% and the foreign exchange reserves earned \$3.9 billion dollars in the US at the same time. Towards the end of 2006, large scale floods and cyclone SIDR slowed the estimated growth for FY2007-27. The current government has taken some major initiatives to attract investors. Inflation rate is still very high in Bangladesh. Prices of necessary goods are also increasing day after day.

- c) **Social Factors:** Social factors emphasize the knowledge of health, population growth, job outlook, security and distribution of age. These are the fundamental guiding principles, beliefs, desires and values which are associated with society's actions. Such forces have an impact on each industry's existence and achievement in a given society.
- d) **Technical Factors:** Technical factors include ecological and environmental issues, limited production that can set barriers to control productive rates and decisions on outsourcing. Technical factors also control technological change rate, technical opportunities, research and development operation and automation. There is a popular saying that the world of today is a technological world. New goods and business opportunities can be generated by technological forces.
- e) **Environmental Factors:** The international focus of promoting environmental and earth sustainable organizations has been growing. Separate renegotiating assets reserved for the green financing by national bank provide a decent fateful opening to the green financing exercises. IDLC Finance is committed to sustainable development through building long term value, quality for investors, economic quality and social interest. IDLC launched its green banking unit in 2014 and it performs really well.
- f) **Legal Factors:** The financial industry needs to confront inflexible guidelines and control required terms and conditions more uniformly and carefully. They need to concentrate on the debt reduction arrangement and use of capital focusing on reinforcing the building of monetary organizations through pressure testing. IDLC Finance has strict regulatory and legal compliance history in the financial services industry. They maintain very intensive communication with regulatory and business organizations.

## 2.12 SWOT Analysis:

Figure 2.4: SWOT analysis of IDLC Finance Limited



### 2.12.1 Strengths:

a) Strong corporate identity: IDLC Finance Limited is the main and number one non-banking financial institution in Bangladesh. It won ICAB grant in 2002, 2003, 2005, 2006, 2007, 2010, 2014, 2015, 2016, 2017 and 2018 for the best distributed records and reports. The offer cost of IDLC Finance Limited is the most noteworthy in the market.

b) Strong employee bonding and belongings: The employees are one of the most significant key assets for IDLC Finance Limited. Employees are the part of the organization and have the core interest and pride. The main reason of this success is organizations strong organizational culture and accomplishments.

c) Efficient performance: IDLC Finance Limited offers the most hassle free customer service to its customer unlike the other financial institutions in Bangladesh. The customer services of IDLC Finance is great in this regard.

d) Empowered work force: The human resource division of IDLC Finance is highly regarded and professionally monitored and having previous confidence in strengthening the top regime team which provides IDLC Finance Limited a top representative position. Workers does not have any control but as it grows, the company evolves.

e) Strict to regulations: The organization and its employees maintain all the rules, regulations, and guidelines provided by the administrative bodies. They serve their precious customers through maintaining good commitment habits and business proximity. The basic criteria for organizations exceptional performance is such strict commitment to reliability.

f) Modern equipment and technology: IDLC Finance Limited is the claimant of the cutting edge data innovation of Bangladesh with respect to Operational Financial Services. The IT foundation is streamlined and oversaw which holds a high level of polished skill.

g) Entirely owned IT: An organizations most important piece is software development. IDLC has a completely reported backup of IT because they do not relay on others for its IT system. They use extremely talented and skilled computer experts to provide 24-hour IT services. It is practicing Integrated Software Application Suite (IISAF) which is different than the others.

### **2.12.2 Weaknesses:**

a) Lack of innovative services: There is an absence of innovative services in IDLC Finance Limited. They should creatively think about some fresh and innovative services for their client

b) Low paid up capital: The paid-up capital of IDLC Finance Limited is very low. High task programs, administrations and maintenance require additional resources. This low paid capital could turn into a constraint for the development of the organization.

c) Lack of Islamic banking service: IDLC Finance Limited does not provide Islamic banking services to their customers. Because of this prohibition, numerous individuals do not receive benefits from this organization.

d) Limited number of branches: The number of branches of IDLC Finance is very limited for the entire country. As result, a huge number of clients do not reach to them for having services. This could be a major weakness for the organization in the aggressive market.

e) Limited investment scope: As a non-bank financial institution, IDLC does not have enough opportunities to invest as much as possible. For this reason, sometimes it suffers from problem of excess liquidity which not only reflects the financial strength of IDLC Finance but also the inefficiency of an early profitable investment firm.

### **2.12.3 Opportunities:**

a) Countrywide network: Though IDLC has a lower number of branches in the country, it has a strong branch network. It has developed productivity by the use of well connected network and sustaining its presence over the long term.

b) Huge market: IDLC Finance Limited has enormous potentiality among all the non-bank financial institutions of Bangladesh. It has an excellent partnership with Bangladesh's first class group of investors. Institutional investors are quite big in the money related market and most of the multinational and large companies are the corporate clients of IDLC Finance.

c) Market growth: The financial market of Bangladesh is growing rapidly. The land market has become strong during this period. The business sector of venture finance and home credit market have also improved significantly. IDLC Finance Limited has the great opportunity to catch a huge piece of the industry based on benevolence and business reputation.

### **2.12.4 Threats:**

a) Fresh banks and non-bank financial institutions: Fresh private banks and non-bank financial organizations are a serious threat for IDLC Finance Limited. Fresh competitors will increase competition and IDLC needs to develop strategies to sustain in that competition.

b) Existing competition: A large number of banks and non-bank financial firms are increasing competition as they compete with nearly the same products on the same market. When firms are struggling in the marketplace for fair leadership, the rivalry will increase day after day. In the case of commission, there is also competition between existing service providers, interest rates and benefit extension.

c) Similar services: In recent times, private banks are offering a similar sort of services with the equivalent aggressive loan cost. When all organizations battle against a similar weapon, the regular and common outcome is declining benefits.

d) Industrial downward: Bangladesh is an example of financially unsteady nation. Economy of Bangladesh faces a significant test because of political shakiness. As a result, businesses in all divisions are declining.

## **Chapter Three:**

### **3.1 What is Risk?**

Generally, risk refers to the probability of damages, injuries, liabilities, loss or other negative occurrences caused by external or internal vulnerabilities, which may be neutralized through pre-mediated actions. But in Finance, risk is defined as the probability that an actual return on an investment will be lower than the expected return. Financial risk is categorized into capital risk and basis risk. Banks, non-bank financial institutions and other organizations take various types of measures to reduce these risks so that it can be reduced in a minimal affordable limit. In banks and non-bank financial institutions, the core risk is credit risk.

### **3.2 Credit Risk:**

Credit risk refers to the possibility that the borrowers or counter parties will probably fail to meet the commitments. Globally, more than 50% of total risks elements in banks and non-bank financial institutions are credit risk alone. So, managing credit risk with efficient management of the financial institutions is the most significant task. When looking at the rapidly changing and dynamic global economy and the increasing pressures of globalization, liberalization and consolidation, it is necessary that the financial institution's strong credit risk management policies and practices are responsive to changes. Credit risks may appear in following forms:

- a) Direct lease/term finance: rentals/principal/or interest amount may not be repaid.
- b) Issuance of guarantees: applicants may fail to establish fund for settling claim.
- c) Documentary credits: applicants may lose to retire import documents and others.
- d) Factoring: bills receivables against which payments were made may not be repaid.
- e) Treasury operations: the series of payments due from the counter parties under respective contracts may not be forthcoming.
- f) Securities trading business: securities settlement may not be effected.
- g) Cross-border exposure: the flexibility and free transfer of foreign currency funds may be ceased or restrictions may be imposed by the sovereign.

### **3.3 Credit Risk Management Process:**

The entire credit cycle starting from origination of the credit in a financial institutions books to the point the credit is extinguished from the books should be completed by the credit risk management process. It should be provided for sound practices in:



- a) Credit processing/appraisal
- b) Credit approval/sanction
- c) Credit documentation
- d) Credit administration
- e) Disbursement
- f) Monitoring and controlling of individual credits
- g) Monitoring the overall credit portfolio
- h) Credit classification and
- i) Managing problems credits

### **3.3.1 Credit Processing/ Appraisal:**

Credit processing refers to the stage where all required information on credit is gathered and applications are screened. Credit application forms should be sufficiently detailed to permit gathering of all information needed for credit assessment at the outset. Non-bank financial institutions should have the checklist to ensure that all required information is collected. They should set out pre-qualification screening criteria to guide their officers to determine the type of credit that are acceptable. These criteria would help non-bank financial institutions avoid processing and screening applications that would be later rejected. All credits should be for legitimate purposes and sufficient processes should be established to ensure that the financial institutions are not used for fraudulent activities that are prohibited by law. Institutions must not represent themselves to reputation risk associated with granting credit to customers of the questionable repute and integrity.

The next step to credit screening is credit appraisal where the financial institution assesses the customers ability to meet his commitments. Institutions should build up well designed credit appraisal criteria to ensure that facilities are granted only to creditworthy consumers who can make repayments from reasonably determinable sources of cash flow on a timely basis. Non-bank financial institutions usually require guarantees in support of credit in order to mitigate risk. They are substitutes for a customers ability to generate sufficient cash flows to honor his contractual repayment obligations. Financial institutions must maintain policies for valuing collateral, taking into account the requirements of Bangladesh Bank guidelines dealing with the matter. A participating financial institution should maintain policies to ensure that loan syndication does not place undue reliance on the credit risk analysis carried out by the lead underwriter. In general, the appraisal criteria will focus on:

- a) Sources of repayment and amount and purpose of facilities.
- b) Integrity, reputation and legal capacity of the applicant to assume the credit obligation.
- c) Risk profile of debtor and the sensitivity of applicable industry to economic fluctuations.
- d) The borrowers ability to repay based on his business plan.
- e) Achievement of borrower in any credit previously granted by the financial institutions.
- f) Cumulative disclosure of the borrower to different institutions.
- g) Physical inspection of the borrowers business premises.
- h) Business expertise of the borrower.
- i) Adequacy of guarantees, taking into consideration the existence of any previous charges of other institutions on the collateral.
- j) Present and predicted operating environment of the borrower.
- k) Background information on directors, shareholders and owners for corporate customers.
- l) The management capacity of corporate customers.

### **3.3.2 Credit Approval/Sanction:**

Financial institutions must follow some written guidelines on the credit approval process, the approval authorities of individuals or committees and basis of those decisions. The approval authorities should be permitted by board of directors and they will cover new credit approvals renewals of existing credits and changes in terms and conditions of previously granted credits particularly credit restructuring. All of these works should be fully documented and recorded. The approval process should be based on the checks and balances. Approval authorities of individuals should be identical to their positions within management ranks and expertise. It would be prudent to require approval of two officers on a credit application depending on the nature and size of credit. Some approval authorities will be restricted for the credit committee in view of the size and complication of the credit transaction.

### **3.3.3 Credit Documentation:**

Documentation is an essential part of credit process and is required for each step of the credit cycle including credit application, credit analysis, credit approval, credit monitoring, collateral valuation and impairment recognition, foreclosure of impaired loan and realization of security. The format of credit files should be standardized and neatly maintained with an appropriate system of cross indexing to facilitate review and follow-up. Documentation build relationship between the financial institution and the borrower and forms the base for any legal action in a court of law. Institutions must ensure that contractual agreements with borrowers are treated

by their legal advisers. Credit applications must be documented regardless of their rejection or approval. Financial institutions need to keep the copies of critical documents in credit files for security purposes while retaining the originals in more secure custody. Credit files should be stored in fire-proof cabinets and should not be removed from the institutions premises.

### **3.3.4 Credit Administration:**

Financial institutions must allocate its credit administration function to a separate department or designed individuals in credit operations depending on the size and complication of credit portfolio. Institutions must confirm that their credit portfolio is properly administrated which means loan agreements are duly prepared, renewal notices are sent systematically and credit files are regularly updated. A financial institutions credit administration function must ensure:

- a) Credit files are clearly organized, cross indexed and their removal from the organizations premises is not approved.
- b) The borrower has registered required insurance policy in favour of bank and is regularly paying the premiums.
- c) The borrower is providing timely repayments of lease rents of charged leasehold property.
- d) Collateral value is regularly monitored.
- e) Credit facilities are disbursed only after all the necessary documents have been received and all the contractual terms and conditions have been met.
- f) The borrower is providing timely repayments on interest, principal, fees and commissions.
- g) Information provided to management should be both accurate and timely.
- h) “Black Office” operations are properly controlled.
- i) The existed policies, procedures, relevant laws and regulations are maintained and
- j) The on-site inspections of borrowers business are regularly conducted and assessments are regularly documented.

### **3.3.5 Disbursement:**

The customer should be acknowledged regarding the terms and conditions of credit by a letter of offer after the credit is approved. The duplicate of this letter should be signed and returned to the institution by the customer. The facility disbursement process should be started upon receipt of this letter and should include the registration of collateral, completion of formalities regarding documentation, insurance cover in the institutions favor and the vetting of required documents by a legal expert. Funds should not be released prior to compliance with the pre-disbursement conditions and approval by relevant authorities in the financial institution.

### **3.3.6 Monitoring and Controlling Individual Credit:**

An appropriate credit monitoring system is significant to provide the basis for taking prompt corrective actions when warning signs point to deterioration in the financial health of debtor. Such warning signs include unauthorized drawings, deterioration in the borrowers operating environment and arrears in capital and interest. Financial institutions must maintain a system to formally review the status of the credit and the financial health of the borrower at least for once a year. More frequent reviews should be carried out for large credits, problem credits or when the operating environment of the customer is undergoing significant changes.

### **3.3.7 Monitoring Overall Credit:**

An essential element of sound credit risk management is examining what could potentially go wrong with individual credits and the overall credit portfolio if conditions in which borrowers operate change significantly. These stress analysis will guide to reveal previously undetected areas of potential credit risk exposure that could arise in times of crisis. The possible scenarios when financial institutions should consider stress testing include:

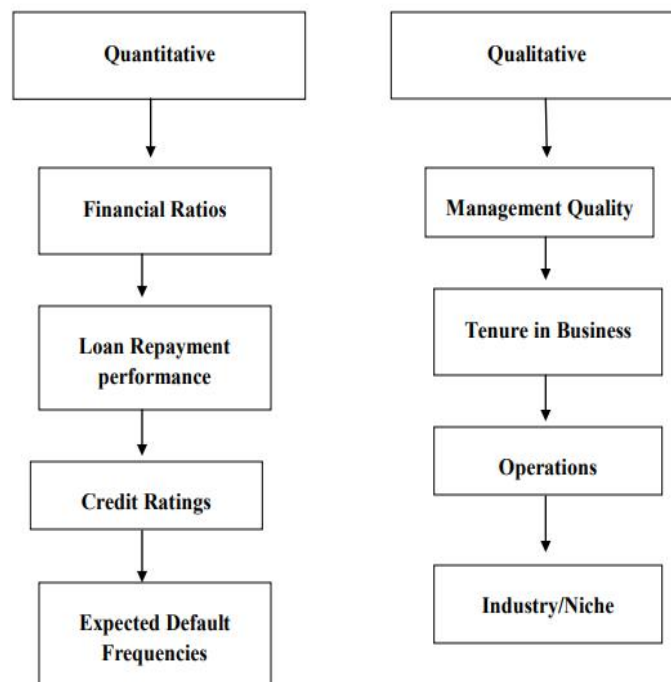
- a) Serious economic or industry sector downturns
- b) Unfavorable market risk events and
- c) Adverse liquidity conditions

### **3.3.8 Credit Classification:**

Individual credit is graded by credit classification process in terms of the expected degree of recovering. The guideline is also popular as Credit Risk Grading (CRG) which is collective definition based on the pre-specified scale and reflects the underlying credit-risk for a given exposure. The credit risk grading deploys a number, alphabet or symbol as primary summary indicator of risks attached with a credit exposure. The Credit Risk Grading is the basic module for developing a Credit Risk Management system. Credit risk grading is an essential tool for credit risk management as it helps the financial institutions to understand several dimensions of risk involved in different credit transactions. The credit risk grading is significant to take decisions both at the pre-sanction stage and post-sanction stage. There are two types of factors that play vital role in modeling the credit risk grading. They are:

- a) Quantitative factors
- b) Qualitative factors

Figure 3.1: Credit classification factors



Credit grading helps the sanctioning authority to decide whether to lend or not to lend, what should be the lending price, what should be the extent of exposure, what should be the proper credit facility, what are the various facilities on the basis of the above factors at pre-sanction stage. On the other hand, financial institution can decide about the depth of the review or the renewal, frequency of review, periodicity of the grading and other precautions to be taken at the post sanction stage.

### 3.3.9 Managing Problem Credits:

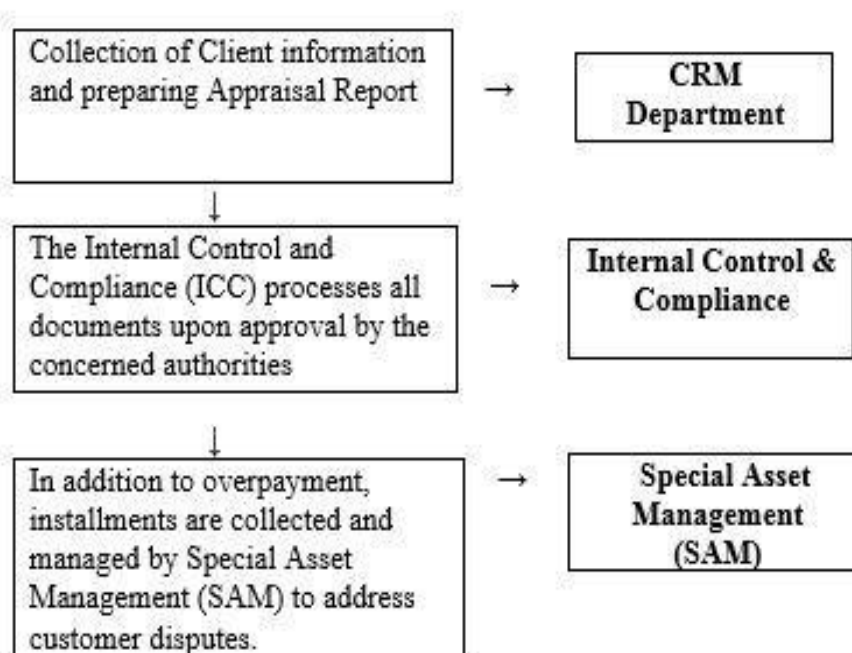
A financial institutions credit risk policy should neatly set out how problem credits are to be guided and managed. The holding of this responsibility in the credit department of a company may depend on the size and complication of credit operations. It can be located away from the credit monitoring unit and as an independent unit called the Credit Workout Unit within the department. This credit workout unit will follow all aspects of the problem credits including rehabilitation of the borrower, restructuring of credit, security of legal documents, monitoring the value of applicable collateral and dealing with manager until recovery matters are settled up. If there is a deceleration in the liquidation of collateral or other credit recovery processes, the rationale should be properly documented and the anticipated actions should be recorded, taking into account any revised plans submitted by the borrower. The responsibility of those individuals or committees who approved the credit along with those who subsequently guided and monitored the credit should be revisited.

## Chapter Four:

### 4.1 Credit Risk Management of IDLC Finance Limited:

Three departments are working together at IDLC Finance Limited to perform the whole CRM process. IDLC Finance Limited has always tried to maintain the quality they achieve through 24th year business tenure as a leading non-bank financial institution in Bangladesh. The three departments of IDLC Finance Limited are:

Figure 4.1: Credit risk management of IDLC



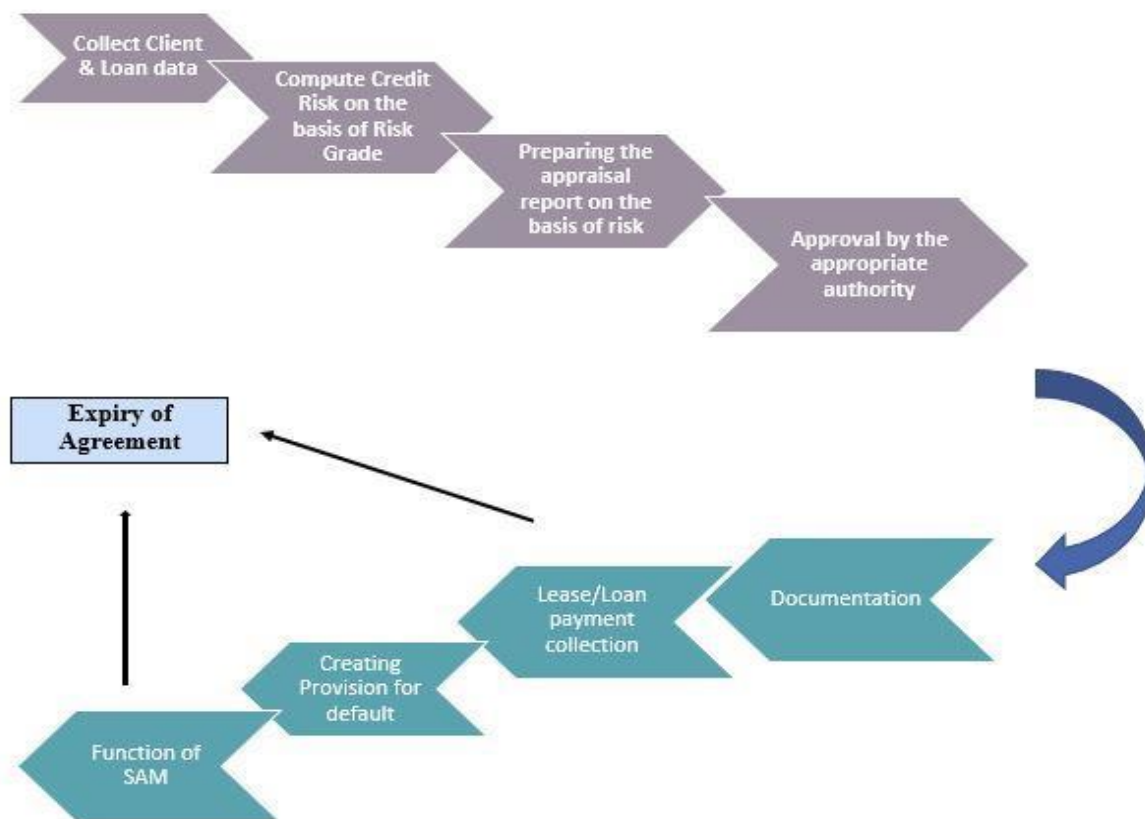
### 4.2 Procedural Work Flow of Lease Marketing:

At the primary stage, IDLC focused to create a market and then enlarge the market. The basic criteria based on which the market for lease financing has been built are as follows:

- Diversification of portfolio
- Choosing top industrial unit in the respective industry
- Funding for Balancing, Modernization, Replacement and Expansion of existing unit
- Priority of subsisting leases
- Establishing priority based on sector wise performance

The main concentration of IDLC is in the area of financial leasing of industrial, professional equipment and vehicles for three to five years term with particular emphasis on the BMRE of existing units. IDLC provides the equipment and extends the exclusive right to its use against specified rental payments at periodic intervals instead of lending funds to purchase equipment. Existing clients (with whom IDLC has already been working) and fresh clients (with whom IDLC has no business yet) are two types of clients for which the procedural work flow would be little different but the basic part would be the same.

Figure 4.2 : Basic procedural work flow



**The above procedures are briefly explained below:**

- a) The clients requests for necessary facility through letter. These necessary facility can vary from different sort of equipment to vehicles or expansion projects. The letters mainly consist of detail description about the asset to be procured, price, underlying reasons for procurement and its lease period.
- b) IDLC Finance Limited studies the proposal and gives an offer letter to the client. The offer letter generally contains acquisition cost, lease period, per month rental and other vital terms and conditions that to be applied if the agreement is performed. The terms and conditions may change upon final agreement but it generally hampers the goodwill of the company.

- c) The client receives the offer letter and sends an accepted offer letter. If the client complies to the terms and conditions of the offer letter, they sign and seal the offer letter as received and submit it back to IDLC Finance Limited.
- d) IDLC gathers the primary information regarding the client. The primary information are:
- ✓ CIB Undertaking and Form XII for that client to be submitted to Bangladesh Bank for CIB Report of the applying client.
  - ✓ IDLC waits for banks opinion for that client.
- e) The Relationship Manager prepares the appraisal report and evaluated the clients proposal. That appraisal report basically consists of:
- ✓ Background analysis of the company
  - ✓ Management and organization
  - ✓ Cost estimation of equipment or vehicle
  - ✓ Technical and marketing analysis from both macro and micro level
  - ✓ Financial analysis of the organization (profitability projection, credit report, performance based on the year)
- f) The appraisal report demands acceptance from the appropriate authority. At the first stage, the Relationship Manager submits the report to Credit Evaluation Committee (CEC), which composes of representative from Credit Risk Management, Operational Risk Management, General Manager and Deputy Managing Director. The report is transmitted to the approving authority after the consent of CEC.
- g) The documentation procedure starts after approval. A sanction ledger is prepared and one sanction letter is issued in the clients name. The documentation process varies depending on the nature of negotiation.
- h) The client assembles the assets or resources.
- i) Appropriate insurance coverage is made depending upon the asset and procurement of the asset from a selected pool of insurance companies.
- j) The lease function begins and a formal agreement is signed by both IDLC Finance Limited and lessee. The lessee begins to pay the rental and the lease continues.



k) Generally, the transfer of the ownership takes place just after the last rental is paid on the regular basis. IDLC transfers the asset ownership to the clients depending upon the negotiated transfer price at the starting and the lease expires. The lease function can also be expired early through partial termination.

### 4.3 Factors Anatomized during Appraisal Procedure:

IDLC Finance Limited considers the following factors while appraising a clients and finance proposal according to the guideline provided by Bangladesh Bank:

Table 4.1: Factors considered during appraisal

Business Risk	Financial Risk	Management Risk	Structural Risk	Security Risk
a) Industry b) Size c) Maturity d) Production e) Distribution f) Vulnerability g) Competition h) Demand and supply situation i) Concentration j) Market reputation	a) Profitability b) Liquidity c) Debt management d) Post balance sheet events e) Projections f) Sensitivity analysis g) Peer group analysis	a) Experience b) Track record of management c) Succession d) Reputation	a) Identify working capital requirement b) Relate the requirement with asset conversion cycle	a) Perishability b) Legal structure c) Forced sale value

### 4.4 Weight Assigned to Risk Factors:

IDLC Finance Limited maintains a particular weight for the risk factors that are given below:

Table 4.2: Weight of risk factors

Categories	Weight
Leveraging	20%
Liquidity	20%
Profitability	20%
Account Conduct	10%
Business Outlook	10%
Management	5%
Personal Deposit	5%
Age of Business	5%
Size of Business	5%

#### **4.5 Actions Taken for Restoration of Default Clients:**

The Special Asset Management unit is answerable for repairing and improving the repayment pattern of the default clients. The primary intention of SAM department is keeping up overdue situation at possible lowest level so that arrangement for dues can be minimized and negative impact of default on the reported profit of IDLC can be hold at minimum level. The division goes through the following procedures for this purpose:

- a) Monitor the overdue situation of the financed projects
- b) Initiate procedures as appropriate for each case

Some customers lose to make repayments of installments to the lender institution. The failure is temporary in several cases. But in other cases, the clients continues to default and situation worsens as it collapses the profitability of IDLC. So, crucial measures are taken on behalf of IDLC and these measures are mainly undertaken by Special Asset Management Department.

#### **4.6 Operations of Special Asset Management (SAM):**

The Special Asset Management department conducts numerous practices to hold the overdue situation of IDLC Finance Limited within minimum level. These are as follows:

- a) Monitoring past due- Corporate, SME, Syndication
- b) Following up overdue- Corporate, SME, Syndication (Phone, Visit, Letter)
- c) Simulating SAM client- (Regular, Complex, Block, Litigated)- Phone, Travel, Negotiation, Letter.
- d) Terminating, Blocking, Litigating- Initialization, Follow up, Court Attendance
- e) Appointing of lawyers for different legal procedures
- f) Employing recovery agent and following up
- g) Rescheduling- Negotiation, Approval, Follow up
- h) Routine operations- Receivable Calculation, Closure, Adjustments, Reconciliation and Waiver Approval.
- i) Issuing letter- Overdue clients

#### **Special Asset Management departmental targets:**

- a) Collecting overdue rentals
- b) Reducing non-performing loans (NPL)
- c) Diminishing infection ratio
- d) Managing Bad/Loss provision

#### **4.7 Recovery Strategy of SAM:**

Special Asset Management initiates numerous rebuilding activities to lessen overdue amount and reducing the proportion of migration. These rebuilding actions varies based on investment classification which are given:

##### **Overdue period: One to three months**

- a) Calling immediately on working day after 1st default installment to remind about due
- b) Trying to gain specific commitments from clients and committed date should not exceed seven days.
- c) Calling the client again in order to ascertain reasons for delay and obtain another specific date for payment in case of no response from clients within seven days.
- d) Sending reminder letter and visiting clients office in case of failure to reach through calls within seven days from the due date of payment.
- e) Trying to bring client to IDLC office for discussion over solution of default situation.

##### **Overdue period: Four to five months**

- a) Trying to attain specific payment date through phone calls, e-mails and repeated visits.
- b) Attempting to get written commitments along with instruments.
- c) Submitting reminder letters within three working days of default of fourth installment and the reminder letter should contain a clause indicating that legal actions may follow.
- d) Pushing to bring client to IDLC office for discussion over solution of default situation.
- e) Arranging meetings between higher managements of IDLC and the owners or directors of the chronic organizations.

##### **Overdue period: Above five months**

- a) Sending final reminder letter to the defaulting client and approving them time up to 15 day to pay the overdue. The reminder letter contains numerous measures that would be taken, if deadlines for payment expire.
- b) Transmitting legal notices through lawyers after receipt of senior managements approval.
- c) Appointing recovery agents with management approval based on the nature of the default.
- d) If no development takes place after the above activities, initiating legal actions as per the merit of the security of the defaulting clients.

- ✓ Filing suit under the Negotiable Instrument (NI) Act.
- ✓ Filing suit under Artha Rin Aine (ARA) or Bankruptcy Act.

e) Circulating names of defaulting borrowers, relevant persons and organizations among the banks and financial institutions of Bangladesh.

#### **4.8 Effect of Overdue on Profit Performance:**

By the law of Bangladesh Bank, every financial institution is required to keep certain portion over the overdue amounts as provision. This provision amount will be subtracted from profit of the institution. So, we can say that the overdue have direct negative impact on the reported profit and reported performance of a financial institution. The calculation is given:

$$\text{Outstanding} = \text{Overdue} + \text{URPA}$$

$$\text{Base for provision} = \text{Outstanding} - \text{Securities (100\% of cash- Bond- Guarantee/ 50\% of Mortgaged Property)} - \text{Interest Suspense}$$

#### **4.9 Provisioning Policies of IDLC Finance Limited:**

IDLC Finance Limited is practicing progressively moderate way of dealing with the security arrangement required by Bangladesh Bank. The provisional amount of IDLC Finance Limited is 18.22% per year on average. The following figure shows:

Table 4.3: Provisioning policies of IDLC

Month Overdue	Percentage of Provision
00	1%
01-03	3%
04-06	25%
07-12	50%
12 plus	100%

#### **4.10 Relationship with Clients:**

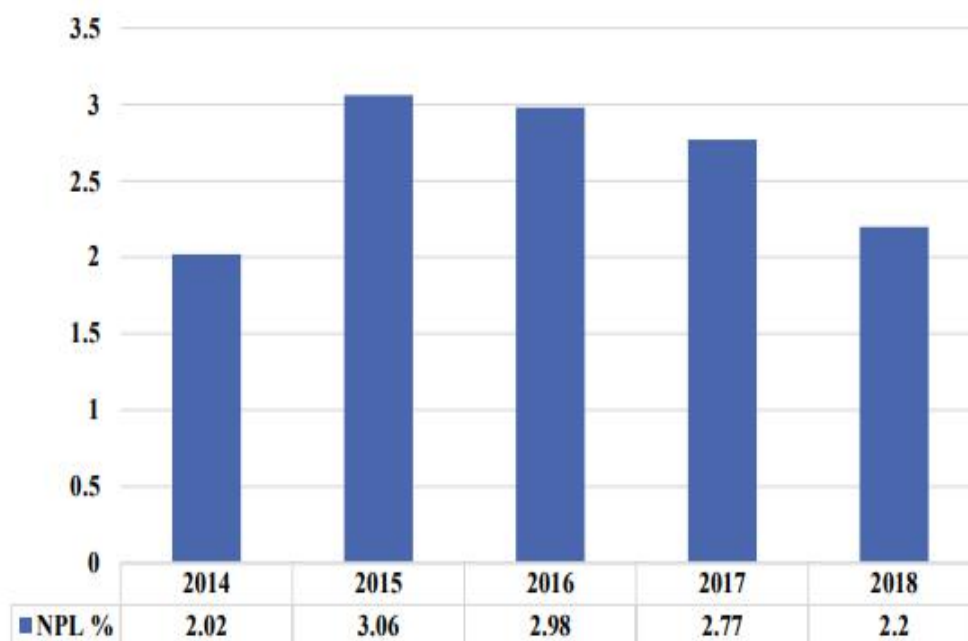
The default customers are divided into two for the purpose of analysis. They are the existing customers who have recently got cash from IDLC and new customers who have no relation with IDLC. The research of IDLC shows that new customers are in default risk because it has a record of full paying existing customers. IDLC does not have a lot of involvement with new clients and they need to depend on information given by another client which makes fresh clients more hazardous for the monetary establishment.

## Chapter Five:

### 5.1 Non-performing Loan:

IDLC Finance Limited brings its non-performing loan ratio to 2.20% at the end of 2018, up from 2.77% the year before. The Credit Risk Management division of IDLC Finance has adopted a program focusing on the emergence of NPL from various customer segments. CRM strengthens the credit evaluation procedure and introduces credit scoring model in assistance with the International Finance Corporation to guide the finance decision making process. The initiatives will enable to sustain their efforts for long term and control the NPL.

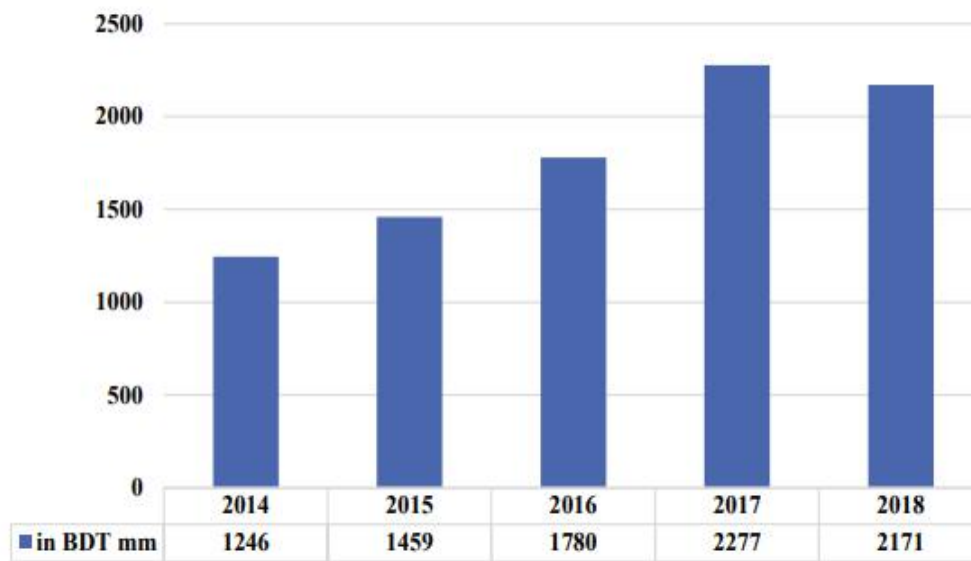
Figure 5.1: Trend of non-performing loan



### 5.2 Profit After Tax:

The profit graph of IDLC Finance after tax is increasing from 2014 to 2018 which means the creditworthiness of IDLC Finance is high. The last five year compound annual growth rate is 26.53% which is commendable. The after tax profit of IDLC is 2277 million BDT in 2017 and the latest update is 2171 million which is slightly lower than the previous year. It can be concluded that the ability of IDLC in case of credit and lease finance is strong enough.

Figure 5.2: Trend of profit after tax



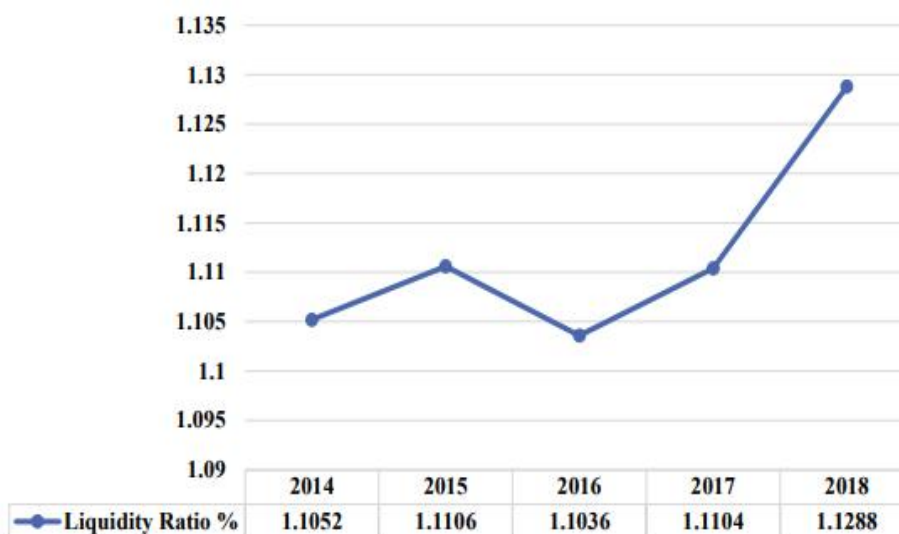
### 5.3 Liquidity Ratio:

Table 5.1: Liquidity ratio of IDLC

Year	Total Asset	Total Liability	Liquidity Ratio
2014	92,610,982,518	82,041,885,742	1.1288%
2015	76,505,145,476	68,900,608,326	1.1104%
2016	71,768,710,854	65,032,164,132	1.1036%
2017	57,159,515,027	51,465,694,676	1.1106%
2018	48,534,842,746	43,914,119,911	1.1052%

From the table, we can see that the liquidity ratio of IDLC Finance Limited is between 1.10% to 1.13%. The liquidity ratio of IDLC Finance is above 1% from 2014 to 2018 and is good to compare with industry analysis. Overall, IDLC has strong capability for lease performance and creditworthiness.

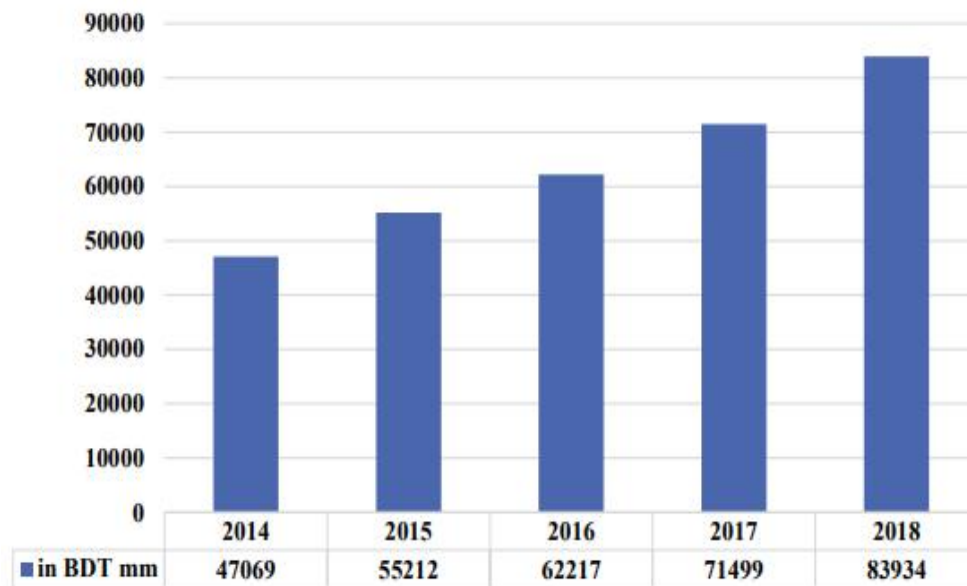
Figure 5.3: Liquidity ratio of IDLC Finance Limited



## 5.4 Total Loan Portfolio:

Loan portfolios are the primary asset of banks, thrifts and other leading companies. According to the Trend Analysis, the sales of loan amount is increasing gradually at IDLC Finance. The total sell of loan during the period of 2014 was 47,069 million BDT, which stood up to 83,934 million BDT in 2018. The future projection of total selling loan is 90,000 million BDT in 2019 approximately.

Figure 5.4: Trend of total loan portfolio



IDLC Finance Limited maintains proper management of credit portfolio, proper preparation of loan arrangements, routine issuing of renewal notices, frequent updating of credit records. They concentrate on the following requirements:

- a) Credit files are neatly arranged, cross-indexed and are not permitted to be excluded from the institutions premises.
- b) The insurance policy will pay monthly premiums if the borrower has registered on behalf of the company.
- c) The borrower is providing the lease on the rented property on time or not.
- d) Benefits are distributed after completing all the terms and conditions of the contract and receiving all required documents.
- e) Late deposit of payments are regularly and properly monitored.
- f) Timely refinancing of borrowers interest, fees and commissions are properly managed.
- g) The resources gave under the Credit Agreement are genuinely utilized for the reason for which they were given or not.
- h) The “Black Office” operations are managed appropriately.

- i) Established policies, procedures, laws and regulations are properly maintained.
- j) Visit to the debtors business sites are regularly conducted and evaluation documents are properly managed.

## 5.5 Financial Highlights:

Table 5.2: Financial Performance of IDLC Finance Limited

Financial Performance	2014	2015	2016	2017	2018	5 years CAGR (%)
Lease and Term loans distributed	17,473	22,140	29,807	35,511	39,400	18.45%
Housing finance disbursement	5,896	5,954	5,646	7,893	7,649	11.59%
Short term finance portfolio	735	1,079	845	778	906	8.45%
Lease finance	6,282	6,016	4,950	4,629	4,277	-7.62%
Real estate finance assets	14,822	17,206	18,108	21,462	25,131	17.61%
Total assets	57,160	71,769	76,505	92,611	105,182	16.73%
Long term liabilities	50,471	63,591	67,446	80,540	92,554	16.63%
Term deposit balance	35,241	46,174	47,564	60,538	71,338	19.59%
Net current assets	2,778	5,924	5,031	6,580	5,111	13.77%

Table 5.3: Operational performance of IDLC Finance Limited

Operational Performance	2014	2015	2016	2017	2018	5 year CAGR (%)
Operational income	3,326	3,961	4,433	4,801	4,705	12.83%
Operational expenses	1,237	1,394	1,679	1,934	1,913	13.38%
Financial expenses	4,530	4,827	4,625	4,902	7,016	11.19%
Net profit before tax	2,029	2,276	2,581	2,639	2,426	11.53%
Net profit after tax	1,154	1,244	1,496	1,582	1,591	14.42%



The 2018 financial year has been full of challenging operating environment, rising expenses, constrained margins and harsh capital market condition for IDLC Finance Limited. But they managed to obtain their position in the market at the end of the year. The Net Profit After Tax of IDLC is 558 million BDT in the first quarter of 2019 which means 1.42% growth from the same period last year. Earning per share is 1.48 BDT. The growth was achieved through the associated performance of SME, Consumer and Corporate. The standalone loan book of IDLC Finance is currently composed of 42% SME, 34% Consumer and 24% Corporate. The Non-performing loan of IDLC stands at 2.29% as compared to 2.80% at the end of the same time previous year. The institution is forecasting to add more to its income line in the medium term through a recent alternative investment license from IDLC Asset Management Limited.

In accordance with the current liquidity and interest rate situation, they have sustained both of their loan and deposit portfolios with a 10% increase in non-bank deposits. The term deposits have been an essential factor in enabling them to comfortably manage their liquidity situation in the market, while expanding their market for 87% of their fund basket. Credit Risk Division played a significant role for the tremendous growth of the organization with their team work, assessment and disbursement process.

## 5.6 CAMEL Rating:

Table 5.4: CAMEL rating of IDLC Finance Limited

Rating Type	Base	At 31.12.08	Rating
1. Capital Sufficiency	Reserve should be 25.00 crore by the end of 30.06.09	16.113 Crore	1 (Strong)
2. Asset Quality	(Classified loan/ lease and other assets)/ overdue amount*100	(6089.04/153384.93) *100= 3.97%	2 (Satisfactory)
3. Management	Average of C,A,E and L ratios	(1+2+1+1)/4= 1.25	1 (Strong)
4. Earning Ratio	(NPAT/ TA)*100% (NPAT/ TE)*100%	(4063.72/167085.65) *100% = 2.43% (4063.72/16113.12)*100% = 25.22%	1 (Strong)
5. Liquidity Ratio	a) CRR and SLR reserve b) Interbank dependency c) Profit	-Reserved -Less dependent -Strong	1 (Strong)
<b>CAMEL</b>	<b>Sum of 5 Ratios/ 5</b>	<b>(1+2+1+1)/5= 1.20</b>	<b>1 (Strong)</b>

## **Chapter Six:**

### **6.1 Introduction:**

Some empirical studies from literature and some models which were applied in Bangladeshi non-bank financial institutions are examined in this study. This study pursued the quantitative approach. Descriptive statistics were applied to understand the panel data. The relationship of dependent and independent variable were examined by using multiple regression analysis on panel data. Multiple regression was applied to determine the factors affecting the profitability of non-bank financial institution IDLC Finance Limited in Bangladesh.

### **6.2 Data Sources:**

The study is entirely based on data collected from the secondary sources. Data were primarily retrieved from the published sources. As we know, IDLC Finance Limited is popular as the pioneer of non-bank financial institutions of Bangladesh, there are so many reports, journals and articles are made on them. So, this study received data from those sources.

- a) Primary data: Preliminary data were gathered through various semi-structured interviews with several departments of the head office of IDLC Finance Limited. The credit risk management department, operations department, human resource department and various corporate communications personnel were also involved in the interview.
- b) Secondary data: Secondary research has been conducted to identify various profit ratios for evaluating the financial performance and overall profit scenario. Secondary data has been applied to support the organization by providing potential solutions to improve their effectiveness and efficiency where needed. The secondary sources that were followed to gain some solid pictures on the research topic include:
  - ✓ Annual Reports of IDLC Finance Limited
  - ✓ DSE Data Archive
  - ✓ Online Articles
  - ✓ Newspaper
  - ✓ Journals
  - ✓ Official website of IDLC Finance Limited

### **6.3 Variables:**

There are two variables that have been decided for this investigation. One is the dependent variable and other is the independent variable among them.

a) Dependent variable: The representation of banks or non-bank financial institution has been estimated by Return on Asset (ROA) or Return on Equity (ROE). In this study, ROE is used as proportion of money related profitability which is estimated by organization's total profit divided by its total equity. It shows the association's proficiency of investors value profits by every limit. It is also characterized as:  $ROE = \text{Net Income} / \text{Shareholders Equity}$ .

b) Independent variable: There is a strong connection between the profitability and other firm explicit factors of non-bank financial institutions in Bangladesh and a few autonomous factor are firm size, capital adequacy ratio, loan ratio and so on. The independent variables for this report are net interest margin, net profit ratio and operating profit ratio.

### **6.4 Objectives:**

- a) To investigate the profitability situation of IDLC Finance Limited
- b) To determine the factors affecting the profitability of IDLC Finance Limited

### **6.5 Literature Review:**

Non performing loan refers to the money that borrowers take from banks or financial firms but cannot repay within the certain period of time. There is a specific schedule for payable or non performing customers. The non-performing loan schedule is 90 days. Cash efficiency and domestic profitability requires very smooth logistics. Commercial banks plays a significant role in protecting the economy of developing country like Bangladesh. Financial institutions and other industries have an impact on the country's economy apart from commercial banks. If we take a look at the volatile loans over the years, we will see that economic changes is a big burden for Bangladesh. Bangladesh has started increasing its economic rate in recent year. In addition, both non-bank financial institutions and commercial banks perform their works very seriously and are very close to risk management. Non-bank financial institution typically provides long-term loan whereas banks provide short-term loans. In accordance with former Bangladesh Bank Governor Saleuddin Ahmed (Dhaka Tribute, December 2017), a financial institution like banks often has to take legal actions against dissatisfied customers.

Non-performing loan rates are increasing day by day because of no reasonable concern from the government. According to Bangladesh Bank, Bangladesh's non-performing loan ratio is averaged 10.1% in 2016 where the of indirect lending increased to 10.7% in September 2017 from quarterly non-performing quarter. The highest portion of data reached 26.1% in march 27 and 31.61% in December. On February 1, the total amount of foreign exchange reserves of Bangladesh were measured \$31 billion. The maximum foreign exchange reserves equal 7.5 months of imports in December 2017 with domestic debt reaching \$114.8 in January 2018 as increase of 14.3 compared to previous one.

According to Uddin (2017), there are some valid reasons for becoming a customer. Recently the export revenues has not increased much as the private sector has declined, where customer has suffered losses and the greatest concern for internal payments of default was recorded in moderate growth only.

## **6.6 Limitations:**

- a) IDLC Finance provides restrictions on disclosure of certain confidential information.
- b) Non-availability of adequate and appropriate journals and publications.
- c) High dependency on secondary data due to limited access.
- d) Because of high volatility and lack of stability in the economy and stock market, the ratio of profitability does not show relevance in some cases which constrains multiple regression and statistical significance.
- e) Lack of access to prior and most recent information

## 6.7 Results and Explanations:

Table 6.1: Results and explanations of different analysis

Particulars	IDLC Finance	Explanations
<b>Investor:</b>		
Last Audited P/E Ratio	9.62	P/E Ratio= Market price per share/Earnings per share
Last Audited P/B Ratio	2.15	P/B Ratio= Market price per share/Book value per share
<b>Growth:</b>		
Annual Operating Profit Growth	44.53%	-
Net Interest Income Growth	39.00%	-
Investment Income Growth	-9.56%	-
Commission Income Growth	23.92%	-
Operating Income Growth	32.41%	-
Earnings Growth	86.05%	-
Assets Growth	16.85%	-
Equity Growth	21.73%	-
Deposits Growth	21.23%	-
Loans Growth	14.97%	-
<b>Liquidity and Leverage:</b>		
Loans/Deposits	1.29	Loans/deposits= Total loans/ Total deposits
Liquid Assets/Deposits	0.22	Liquid assets/deposits= Total liquid assets/Total deposits
<b>Efficiency, Productivity and Capital Strength:</b>		
Expense Ratio	0.61	ER= Total costs/ Total assets
Investment Income/Assets	0.0183	Investment income/assets= Investment income/ investment assets
Interest Yield	0.14	-
Net Spread	0.14	-

From the table, we can clearly understand that apart from the proportion of investment income growth, loans growth and total loans/total deposits, most of the other proportions shows that IDLC Finance Limited is currently driving financial execution and growth. On December 31, 2020 total loan portfolio of IDLC Finance Limited was BDT 93.07 billion, Net Asset Value per share BDT 29.79, Net Profit After Tax BDT 2540.57 million, Return on Asset (ROA) 1.50%, non-performing loan 2.2% and Return on Equity (ROE) 12.80%

a) Net Interest Margin: Net interest margin refers to a performance metric which allows the investigators to investigate how successful a firm's investment decisions are compared to its debt positions. The following formula is used to determine the Net Interest Margin:

$$\begin{aligned}\text{Net Interest Margin} &= \frac{\text{Net Interest Income}}{\text{Average Earning Assets}} \\ &= 5.30\%\end{aligned}$$

b) Net Profit Ratio: Net profit ratio provides information regarding various aspects of a firm's financial performance and it is a very useful ratio. The following formula is used to examine the net profit ratio:

$$\begin{aligned}\text{Net Profit Ratio} &= \frac{\text{Net Profit After Tax}}{\text{Net Interest Income}} \\ &= 0.3543\end{aligned}$$

c) Operating Profit Ratio: Operating profit ratio provides researchers an idea of how much the organization pays before the provision of each dollar of interest income (advance, investment, lease, tax). The following formula is used to investigate the Operating Profit Ratio:

$$\begin{aligned}\text{Operating Profit Ratio} &= \frac{\text{Profit Before Provision}}{\text{Net Interest Income}} \\ &= 0.6526\end{aligned}$$

d) Return on Equity: Furrman states that return on equity refers to a ratio that tells investors how their management team or shareholder are efficiently managing the equity company has given. The equation that has been utilized to obtain return on equity value is following:

$$\begin{aligned}\text{Return on Equity} &= \frac{\text{Net Profit After Tax}}{\text{Shareholders Equity}} \\ &= 12.80\%\end{aligned}$$

e) Earnings per share: Greater earnings per share is always better than a lower ratio because it means that the company is more profitable and has more profit to distribute to its shareholder. The given formula is used to determine the earning per share of IDLC Finance Limited:

$$\begin{aligned}\text{Earnings per share} &= \frac{\text{Net profit after tax} - \text{Dividends on preferred stock}}{\text{Average outstanding share}} \\ &= 4.04 \text{ per share}\end{aligned}$$

f) Regression Analysis: Return on equity is an estimation of financial performance calculated by dividing net profit after tax by shareholders equity because shareholders equity is equal to organization's assets minus its debt. It is considered as a measure of corporation's profitability in relation to shareholders equity. Multiple regression has been used to identify the individual effect of three distinct variables net interest margin, net profit ratio and operating profit ratio on return on equity. The significance of this model is to identify and evaluate the changes and improvements made to increase return on equity. Improvements can lead to optimal decision making, increased operational efficiency and effective use of resources. The result of multiple regression (R) is 0.9431 and  $R^2$  is 0.8894 which means the independent variables contributed 88.94 percent on the change of dependent variable and it is significant at 5 percent level.

## **Chapter Seven:**

### **7.1 Recommendations:**

IDLC Finance Limited is an incredible association in the monetary market from all aspects. Its workplace, the most prosperous level of corporate administration, trustworthiness, uprightness rehearses, pledge to clients and solid consistence with arrangements make this association the best in the business. As I was a small part of this organization as an intern, I think there are a few open doors for improvement in certain territories. They are:

- a) IDLC needs to perform with other financial institutions to build an appropriate credit risk environment in order to provide effective credit risk management.
- b) As IDLC has a large amount of liquid funds that none can earn, it can reduce interest rate on different types of loans. If IDLC lowers interest rates, it can attract new customers and retain more customers. The non-performing loan of IDLC can also be reduced if interest rate will fall because it removes the burden from the shoulders of consumers which lead them to be more loyal to IDLC.
- c) IDLC needs to accept a management process for controlling non-performing loan which involves determining adequate levels, limiting hate for different business, ensuring a clear evaluation framework for lending facilities.
- d) The respective officers of IDLC should be more careful when approving loans for fresh customers because around 3,178 account holders use incorrect information in KYC form. So, the credit risk management division must examine the detailed information of clients physically to solve this problem.
- e) The officers of IDLC have to identify the highly risk sensitive borrowers in the portfolio. They should seek proper information regarding customers before lending. They can also visit Bangladesh Bank to investigate the perilous borrowers and examine their financial statements from reliable sources.
- f) IDLC should approve some significant measures for the identification of geographic area based risk sensitivity. According to the banking sector, on average there are only a very few places in Bangladesh where the growth rate is low or repayment is low.



## **7.2 Conclusion:**

IDLC Finance Limited has made a significant impact on the financial growth of Bangladesh because it is the country's largest non-bank financial institution. The company is consistently witnessing growth. The experienced, profoundly gifted and talented staff of consumer division, Operations and Credit Risk Management ensures that the administration is distributed quickly and efficiently. Additionally, this segment is extremely exacting in consistence with the proper guidelines that are set according to Bangladesh Bank. IDLC Finance is both financially and socially committed and are constantly evaluating the overall environmental, social, political, economical, legal and technological factors. IDLC Finance is an appropriate place for students in banking, accounting, finance and economics for these reasons. An internship in IDLC gives me significant chances to deal with genuine issues. I recommend fresh graduates to do their internship from IDLC Finance Limited.

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