CHAPTER - V

SUMMARY OF FINDINGS AND SUGGESTIONS

◊ INTRODUCTION 231
◊ FINDINGS 232
◊ SUGGESTION 242
◊ CONCLUSION 246
◊ SCOPE FOR FURTHER RESEARCH 247
CHAPTER - V

SUMMARY OF FINDINGS AND SUGGESTIONS

INTRODUCTION

Factoring is a complete financial package that combines working capital financing, credit risk protection, accounts receivable, book keeping and collection services. A growing number of companies offer factoring services. Factoring has become well established in developing countries, in particular in those that are highly industrialized. Factoring is now universally accepted as vital to the financial needs of small and medium-sized businesses.

The State Bank of India and Canara Bank have set up their factoring subsidiaries - SBI Factors and Commercial Services Limited and Canbank Factors Limited, keeping in view the perennial problems of interminable delays in collection of dues and working capital inadequacies that dogged medium and small scale manufactures. The RBI Governor at the time of launching of these factoring institutions had
urged that the banking industry should look into the ways for expanding factoring services in the country.

Factoring seeks to address this problem by helping creditors to realize their dues. Through factoring, business community has got not only financial support but also management support. But factoring would not be a complete solution for delays and defaults in payments.

This study makes a probe into the various aspects of performance of SBI factors and Canbank factors and measures the satisfaction of the select clients. Suitable statistical tools have been employed in the analysis of data.

FINDINGS

The main findings of the study detailed in chapter IV are summarized and given as follows:

GROWTH OF SBI FACTORS AND CANBANK FACTORS

The analysis of the trends in growth of SBI factors and Canbank factors revealed the SBI factors and Canbank factors revealed the following:
Factoring volume of SBI factors grew at an average annual rate of 54.29 per cent and at a compound growth rate of 40.18 per cent whereas Canbank factors recorded growth rates lower than SBI factors, annual growth rates and compound growth rates at 25.87 and 24.11 per cent respectively.

SBI factors recorded mean annual and compound growth rates at 72.42 per cent and 46.83 per cent in respect of funds-in-use, while it was lower at 25.13 per cent and 23.85 per cent for Canbank factors. Canbank factors attained higher average annual as well as compound growth rates in respect of factoring income at 73.09 per cent and 38.60 per cent. The comparative figures of SBI factors revealed lower rates at 51.78 per cent and 38.32 per cent. Other income grew at a negative rate of 1.15 per cent for SBI factors whereas Canbank factors presented a positive compound growth rate of 3.93 per cent.

The average growth rate of total income of Canbank factors was quite higher (mean annual growth rate 49.24 per cent and CGR - 33.63 per cent). SBI factors registered mean annual and compound growth rates of total income at 29.60 per cent and 25.04 per cent respectively.
In respect of operating profit, Canbank factors registered a compound growth rate higher than SBI factors at 33.63 per cent. SBI factors recorded 25.04 per cent compound growth rate of operating profit.

The number of clients of SBI factors grew at a higher rate (28.74 per cent) than that of Canbank factors (22.66 per cent).

As regards the growth of total assets, Canbank factors recorded an average annual compound growth rate of 30.43 per cent. SBI factors recorded 28.79 per cent compound growth rate.

Canbank factors (40.47 per cent) surpassed SBI factors (24.76 per cent) in respect of compound growth rate of Reserves and Surpluses and Networth. Average annual compound growth rate of networth of Canbank factors was 15.61 per cent whereas it was only 8.67 per cent for SBI factors.

Overall compound growth rate of both the factoring institutions remained more or less the same and stood at 26.16 per cent for SBI factors and 26.33 per cent for Canbank factors.
PROJECTED GROWTH OF THE FACTORING INSTITUTIONS

The conclusions drawn from the forecasting done for the periods from 2007-08 to 2014-15 are:

As regards factoring volume, funds-in-use and factoring income, SBI factors is projected to have higher growth rates than Canbank factors.

The projected growth indices of other income revealed a decline to 78.89 percent for SBI factors and a rise to 134.94 per cent for Canbank factors towards the end of the financial year 2014-15.

Total income, operating profit, clientele and total assets of SBI factors is predicted to have larger rates of growth in comparison with Canbank factors.

Reserves and Surpluses and Networth are predicted to increase at higher rates for Canbank factors than SBI factors during the eight year period upto 2014-15.
FUNDS POSITION OF SBI FACTORS AND CANBANK FACTORS

The short term funds position of the factoring institutions revealed by the current ratio, and debtors turnover stood satisfactory for both the factoring institutions. However, SBI factors exhibited unsatisfactory liquidity position due to lower cash and bank balances. Canbank factors presented satisfactory liquidity position, maintaining a higher cash position.

Long term funds position indicated by debt equity ratio exhibited greater dependence on debt by both the factoring institutions. The average ratio of around 2 recorded by both SBI factors and Canbank factors is acceptable from the long term point of view.

Proprietary ratio of SBI factors and Canbank factors deteriorated towards the end of the study period reflecting upon a declining trend in the long term funds position of both the factoring institutions.

During the period of the study, the solvency ratio had a fluctuating trend for both SBI factors and Canbank factors. The average ratio stood above 50 per cent for both the factoring institutions. SBI factors exhibited greater consistency than that of Canbank factors. The long-term funds
position of SBI factors and Canbank factors deteriorated towards the later years of the study period.

OPERATIONAL EFFICIENCY

The efficiency of factoring business measured by return on capital employed indicated a deteriorating trend in the case of SBI factors and Canbank factors towards the later years of the study period. However, Canbank factors was found better than SBI factors.

SBI factors presented lower level of efficiency in the utilization of assets in generating profit with a mean return on assets ratio at 8.62 per cent. Whereas, Canbank factors achieved better level of operational efficiency in utilizing assets by recording a 12.58 per cent return on total assets on the average.

The operational efficiency indicated by net profit ratio was not encouraging for both the factoring institutions. The average ratio stood at 0.89 per cent and 0.71 per cent for SBI and Canbank factors respectively. The income generating capacity of the factoring institutions amidst wide fluctuations as revealed by the asset utilization ratio was satisfactory and
comparatively Canbank factors exhibited greater efficiency with a mean ratio of 14.77 per cent while it was 13.28 per cent for SBI factors.

Efficiency in the employment of working capital even though presented oscillations, was found high for both the factoring institutions, comparatively Canbank factors exhibited greater efficiency as is reflected in the mean working capital turnover ratio of 6.22. For SBI factors the ratios stood at 5.50 items on an average. As regards the employment of total assets, both SBI factors and Canbank factors succeeded in generating business of over five times which is evident from the mean total assets turnover of 5.25 times for SBI factors and 5.99 times for Canbank factors.

**DETERMINANTS OF PROFITABILITY**

As regards the determinants of profitability, the ratio of factoring income to total income stood greater for Canbank factors at 91.40 per cent on the average, while it was 85.28 per cent for SBI factors. The Proportion of other income to total income of SBI factors stood higher, the average being 14.72 per cent while it was 8.42 per cent for Canbank factors.
Regarding expenditures, the proportion of interest and financial charges to total income was found higher at 36.88 per cent on the average, for Canbank factors, SBI factors had a 26.09 per cent mean ratio.

Administrative and other expenditure to total income stood higher at 21.17 per cent for SBI factors while the ratio was only 7.99 per cent for Canbank factors on the average.

CORRELATION ANALYSIS

Correlation analysis in respect of profitability of the factoring institutions revealed that factoring income to total income had significant positive correlation and interest and financial charges to total income and administrative and other expenditure to total income had negative correlation with profitability. This relationship pattern indicates that profitability can be raised by raising the factoring income component and reducing the expenditure component in respect of interest, financial and administrative charges.
MULTIPLE REGRESSION ANALYSIS

The multiple linear regression component is found statistically a good fit for SBI factors as $R^2$ is 0.668. It shows that ratios namely factoring income to total income and administration and other expenditure to total income have contributed significantly to the variation in the profitability of SBI factors. In the case of Canbank factors, one ratio namely interest and financial charges to total income had significantly contributed to variation in its profitability.

DISCRIMINANT FUNCTION ANALYSIS

Discriminant function Analysis applied by classifying the study period of sixteen years into low profitability and high profitability periods indicated that the following factors are significantly discriminating the two periods in the case of SBI factors and Canbank factors. They are: Administration and other expenditure to total income, interest and financial charges to total income and factoring income to total income.
PRUDENTIAL RISK DISTRIBUTION STRATEGY OF SBI FACTORS AND CANBANK FACTORS

It is observed from the study that both SBI factors and Canbank factors have exposed their business very widely to different types of industries thereby minimizing their risk. The strategy of wide exposure continued over the years.

CLIENT SATISFACTION AND INFLUENCING FACTORS

From the analysis of the satisfaction of clients with the various aspect of factoring services it was found that majority of the clients (55%) derived high level of satisfaction. Twenty nine per cent of the clients had low level of satisfaction and 16 % derived moderate level of satisfaction.

From a look at the client related variables and their satisfaction it could be noted that the highly satisfied clients were

❖ Sole traders by type of organization.
❖ Clients whose nature of business is trading.
❖ Clients with less than 10 years of existence in their field of business.
Clients with scale of operations at the medium level.

 Those with less than 7 years of clientship.

 Bulk factoring clients by type of factoring agreement.

 Those availing credit upto 110 days.

 Size of credit sales amounting to less than Rs. 6 lakhs and

 All the aforesaid factors except location of the clients and the factoring institutions with which factoring business is carried out were found to be significantly influencing clients’ satisfaction as per the test of hypotheses through Analysis of Variance.

 Factor analysis results have indicated that the three dimensions of factoring services namely costs, operational and financial dimensions have contributed 86.567 per cent towards the variation in client satisfaction.

 CLIENTS’ EVALUATION OF FACTORING AS A FINANCING OPTION

 The analysis pertaining to clients evaluation of factoring services show that 57 per cent of the sampled clients evaluated factoring option at a high level whereas 43 per cent of the clients sampled, evaluated
factoring at a low level. Advisory services provided, greater liquidity and
easier debt management were the factors which contributed to high
evaluation by clients and cumbersome procedure to low level of
evaluation.

Multiple regression analysis carried out to find out the client
associated variables influencing the evaluation of factoring as a financing
option indicated that four client related variables namely nature of
industry, period of clientship, type of factoring agreement and size of
credit sales have significantly been contributing to the variation in
clients’ evaluation of factoring services.

SUGGESTIONS

Keeping in view, the analysis and conclusions drawn from the
study, the following suggestions are made here.

1) Generating more income from other sources

Analysis of the growth of income from other sources indicated a
decreasing trend in the case of both the factoring institutions. Hence,
efforts are required for generating more income from sources like leasing,
exchange gain and investments.

243
2) **Improving cash position**

The cash position of SBI factors and Canbank factors stood low which is detrimental to the liquidity of the factoring institutions. Hence, steps may be taken to enhance cash and bank balances of the factoring institutions.

3) **Attaining greater stability**

Analysis pertaining to the long term funds position of SBI factors and Canbank factors revealed deterioration in the long term solvency position. Hence greater attention is needed to improve the solvency ratios so as to achieve greater stability.

4) **Profit planning**

It is observed from the analysis that the profit margin of SBI factors and Canbank factors has been declining over the years. Hence, effective profit planning should be done so as to improve the profitability.
5) Expenditure budget

It is found that the analysis of expenditure components in respect of interest and financial charges of Canbank factors was higher. So a continuous monitoring of expenditure through budgeting will help the management of Canbank factors to cut the expenditure to a reasonable extent.

6) Monitoring Important Ratios

The multivariate analysis revealed significant results for variables such as factor income to total income, interest and financial charges to total income and administration and other expenditure to total income. Monitoring of these ratios will go a long way in enhancing profitability.

7) Improving Clients’ Satisfaction

Eventhough the results of the analysis made in this study revealed high level of satisfaction among higher percentage of clients, there are clients (29 per cent) who expressed low level of satisfaction. Hence, better servicing is required to improve client satisfaction.
8) Reframing the legal structure

Client evaluation of factoring as a financing option remained low mainly because of the cumbersome procedural formalities as per the legal framework of factoring. Hence, reframing the laws will help clients to reduce the procedural hitches in availing factoring services.

CONCLUSION

"Factoring" as one of the viable tools for trade finance is gaining acceptance at an accelerated pace in the country and in many industrial sectors. Business houses have started showing keen interest in availing this facility either for their domestic or export sales.

SBI factors and Canbank factors have played a pivotal role in popularising the concept of factoring in India. Both the factoring institutions registered positive growth in their business over the sixteen years of existence which is projected to continue in the coming years. The factoring institutions could create a satisfied clientele with greater emphasis on operational and financial aspects of services. Factoring is a preferred financial option for many industries.
SCOPE FOR FURTHER RESEARCH

The researcher is pleased to offer the following areas for further research:

- Impact of factoring on the liquidity and debt management of the clients.
- Cost-benefit analysis of factoring Vs receivable finance of Commercial banks.