

**A COMPARATIVE STUDY ON SOLVENCY
AND PROFITABILITY
OF UNITED FINANCE LIMITED**



Internship Report Proposal on
A Comparative Study on Solvency and Profitability of United Finance Limited

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LETTER OF TRANSMITTAL

November 19, 2017

Dr. Salehuddin Ahmed

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Subject: Submission of internship report.

Dear Sir:

With due respect, I am submitting my internship report on '**A Comparative Study on Solvency and Profitability of United Finance Limited**' as partial fulfillment of the requirements for the degree of Masters of Business Admission in Finance. As you will see, my study pointed to comparative study on solvency and profitability of United Finance Limited. I try to prepare an outline which will help you in resolving this report informative enough. All the works presented here is done with utmost sincerely and honesty. I assure you this report will give you a glance regarding non-banking performance analysis and financial activities of United Finance Limited.

However, it is needless to say that, there may be some mistakes in my presentation and style. In completing the report I have tried my best in imparting every available details of the information avoiding unnecessary amplification of the paper.

Therefore, I expect and hope that you would be kind enough to accept my report for evaluation and oblige thereby. Thanking you.

Yours faithfully,

Malku Martin Sangma (ID-15264052)

DECLARATION OF ORIGINALITY

I, Malku Martin Sangma, a student of Masters of Business Administration in Finance of BRAC University, Dhaka do hereby declare that the internship report on 'A Comparative Study on Solvency and Profitability of United Finance Limited' has not been submitted by me or any other person for any degree, diploma, title or recognition in past. I also declare that this report is my own work and no part of this report was copied without proper acknowledgement.

Malku Martin Sangma

Program: Masters of Business Administration (MBA)

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BRAC Business School

BRAC University

SUPERVISOR'S CERTIFICATE

This is to certify that the internship report on 'A Comparative Study on Solvency and Profitability of United Finance Limited' is an authentic record and the report is done by Malku Martin Sangma (ID: 15264052) as a partial fulfillment of the requirement of Masters of Business Administration (MBA) degree from the BRAC Business School, BRAC University, Dhaka. All the analysis, interpretation of data or any other statement mentioned in this report is the author's own opinion and the findings are only for academic use not for any other application.

The report has been prepared under my supervision and is a record of bona-fide work carried out successfully.

Dr. Salehuddin Ahmed
Professor & Supervisor of Internship
BRAC Business School
BRAC University
Dhaka

ACKNOWLEDGEMENT

Preparation of such descriptive report cannot be an easy effort. However, it is an individual work done by me and I am grateful to Almighty for powering me to complete this task.

I gratefully acknowledge the valuable contribution of the internship supervisor Dr. Salehuddin Ahmed, BRAC Business School, BRAC University for giving me an opportunity to explore into professional field of report preparation and acquire firsthand experience using various financial ratio analysis along with allocative and operational efficiencies of banks. I appreciate his continued support to us in preparation of the report.

In addition, I would like to appreciate the valuable support I have received in accessing financial data and information from concerned websites and officials. I alone remain responsible for the analysis and interpretations presented in this report.

I would cordially thank Mr. Imran Khan (Branch Manager, United Finance Limited, Tejgaon Branch) for his valuable supervision and guidance.

Finally, I would like to thank our respected sir Dr. Salehuddin Ahmed, internship supervisor, BRAC Business School, BRAC University once more for the opportunity to work with the assigned subject that has given me the exposure to the non-banking industry.

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LIST OF ACRONYMS

BDT = Bangladeshi Taka

CSE = Chittagong Stock Exchange

CSR = Corporate Social Responsibility

DER= Debt to Equity Ratio

DSC = Dhaka Stock Exchange

DTAR = Debt to Total Asset Ratio

EM = Equity Multiplier

EBIT = Earnings before Interest & Tax

EPS = Earnings per Share

FIA = Financial Institutions Act

GDP = Gross Domestic Products

IR = Interest Expense

NAV = Net Asset Value

NBFI = Non-Bank Financial Institution

NII = Net Interest Income

NPM = Net Profit Margin

OE = Operating Efficiency

OPI = Operating Income

ROA =Return on Assets

ROE = Return on Equity

UFL = United Finance Limited

EXECUTIVE SUMMARY

In the new competitive business era, NBFIs are getting more competitive in Bangladesh. In this sector the most used financial statements are the balance sheet and profit and loss account where the balance sheet shows the financial position and profit and loss account shows the net profit or net loss of a NBFI. Solvency and profitability ratio analysis deals with these statements. NBFI is a relatively new institution that is contributing toward the development of economy and is treated as an important service industry in the modern world. Nowadays the concept of financial performance and research into its measurement is well advanced within finance and management fields. Financial statement analysis is defined as the process of identifying financial strengths and weaknesses of the firm.

In this report there is a comparison of solvency and profitability of United Finance Limited with the other NBFIs of Bangladesh to know the position of United Finance Limited through ratio analysis and find out the difference with the industry average. This report also gives the concrete idea of a solvency and profitability of NBFI. Solvency and profitability through ratio analysis is the most popular trend to evaluate a NBFI's performance over years or with other companies in an industry. NBFI's profitability is a major concern in modern economy and profitability ratios of a NBFI show its overall efficiency and performance. These ratios represent the particular NBFI's ability to translate sales into profits at various stages of measurement, as well as represent its ability to measure the overall efficiency of the firm in generating returns for its shareholders. This analysis establishes a relationship between the items of the balance sheet and the profit & loss account.

In this report it describes the UFL's financial statements for the last few years and also finds out the industry average of other operating NBFIs of Bangladesh then analyzes and focuses on significant comments regarding the changes in the financial position. Analysis and interpretation of these financial statements through ratio analysis has now become an important technique for performance appraisal because the investors, financial experts, management executives and the management of these NBFIs always rely on these ratios to make important decisions.

INTRODUCTION

1.1 Background

Financial Sector is the 4th highest sector in term of market capitalization. NBFIs industry is considered the second highest source of loan and provider of different financial services. The growing financial performance of this sector has a colossal effect on whole economy performance. Typically financial sector refers to mainly banking sector of any country. Recently the performance of NBFIs industry has dramatically influencing the performance of banking sector. The contribution of this industry toward the economy has been emerging and as facts suggest the curiosity of investors has significantly increased. Consequently the financial performance of this sector's company has been in stakeholder's prime apprehension in recent times. As the empirical studies suggest numbers of research works have been accomplished on profitability of banking sectors to categorize the fundamental determinants of profitability. But still very few research works have been conducted on NBFIs sector.

Non- Bank Financial Institutions (NBFIs) in Bangladesh are gaining increased popularity in recent times. Though the major business of most NBFIs is leasing some are also diversifying into other lines of business like term lending, housing finance, merchant Banking, equity financing and venture capital financing.

Bangladesh is an agricultural country gradually shifting towards industrialization. Traditionally, people of this subcontinent were reluctant to business and trade. But as the demand of time, they are inspired and inclined to take risk and establish business enterprises. The entrepreneurs are faced with scarcity of initial capital and if somehow they have started business they face serious shortage of working capital. In such case, they run for long term direct financing from commercial banks, specialized banks and other financial institutions, but receiving long term loans from direct financing institutions in Bangladesh is not an easy task. Leasing business in Bangladesh is providing for the alternative financing introduced by the three prominent leasing companies in Bangladesh; IDLC, UFL and LBFL. Recently, some other leasing companies namely, Peoples Leasing Company, Bay Eastern Leasing Company, Industrial Leasing and Financial Services Ltd, GSP Finance and a local private commercial bank have emerged in the market.

Today all NBFIs are playing a vital role for the growth of the nation's economy with the best of their ability. During the world recession period NBFIs in Bangladesh act in a stringent manner so that their financial systems as well as the economy do not collapse. United Finance Limited as a leading and pioneer NBFIs started their operation in 1989 and still they are dominating the NBFIs sector as well as contributing to the prosper of economic development. Their success in this industry has inspired others to invest their capital in a profitable way.

1.2 Origin of the report

This report is originated as the academic requirement of the MBA program at Brac University. As the practical orientation is an integral part of the MBA degree requirement, the main purpose of internship is to get the students exposed to the job world and slowly get them acquainted with the organizational setting and corporate culture.

The study have following purposes:

- > To get and organize detail knowledge on the job responsibility.
- > To experience the real business world.
- > To compare the real scenario with the lessons learned in MBA program.
- > To fulfill the requirement of MBA Program.

1.3 Objectives

1.3.1 Broad Objective

To find solvency and profitability of United Finance Limited (UFL) and compare this financial ratios with other non-NBFIs financial institutions of Bangladesh.

1.3.2 Specific Objectives

- To find out the total debt to equity ratio of UFL
- To find out total debt to total asset ratio of UFL
- To find out total equity to total asset ratio of UFL
- To find out the net profit margin of UFL
- To return on equity (ROE) of UFL

- To find out return on assets (ROA) of UFL
- To compare the financial ratios with some other financial institutions (12) operating in Bangladesh.

1.4 Scope of the Report

This report is prepared to give a concrete idea about the performance and the condition of United Finance Limited (UFL) over years. I believe that the report will help those who want to get an overall idea of UFL as well as its financial performance. Management also can use the information of my observation for their managerial decision if needed.

1.5 Limitations

Limited access to the data is the prime limitation of this report, as the prime sources of data is the annual report. In audited quarterly reports companies usually provides with those information which generate positive notion about the company and presentation of the information in their own way evidently is a key limitation in case of illustration of the exact scenario. Also scarceness of work on this sector profitability is also a great hindrance for the report, which results in acute shortage of literature in this arena, as maximum reports are done on non-banking sector.

1.6 Methodology of the Report

Primary sources of data are collected through

- Discussion with the respective organization's officials.

Secondary sources of data are collected through

- Annual Reports of United Finance Limited.
- Website of United Finance Limited.

- Different Books, Journals, Periodicals, News Papers etc.
- The Annual Reports (year of 2012, 2013, 2014, 2015 & 2016) of UFL and other 12 different NBFIs of Bangladesh.

1.7 Sample Frame/Population size

Sample is taken only the total local NBFIs operates in Bangladesh. There are 33 local NBFIs in Bangladesh so this is the population size of this report.

1.7.1 Sample Size

Taking a portion from a population for the study is called sampling. The sample size is determined by using the following formula:

$$n = \frac{NZ^2pq}{Nd^2 + Z^2pq}$$

$$n = \frac{33(1.44)^2(.50)*(.50)}{33(.15)^2 + 1.44^2(.50)*(.50)}$$

$$n = 13.3296$$

$$n \cong 13$$

Where,

n = sample size

Z = standardized value {1.44(based on 85% confidence level)}

p = Estimated proportion of success = 50%

q = (1-p) or estimated proportion of failure = 50%

d = Maximum allowance for error (here maximum allowance for error is taken as 15%)

N = 33, NBFIs in Bangladesh

1.7.2 Sampling Techniques

The sampling technique will be probabilistic as the sample frame is accessible and simple random sampling will be used to select the samples for finding the industry average.

1.8 Measuring Ratios

The ratios of solvency and profitability of NBFJ used here are calculated stated below:

For Solvency:

$$\text{a) Debt to Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Shareholders Equity}}$$

$$\text{b) Debt to Asset Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

$$\text{c) Equity Multiplier} = \frac{\text{Total Assets}}{\text{Shareholders Equity}}$$

For Profitability:

$$\text{a) Net Profit Margin} = \frac{\text{Net Profit after Taxation}}{\text{Operating Income}}$$

$$\text{b) Return on Equity} = \frac{\text{Net Profit after Taxation}}{\text{Total Equity}}$$

$$\text{c) Return on Assets} = \frac{\text{Net Profit after Taxation}}{\text{Total Asset}}$$

NBFIs in Bangladesh

2.1 Overview of NBFIs in Bangladesh

Non-Banking financial companies, NBFIs or NBFCs, are financial institutions that provide Banking services, but do not hold a Banking license. These institutions are not allowed to take deposits from the public. Nonetheless, all operations of these institutions are still covered under banking regulations.

Non- Banking Financial Institutions (NBFIs) play a significant role in meeting the diverse financial needs of various sectors of an economy and thus contribute to the economic development of the country as well as to the depending of the country's financial system. As the development process proceeds, NBFIs become prominent alongside the Banking sector. Both can play significant roles in influencing and mobilizing savings for investment. Their involvement in the process generally makes them competitors as they try to cater to the same needs. However, they are also complementary to each other as each can develop its own niche, and thus may venture into an area where the other may not, which ultimately strengthens the financial mobility of both.

In relatively advanced economies there are different types of non-bank financial institutions namely insurance companies, finance companies, investment NBFIs and those dealing with pension and mutual funds, though financial innovation is blurring the distinction between different institutions. In some countries financial institutions have adopted both Banking and non- Banking financial service packages to meet the changing requirements of the customers. In the Bangladesh context, NBFIs are those institutions that are licensed and controlled by the Financial Institutions Act of 1993 (FIA '93). NBFIs give loans and advances for industry, commerce, agriculture, housing and real estate, carry on underwriting or acquisition business or the investment and re-investment in shares, stocks, bonds, debentures or debenture stock or securities issued by the government or any local authority; carry on the business of hire purchase transactions including leasing of machinery or equipment, and use their capital to invest in companies.

The importance of NBFIs can be emphasized from the structure of the financial system. In the financial system of Bangladesh, commercial NBFIs have emerged in a dominant role in mobilizing funds and using these resources for investment. Due to their structural limitations and rigidity of different regulations, NBFIs could not expand their operations in all expected areas and were confined to a relatively limited sphere of financial services. Moreover, their

efforts to meet long term financing with short term resources may result in asset-liability mismatch, which can create pressure on their financial base. They also could not broaden their operational horizon appreciably by offering new and innovative financial products. These drawbacks led to the emergence of NBFIs in Bangladesh for supporting industrialization and economic growth of the country.

2.2. Emergence of Non-Bank Financial Institutions in Bangladesh

Initially, NBFIs were incorporated in Bangladesh under the Companies Act, 1913 and were regulated by the provision relating to Non- Banking Institutions as contained in Chapter V of the Bangladesh NBF Order, 1972. But this regulatory framework was not adequate and NBFIs had the scope of carrying out their business in the line of Banking. Later, Bangladesh NBF promulgated an order titled ‘Non- Banking Financial Institutions Order, 1989’ to promote better regulation and also to remove the ambiguity relating to the permissible areas of operation of NBFIs. But the order did not cover the whole range of NBF activities. It also did not mention anything about the statutory liquidity requirement to be maintained with the central NBF. To remove the regulatory deficiency and also to define a wide range of activities to be covered by NBFIs, a new act titled ‘Financial Institution Act, 1993’ was enacted in 1993 (Barai et al. 1999). Industrial Promotion and Development Company (IPDC) was the first private sector NBF in Bangladesh, which started its operation in 1981. Since then the number has been increasing and in December 2006 it reached 29.1 of these, one is government owned, 15 are local (private) and the other 13 are established under joint venture with foreign participation.

2.3 Recent Development and Activities of NBFIs

The major business of most NBFIs in Bangladesh is leasing, though some are also diversifying in to other lines of business like term lending, housing finance, merchant Banking, equity financing venture capital financing etc. Lease financing, term lending and housing finance constituted 94percent of the total financing activities of all NBFIs up to June 2006. A break-up of their financing activities reveals that the share of leasing and housing finance in the total investment

portfolio of NBFIs has gradually decreased from 59 and 15 percent, respectively, in 2002 to 46 and 14 percent in June 2006. The share of term loans, on the other hand, has increased from 20 percent to 34 percent during the same period implying increased focus on the former. It can also be seen that the portfolio mix of NBFIs has become quite stable from 2004. NBFIs offer services to various sectors such as textile, chemicals, services, pharmaceuticals, transport, food and beverage, leather products, construction and engineering etc.

Overview of UFL

3.1 United Finance Limited - Background

United Finance Limited (UFL), an associate company of Duncan Group, commenced business in 1989 as a first generation lease financing company in Bangladesh. The company incorporated as a public limited company under the Companies Act 1913. UFL was also granted license under the Financial Institutions Act, 1993. The shares of the company are quoted on the Dhaka Stock Exchange since 1994.

United Finance Ltd, a leading financial institution of the country was established in 1989 as a public limited company, to cater the investment needs of our economy. Leasing Company Limited is a Non-Bank Financial Institution engaged mainly in lease finance business and bills discounting. It was incorporated on 27 April 1989 as a public limited company under the Companies Act 1994 with an authorized capital of BDT 1,000 million. From the beginning, UFL managed to grow rapidly with an average operational growth of above 30%. In April, 1994 the company issued 10.71% of its shares for public subscription at 50% premium and was oversubscribed. Now it is listed on the Dhaka Stock Exchange (DSE) and from the date of listing, its shares are enjoying high price.

Since inception UFL has maintained prudent investment policies and has successfully positioned itself among the frontrunners in an increasingly competitive financial service sector. Building a diversified pool of assets spread across almost all sectors of the economy and serving a wide spectrum of customers in the process. The Company's customers include most of the top corporate groups in the country including some of the multinationals. However, the Company's major and most profitable business segments are leases to the small and medium enterprises. Continuing its journey, UFL will invest its resources to expand their customer base and better serve their existing customers by diversifying their asset and liability portfolios. UF has the financial strength, management capability and committed human resources to ensure sustainable growth.

3.2 Company Profile

Name of organization	United Finance Limited
Form of Organization	Public limited company
Nature of Business	Non – NBFI financial institution
Commencement of Business	September 12, 1989
Number of Branches	19
Chairman	Mr. Imran Ahmed
Managing Director	Mr. Syed EhsanQuadir
Registered Office	Camellia House, 22 Kazi Nazrul Islam Avenue, Dhaka-1000
Website and Email	Website: www.unitedfinance.com.bd Email: webmail@unitedfinance.com.bd

Table 1.1: Company Profile

3.3 Guiding Principles

3.3.1 Objectives of the Organization

The main objectives of the company are to assist the development of productive private sector industries particularly in their balancing and modernizing programs. The company mainly extends lease financing for machinery, equipment to the industries & vehicles for commercial purpose. In addition, it also provides project finance for expansion of business. The primary activity of the company is to provide leases to different commercial organizations. It provides lease for all sorts of manufacturing equipment and for vehicles.

3.3.2 Vision

To be the leading high quality service providers in the markets we serve.

3.3.3 Mission

- Devote continuous effort to improve products and services for sustaining competitive edge.
- Ensure service excellence by leveraging motivated human resource and technology.
- Manage risks and costs to ensure sound, financial performance and adequate return on all investments.

3.3.4 Goals

- *Customers:* Ensure that our service quality exceeds customer expectation in terms of timely delivery, fairness in treatment and value addition.
- *Risk Management:* Proactively manage risks and adhere to international best practices.
- *Shareholders:* Maximize growth in earning per share.
- *Employees:* Provide a stimulating and challenging yet congenial work environment, invest in training to harness full potential and compensate on performance basis.

3.4 Classification of Target Market

United Finance Company Limited provides services and offers products to certain segments of markets. The markets are diversified and identifiable for the customers and clients as well. Thus the markets are classified into parts and the classification is as follows:

- Small and medium scale companies
- Low profile good and potential performers

Main target customers are:

- Companies who have potentiality, sincerity, and devotion
- Companies who are badly in need of investment in equipment to grow
- Companies who wants to finance equipment without straining the existing credit line □
Sister concerns of well reputed large companies.

3.5 Organizational Structure

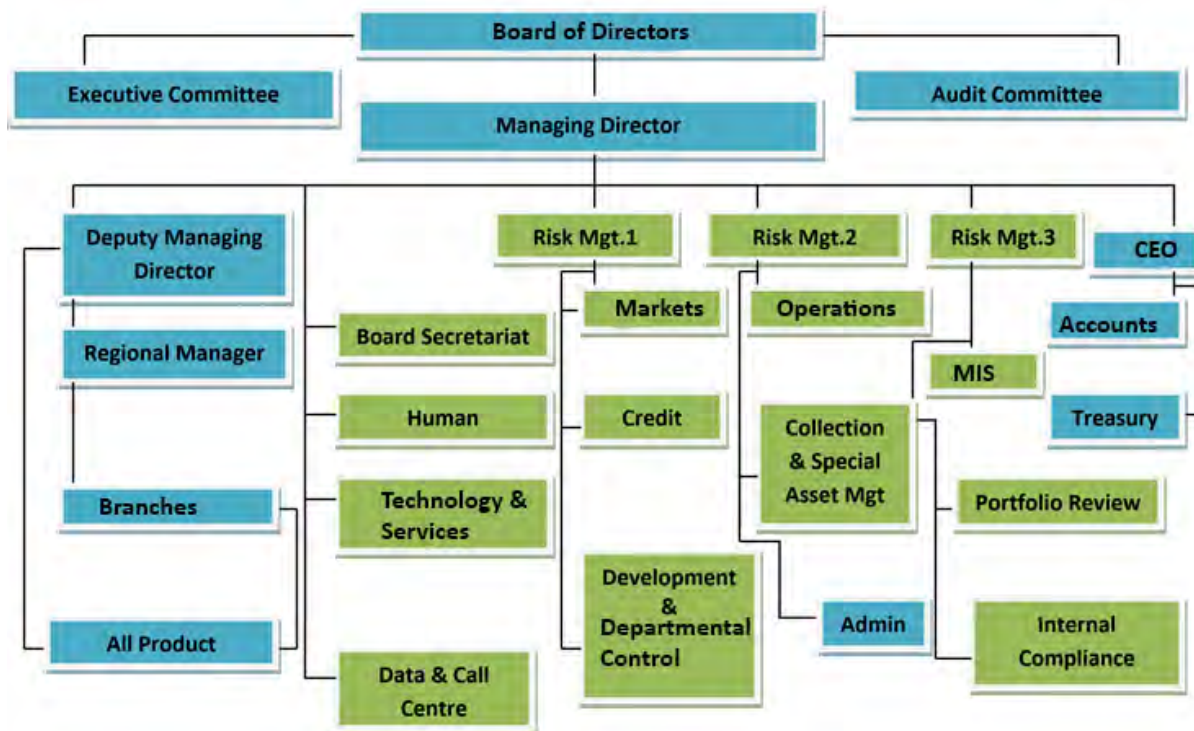


Figure.1: Organizational Hierarchy

3.6 Products/Services

United Finance Company, like any other companies, also offers different products and services which can be classified into two parts:

- Asset Products
- Liability Products

3.6.1 Asset Products:

Under asset financing products, they offer:

- Lease against vehicle or various equipment
- Affordable home loan to individuals to purchase, construct or renovate home or apartment

Under working capital solutions, they offer:

- Credit sale financing for creditworthy suppliers to free working capital tied up in receivables
- Distributor financing for distributor's procurement of inventory.

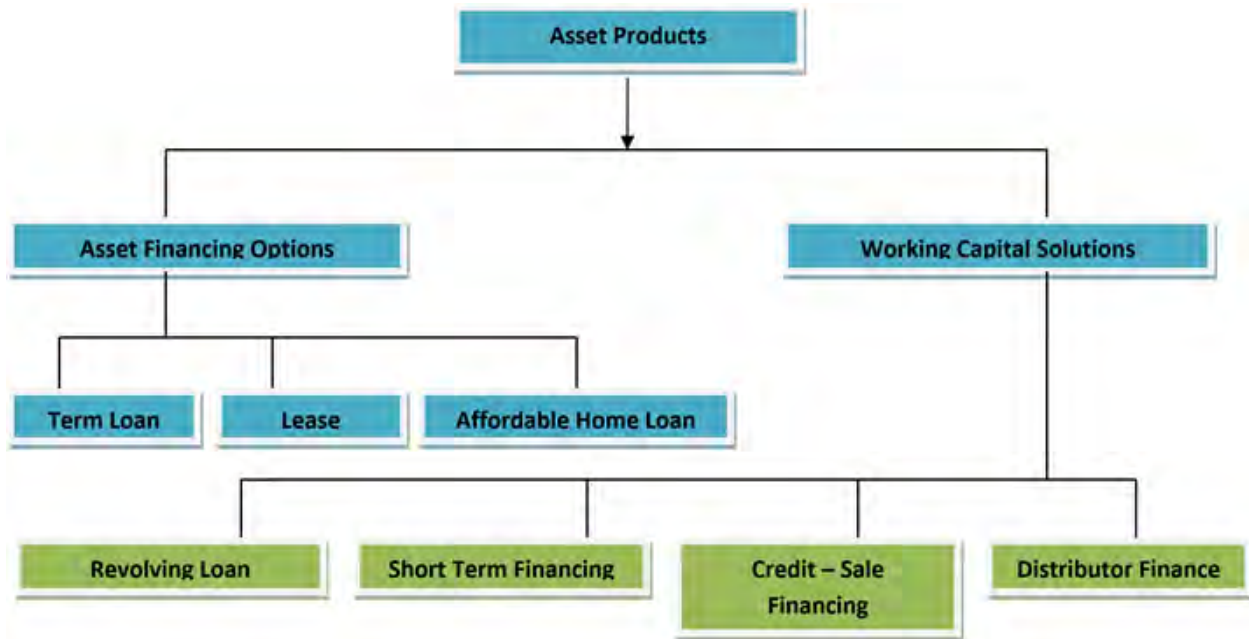


Figure 2: Asset Products

3.6.2 Liability Products:

Liability products refer to the products which provide customers with deposit opportunities that are helpful for them in many ways. It includes products such as term deposit, earner schemes, insured schemes, etc.

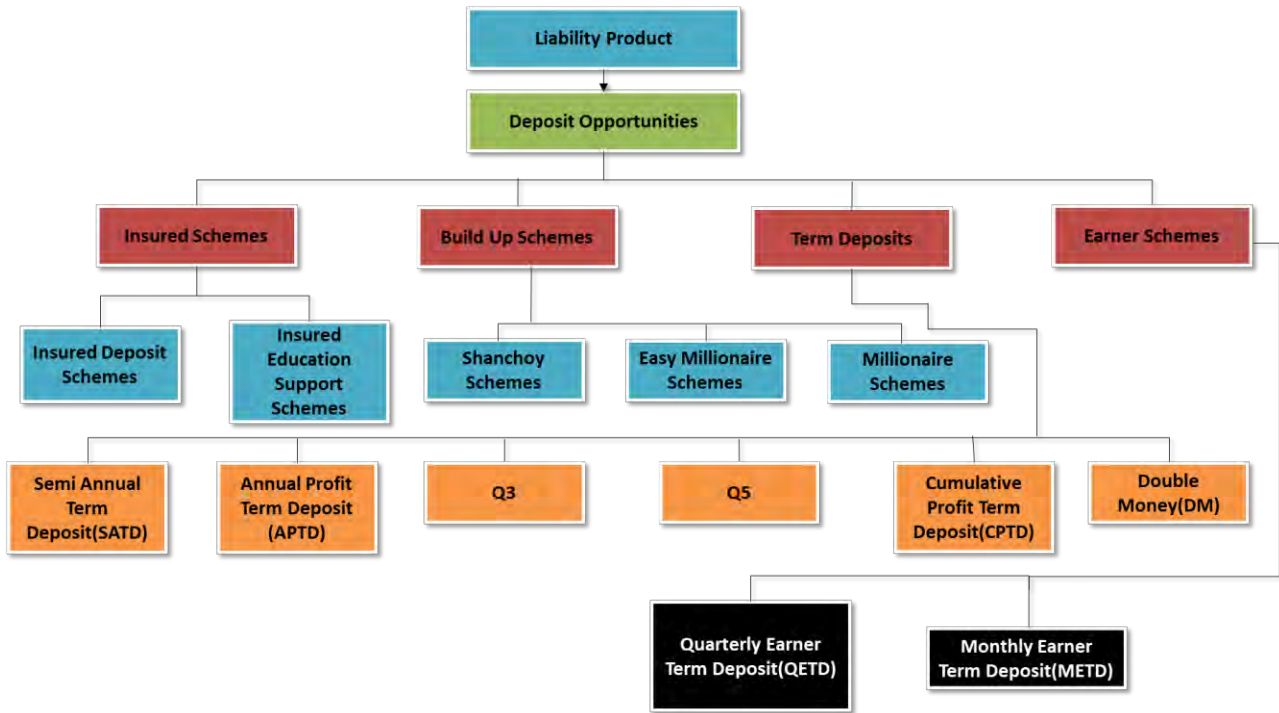
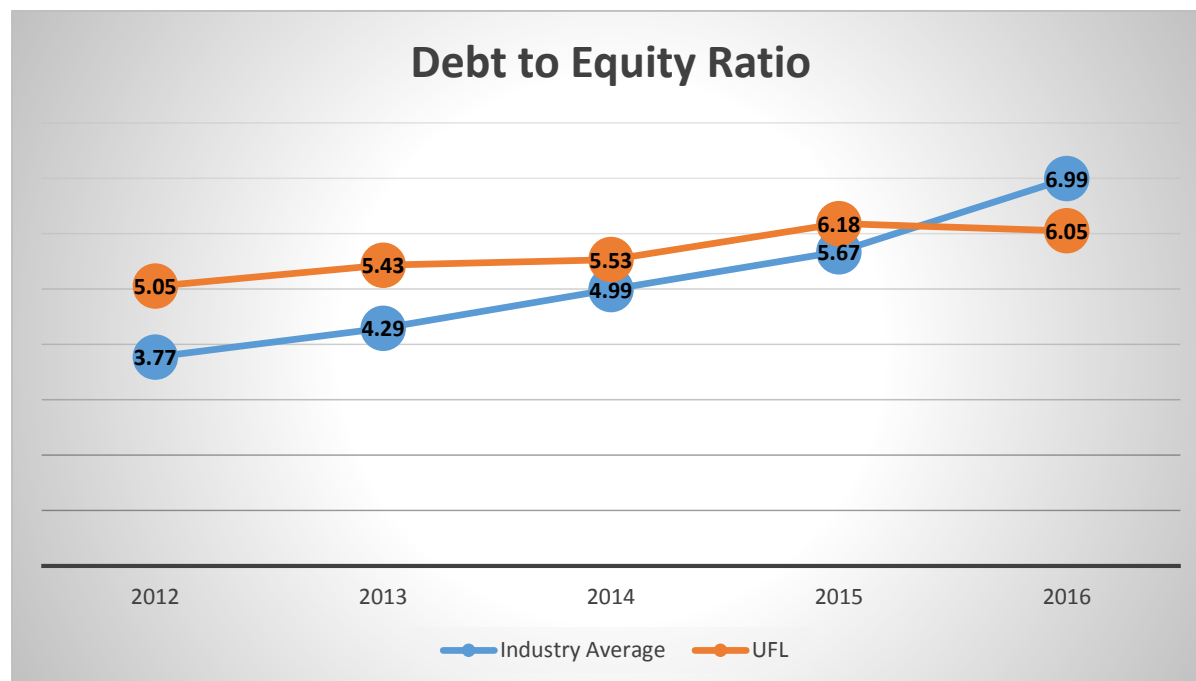


Figure 3: Liability Products

**Analysis, Measurement and Comparison
on Solvency of UFL**

4.1 Analysis, Measurement & Comparison of Debt to Equity Ratio of UFL



	2012	2013	2014	2015	2016
Industry Average	3.77	4.29	4.99	5.67	6.99
UFL	5.05	5.43	5.53	6.18	6.05

Figure 4: Comparative position of Net Profit Margin (For Data see Appendix I)

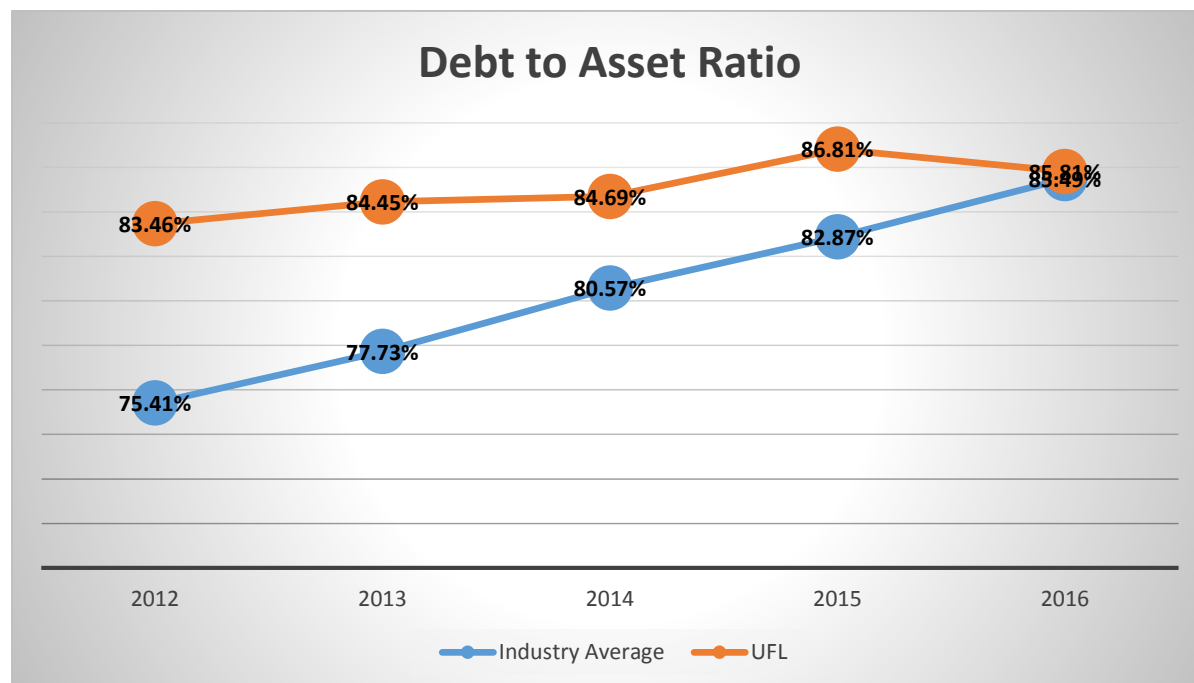
Analysis:

From the graph and calculated data it is observed that

- In 2012, 2013, 2014, 2015 & 2016 the average DTER of UFL was generally more than industry average (except 2016) and the difference is bit high for majority studied years: 2012: $5.05 > 3.77$ which is 1.28; 2013: $5.43 > 4.29$ which is 1.14; 2014: $5.53 > 4.99$ which is 0.54; 2015: $6.18 > 5.67$ which is 0.51 and the exception 2016: $6.05 < 6.99$ which is -0.94.
- So it is seen from the five years data (2012-2016) that the Debt to Equity Ratio of UFL was almost always higher than the industry, but as it is a leverage ratio the higher value does not ensure that its performance is better than the other NBFIs of this industry. As well as the higher leverage does not depict that its performance is lower and it cannot be said that UFL is burdened by debt financing. Since, NBFIs are valued differently because they utilize debt as a sort of raw material rather than for reinvestment so higher value of

Debt to Equity of UFL does not depicts that its financial performance is poor. UFL's debt to equity ratio is not very much different from the industry average in the recent years so it can be said the amount of debt financing to equity financing is acceptable. Side by side it is observed that overall Debt to Equity ratio of UFL is slightly higher than the industry and it incurs more risk than usual because of financial leverage and a bit vulnerable than the other players of the industry.

4.2 Analysis, Measurement & Comparison of Debt to Asset Ratio of UFL



	2012	2013	2014	2015	2016
Industry Average	75.41%	77.73%	80.57%	82.87%	85.49%
UFL	83.46%	84.45%	84.69%	86.81%	85.81%

Figure 5: Comparative position of Net Profit Margin (For Data see Appendix II)

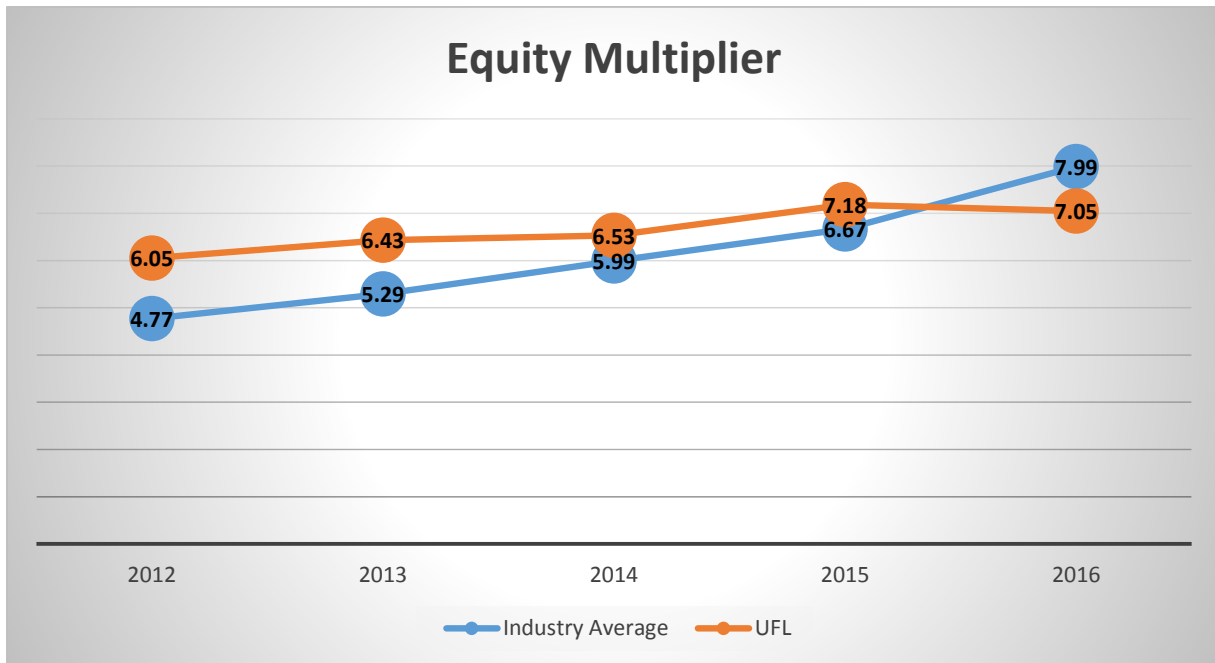
Analysis:

However, in this circumstance it can conclude that:

- In 2012, 2013, 2014, 2015 & 2016 the average DTAR of UFL was more than industry average and the difference is high: 2012: $83.46\% > 75.41\%$ which is 8.05%; 2013: $84.45\% > 77.73\%$ which is 6.72%; 2014: $84.69\% > 80.57\%$ which is 4.12%; 2015: $86.81\% > 82.87\%$ which is 3.94% and 2016: $85.81\% > 85.49\%$ which is 0.32%.
- So it is seen from the five years data (2012-2016) that the Debt to Asset Ratio of UFL was always higher than the industry, but as it is a leverage ratio the higher value does not ensure that it's good or bad performance. Average of debt to asset ratio of UFL over five year is 85.04%, that is major portion of its asset is funded by debt financing but it is not peculiar since the NBFIs are mostly run by the borrowed funds of customers, and UFL's debt to asset ratio is not very much different from the industry average so it can be said

the amount of debt financing for procuring asset is acceptable. Side by side it is observed that overall Debt to Asset ratio of UFL is slightly higher than the industry and it incurs more risk than usual because of financial leverage and a bit vulnerable than the other players of the industry.

4.3 Analysis, Measurement & Comparison of Equity Multiplier of UFL



	2012	2013	2014	2015	2016
Industry Average	4.77	5.29	5.99	6.67	7.99
UFL	6.05	6.43	6.53	7.18	7.05

Figure 6: Comparative position of Net Profit Margin (For Data see Appendix III)

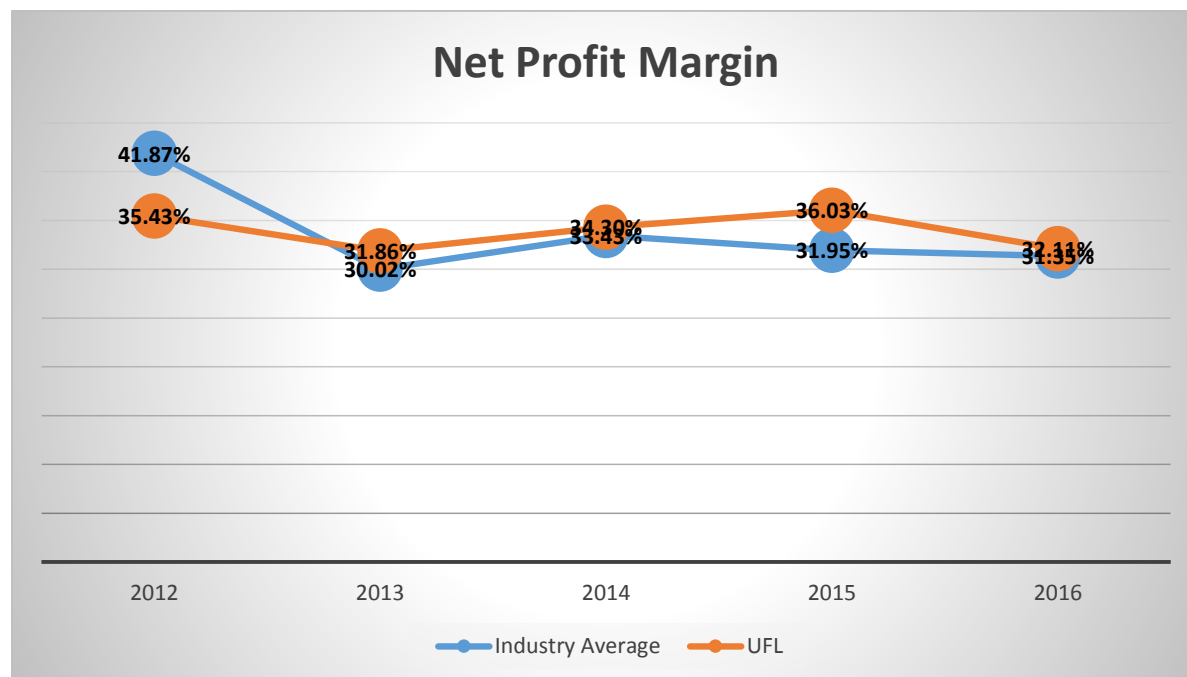
Analysis:

However, in this circumstance it can conclude that:

- In 2012, 2013, 2014, 2015 & 2016 the average EM of UFL was more than industry average but the difference is slightly higher than industry average: 2012: $6.05 > 4.77$; 2013: $6.43 > 5.29$; 2014: $6.53 > 5.99$; 2015: $7.18 > 6.67$ and the exception 2016: $7.05 < 7.99$.
- Average of debt to equity multiplier of UFL over five year is 6.648, that is major portion of its asset is funded by debt financing but it is not peculiar since the NBFIs are mostly run by the borrowed funds of customers, and UFL's equity multiplier is slightly higher than industry average so it can be said the amount of debt financing for procuring asset is acceptable. Side by side it is observed that equity multiplier of UFL is slightly higher than the industry and it incurs a bit more risk than usual because of financial leverage and a bit vulnerable than the other players of the industry.

**Analysis, Measurement and Comparison
on Profitability of MBL**

4.4 Analysis, Measurement & Comparison of Net Profit Margin of UFL



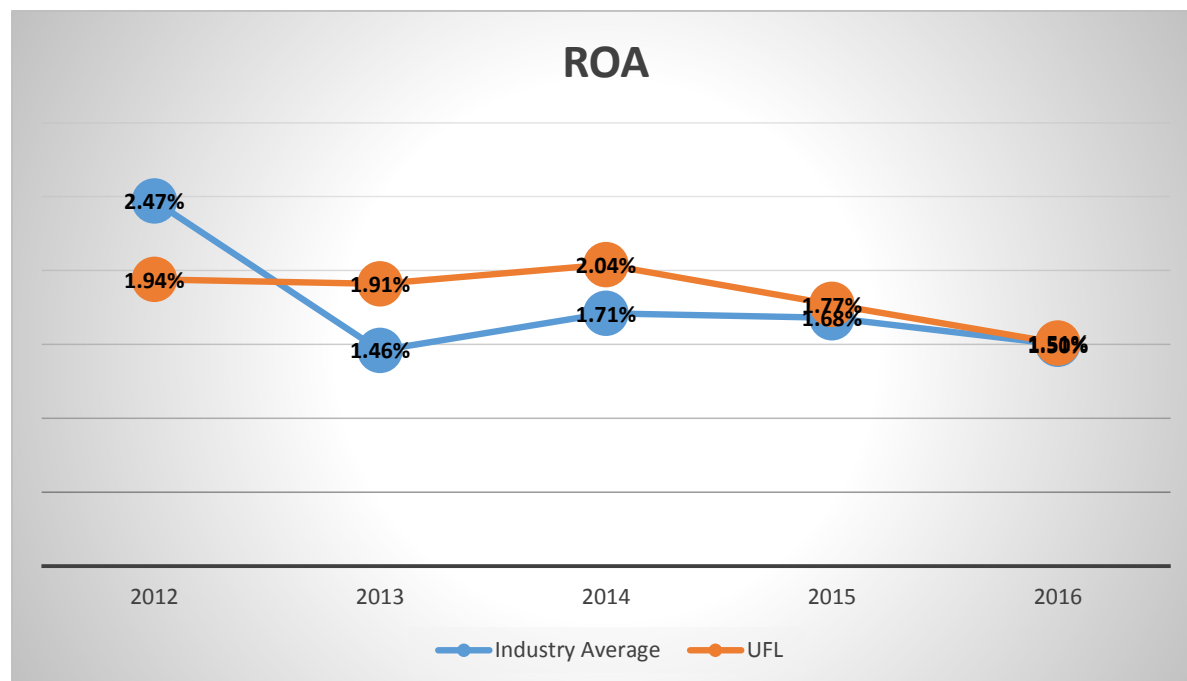
	2012	2013	2014	2015	2016
Industry Average	41.87%	30.02%	33.43%	31.95%	31.35%
UFL	35.43%	31.86%	34.30%	36.03%	32.11%

Figure 7: Comparative position of Net Profit Margin (For Data see Appendix IV)

Analysis:

- In the year 2013-2016 net profit margin of UFL was more than the average of the Bangladeshi NBFi industry (31.86%>30.02%, 34.30%>33.43%, 36.03%>31.95%, 32.11%> 31.35%)
- Average net profit margin of UFL is 33.95% that means that 33.95 paisa of net income comes from every taka of sales of UFL.
- Average of five year's net profit of private commercial NBFi of Bangladesh is 33.72% where else UFL's average net profit margin is 33.95%, so the performance is a bit better than the performance of other NBFIs of Bangladesh.

4.5 Analysis, Measurement & Comparison of ROA of UFL



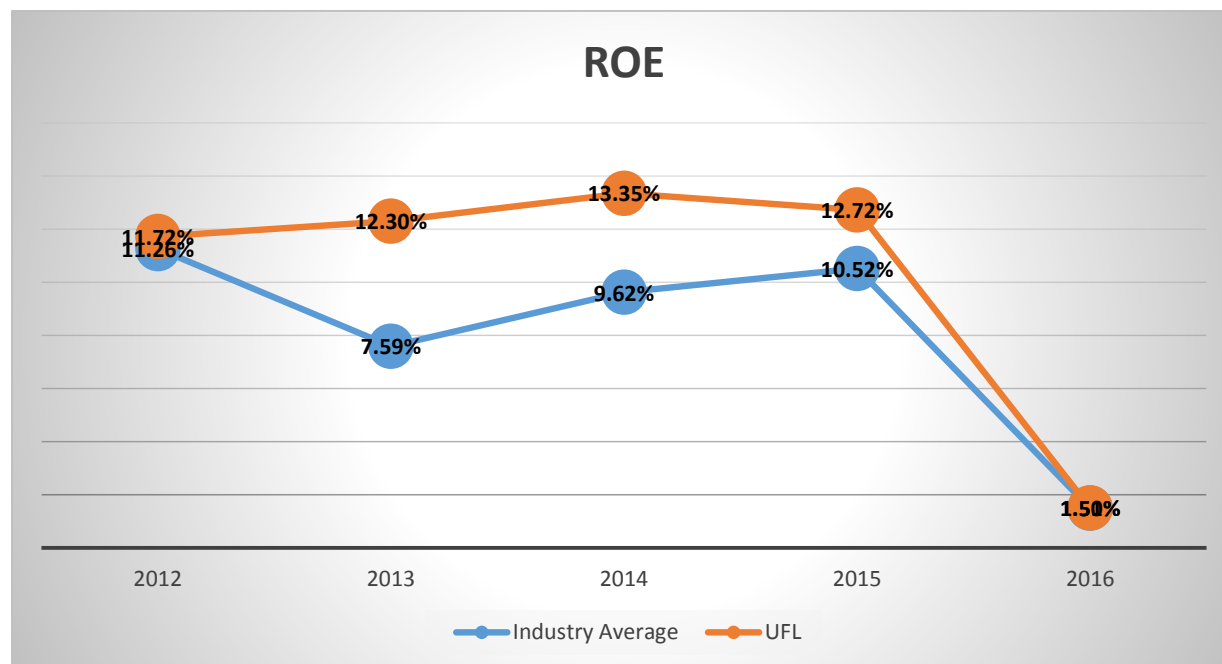
	2012	2013	2014	2015	2016
Industry Average	2.47%	1.46%	1.71%	1.68%	1.50%
UFL	1.94%	1.91%	2.04%	1.77%	1.51%

Figure 8: Comparative position of ROA (For Data see Appendix V)

Analysis:

- In the year 2012-2016 ROA of UFL was more than the average (except 2012) of the other NBFIs (1.92% < 1.94%, 1.91% > 1.46%, 2.04% > 1.71%, 1.77% > 1.68%, 1.51% > 1.50%)
- Average of five year's ROA of other NBFIs is 1.76% where else UFL's average ROA is 1.83% which is relatively higher than the performance of the average NBFIs. So the UFL total asset is generating higher return than other private commercial NBFIs.

4.6 Analysis, Measurement & Comparison of ROE of UFL



	2012	2013	2014	2015	2016
Industry Average	11.26%	7.59%	9.62%	10.52%	1.50%
UFL	11.72%	12.30%	13.35%	12.72%	1.51%

Figure 9: Comparative position of ROE (For Data see Appendix VI)

Analysis:

- In the year 2012-2016 ROE of UFL was more than the average of the NBFIs of Bangladesh (11.72% > 11.26%, 12.30% > 7.59%, 13.35% > 9.62%, 12.72% > 10.52%, 1.51% > 1.50%)
- Average of five year's ROE of NBFIs of Bangladesh is 8.10% where else UFL's average ROE is 10.32% that is the performance is relatively higher than the performance of the other private NBFIs. So the equity or shareholders of UFL are earning relatively more than the other private NBFIs of Bangladesh.

**FINDINGS, RECOMMENDATION
AND CONCLUSION**

5.1 Findings

From the analysis, measurement and comparison of five years solvency and profitability of UFL with the other NBFIs of Bangladesh some findings have been found which are given below:

- a) From the comparison between the industry average and UFL; it is found that the though debt to equity ratio is slightly higher than the industry average, however it is going similarly in the same way with the industry average which says that the NBFIs are on the right track to carry out their present performance.
- b) From the comparison between the industry average and UFL; it is found that the debt to total asset ratio of UFL is higher than industry average and UFL is taking the higher risk. However, it is found that, the current trend is that the industry average is going higher or taking higher risk but UFL hold their risk level in almost same position.
- c) From the comparison between the industry average and UFL; it is found that the equity multiplier of UFL is more or less similar to the industry average. The risk of UFL is not so much for this similarity.
- d) From the comparison between the industry average and UFL; it is found that UFL's net profit margin is slightly higher than the industry average of net profit margin. So UFL is doing slightly better than the overall industry.
- e) From the comparison between the industry average and UFL; it is found that the return on asset of UFL is slightly higher than the industry average. In this UFL have also doing slightly better than the overall industry.
- f) From the comparison between the industry average and UFL; it is found that the return on equity of UFL is higher than the industry. However, the trend is similar as it is going in the same track with the industry average. So it should maintain the position and try to improve it to further extent.

5.2 Recommendation

It is not unexpected to have problems in any organization. There must be problems to operate an organization. But there must be remedies to follow. The following commendations can be suggested to solve the above mentioned problems:

- a) Though for NBFIs it is common that most of the funds will be borrowed, that NBFIs run mostly by debt financing, that's why the leverage ratios (debt to asset ratio, debt to equity ratio, equity multiplier) will be much higher than the other industries. Though UFL's leverage ratios are (debt to asset ratio, debt to equity ratio, equity multiplier) are almost similar to the other NBFIs of Bangladesh. But all of the leverage ratios are slightly higher than the industry average, So UFL incurs more risk than usual because of financial leverage and a bit vulnerable than the other players of the industry. So UFL should minimize their leverage that is debt financing a bit and increase equity financing a bit, considering the fact that minimization is not so high that the UFL lacks of funds to lend.
- b) The profitability (Net profit, ROA, ROE) of UFL is moderately higher than industry average in previous years, however there is a scope for improvement because the profitability is not that higher than the industry. So it can be say that they are going good and UFL should make sure that the existing growth rate is increased gradually in a steady pace. UFL have to take some initiatives to improve profitability and for this they should follow the base line of cost minimization and increase of profit.
- c) It should be more concern in their management quality to improve its satisfactory position. The total success depends on the direction of the management so they have to expert and highly experienced in this sector.

5.3 Conclusion

NBFIs are playing a vital role in the development of our economy. Government and Bangladesh NBFIs also play a crucial role in this sector by regulating the overall monetary systems and setting rules and regulation in the activities of NBFIs. In recent years of this sector, UFL has shown better performance comparing with other first generation NBFIs.

It was great pleaser for to do internship program in reputed organization like UFL. These period of practical orientation helps to provide a wide range of scope to observe the operations of NBFIs. Overall the NBFIs must make apposite attempt to be more outward looking in their goals and aware of what is happening.

The solvency of UFL is higher than the industry so it is better for UFL to decrease the debt financing and minimize the risk they are taking on the other hand the profitability of UFL is slightly higher than industry average so UFL have to maintain the existing position and side-by-side they have to take the initiatives to improve this so that they can perform better than the present situation. Finally, this report will help the UFL to get the overall performance in this sector.

APPENDIX

6.0 Appendix

Annex I

Debt to Equity Ratio						
		2012	2013	2014	2015	2016
1	United Finance	5.05	5.43	5.53	6.18	6.05
2	Union Capital	6.43	5.92	9.06	7.13	8.10
3	LankaBangla Finance	4.04	5.17	5.96	7.17	8.34
4	IDLC	7.05	9.50	9.04	8.43	7.88
5	International Leasing		6.93	7.24	9.34	14.69
6	IPDC	2.51	2.76	2.38	2.31	7.14
7	GSP Finance	1.48	1.95	2.38	2.62	2.25
8	FAS Finance		2.10	3.67	7.47	9.18
9	Bay Leasing	1.33	1.66	2.37	3.09	4.13
10	Islamic Finance	3.40	3.56	3.93	4.84	5.98
11	Phonix Finance	5.10	4.94	6.06	6.94	8.52
12	Uttara Finance	2.92	3.59	4.76	4.83	4.30
13	Prime Finance	2.14	2.30	2.48	3.35	4.27
	Average	3.77	4.29	4.99	5.67	6.99
	Average of 5 years	5.14				

Annex II

Debt to Equity Ratio						
		2012	2013	2014	2015	2016
1	United Finance	83.46%	84.45%	84.69%	86.07%	85.81%
2	Union Capital	86.54%	85.54%	90.06%	87.69%	89.01%
3	LankaBangla Finance	80.15%	83.80%	85.63%	87.76%	89.29%
4	IDLC	87.58%	90.48%	90.04%	89.40%	88.74%
5	International Leasing		87.38%	87.87%	90.33%	93.63%
6	IPDC	71.50%	73.39%	70.40%	69.83%	87.71%
7	GSP Finance	59.62%	66.14%	70.45%	72.39%	69.23%
8	FAS Finance		67.71%	78.59%	88.19%	90.17%
9	Bay Leasing	57.13%	62.44%	70.30%	75.53%	80.50%
10	Islamic Finance	77.29%	78.06%	79.71%	82.87%	85.67%
11	Phonix Finance	83.62%	83.18%	85.83%	87.41%	89.50%
12	Uttara Finance	74.51%	78.24%	82.62%	82.83%	81.15%
13	Prime Finance	68.12%	69.72%	71.24%	77.03%	81.01%
	Average	75.41%	77.73%	80.57%	82.87%	85.49%
	Average of 5 years			80.42%		

Annex III

Shareholders Equity Ratio						
		2012	2013	2014	2015	2016
1	United Finance	6.05	6.43	6.53	7.18	7.05
2	Union Capital	7.43	6.92	10.06	8.13	9.10
3	LankaBangla Finance	5.04	6.17	6.96	8.17	9.34
4	IDLC	8.05	10.50	10.04	9.43	8.88
5	International Leasing		7.93	8.24	10.34	15.69
6	IPDC	3.51	3.76	3.38	3.31	8.14
7	GSP Finance	2.48	2.95	3.38	3.62	3.25
8	FAS Finance		3.10	4.67	8.47	10.18
9	Bay Leasing	2.33	2.66	3.37	4.09	5.13
10	Islamic Finance	4.40	4.56	4.93	5.84	6.98
11	Phonix Finance	6.10	5.94	7.06	7.94	9.52
12	Uttara Finance	3.92	4.59	5.76	5.83	5.30
13	Prime Finance	3.14	3.30	3.48	4.35	5.27
	Average	4.77	5.29	5.99	6.67	7.99
	Average of 5 years			6.14		

Annex IV

Net Profit						
		2012	2013	2014	2015	2016
1	United Finance	35.43%	31.86%	34.30%	36.03%	32.11%
2	Union Capital	22.60%	23.38%	22.50%	29.21%	25.94%
3	LankaBangla Finance	34.07%	12.84%	15.94%	19.44%	17.88%
4	IDLC	29.66%	31.52%	34.68%	31.81%	34.46%
5	International Leasing		28.28%	24.64%	21.61%	19.86%
6	IPDC	37.92%	29.69%	28.53%	37.54%	36.02%
7	GSP Finance	37.73%	37.32%	36.43%	44.46%	43.52%
8	FAS Finance		10.97%	35.53%	25.38%	24.97%
9	Bay Leasing	61.15%	60.50%	48.94%	37.01%	35.51%
10	Islamic Finance	31.02%	27.21%	56.61%	69.38%	49.31%
11	Phonix Finance	41.63%	42.21%	20.93%	26.91%	28.37%
12	Uttara Finance	64.97%	7.14%	18.33%	36.51%	59.65%
13	Prime Finance	64.38%	47.37%	57.27%	0.00%	0.00%
	Average	41.87%	30.02%	33.43%	31.95%	31.35%
	Average of 5 years			33.72%		

Annex IV

ROA						
		2012	2013	2014	2015	2016
1	United Finance	1.94%	1.91%	2.04%	1.77%	1.51%
2	Union Capital	0.55%	1.02%	1.10%	1.16%	1.12%
3	LankaBangla Finance	6.34%	1.68%	2.02%	2.31%	1.86%
4	IDLC	1.89%	1.67%	2.02%	1.99%	2.24%
5	International Leasing		0.64%	0.63%	0.49%	0.32%
6	IPDC	1.81%	1.83%	2.14%	2.93%	1.34%
7	GSP Finance	2.97%	2.14%	2.21%	3.15%	3.63%
8	FAS Finance		0.52%	1.80%	0.93%	0.52%
9	Bay Leasing	1.21%	1.78%	1.44%	0.86%	0.75%
10	Islamic Finance	1.51%	1.36%	2.60%	3.17%	2.33%
11	Phonix Finance	2.07%	2.07%	1.13%	1.32%	1.16%
12	Uttara Finance	4.35%	0.26%	0.62%	1.81%	2.74%
13	Prime Finance	2.58%	2.14%	2.54%	0.00%	0.00%
	Average	2.47%	1.46%	1.71%	1.68%	1.50%
	Average of 5 years			1.77%		

Annex VI

ROE						
		2012	2013	2014	2015	2016
1	United Finance	11.72%	12.30%	13.35%	12.72%	1.51%
2	Union Capital	4.05%	7.05%	11.07%	9.39%	1.12%
3	LankaBangla Finance	31.93%	10.38%	14.03%	18.87%	1.86%
4	IDLC	15.19%	17.55%	20.26%	18.74%	2.24%
5	International Leasing		5.10%	5.21%	5.02%	0.32%
6	IPDC	6.34%	6.88%	7.22%	9.71%	1.34%
7	GSP Finance	7.37%	6.32%	7.50%	11.41%	3.63%
8	FAS Finance		1.60%	8.40%	7.89%	0.52%
9	Bay Leasing	2.82%	4.75%	4.86%	3.50%	0.75%
10	Islamic Finance	6.63%	6.21%	12.80%	18.49%	2.33%
11	Phonix Finance	12.66%	12.33%	7.95%	10.52%	1.16%
12	Uttara Finance	17.06%	1.18%	3.59%	10.52%	2.74%
13	Prime Finance	8.09%	7.06%	8.85%	0.00%	0.00%
	Average	11.26%	7.59%	9.62%	10.52%	1.50%
	Average of 5 years			8.10%		

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