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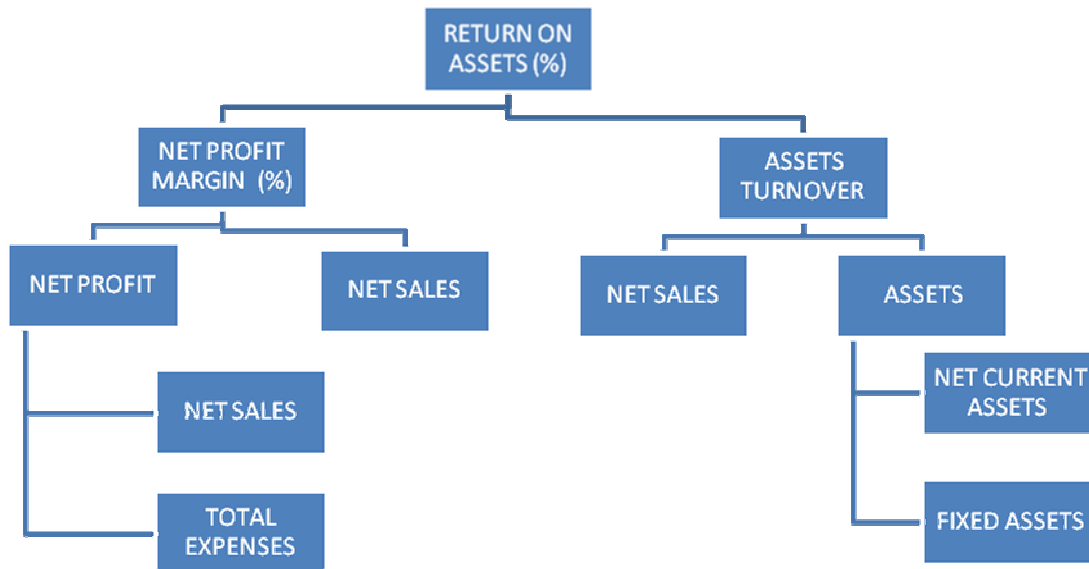
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by Suresh S., Director, DMS Financial Services Co.P.Ltd.
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USING DUPONT CHART – THREE TOP PLAYERS ANALYSED

by Suresh S.
Director, DMS Financial Services Co. (P) Ltd.

The use of Dupont chart is done by a drill down in an attempt to ascertain whether Assets or Net Profits Margin is boosting or dragging performance. The layout of the process is given below.



Do give your feedback to us at < dms.financial.services@gmail.com >
(web site: www.dms-finance.com)

Three top players – **TCS, M&M and ITC** have performed superbly but using the Dupont format could mislead. This is a classical case of the necessity to understand performance beyond ratio analysis. The summary of Dupont ratios are presented in the Table below:

(FIGS.OF RUPEES ARE IN CRORES)

NAME	TCS		M&M		ITC	
PARAMETER	2010	2009	2010	2009	2010	2009
RETURN ON ASSETS	37%	35%	19%	9%	0.4%	5.8%
NET PROFIT MARGIN	24%	21%	11%	6%	0.3%	5.3%
ASSETS TURNOVER	1.53	1.62	1.72	1.43	1.25	1.09

(Source: Company Annual reports. Ideally the Assets should be taken as the average of Opening and Closing balances. Here only Closing balance is considered.)

ITC seems to have falling performance whereas both TCS and M&M are showing improvement of 2010 over 2009.

Has ITC fared badly? Has the Sales decreased or have Expenses shot up? Neither as the Table below shows:

ITC

Rs./crores

ITEM	2010	2009
RETAINED EARNINGS	61.31	858.14
NET SALES	18756	16146
TOTAL EXPENSES	18695	15288
TOTAL ASSETS	14957	14780

Then why is the Return (expressed as Retained Earnings) falling so badly in 2010? Retained Earnings is very low because the Company is celebrating its 'centenary year' and has declared a Special Dividend of Rs.5.5 per Share of face value Re.1, amounting to Rs.2100 crores. Whilst it appears its Retained Earnings has fallen, in reality ITC has given a superlative performance.

TCS has shown better Return on Assets in 2010 but the Assets Turnover Ratio has apparently fallen. Is it due to poor utilization of Assets? Far from it the Company has reduced the size of its Assets and with that Asset base, generated larger Sales which speaks of its efficiency of Asset Management. The Assets Turnover Ratio has reduced because the almost entire increase in Assets has been caused by 'Increase in cash and Cash equivalents'. This is a sign of excellent performance and reflects its strength to buyout companies when opportunities arise in Mergers/Acquisitions.

ITEM (Rs./crores)	2010	2009
NET PROFIT	5618	4696
NET SALES	23222	21948
TOTAL EXPENSES	17604	17252
TOTAL ASSETS	15192	13590
NET CURRENT ASSETS	3545	4296
FIXED ASSETS & INVEST.	11647	9294

The break-up of Net Current Assets is given below:

ITEM	2010	2009
INVENTORIES	6.7	16.9
UNBILLED REV.	646.9	817.1
DEBTORS	3332.3	3732.8
CASH & BANK	3396.2	1605.3
OTHERS	16.6	0.3
LOANS, ADVS	3385.1	2966.9
GROSS CURR.ASSETS	10783.8	9139.3
CURR.LIA., PROVNS.	7239.3	4842.9
NET CURR.ASSETS	3544.5	4296.4

The third case is an example of a Company **M&M** showing aggressive growth and profits.

YEAR	2010	2009
RETURN ON ASSETS	19%	9%
NET PROFIT MARGIN	11%	6%
ASSETS TURNOVER(Rs./crores)	1.72	1.43

Not only have the utilization of Assets been better but also M&M operated with a higher Net Profit margin. No wonder the Return on Assets has shot up dramatically.

ITEM (Rs./crores)	2010	2009
NET PROFITS	2087	836
NET SALES	18801	13364
TOTAL EXPENSES	16714	12528
TOTAL ASSETS	10951	9315
NET CURRENT ASSETS	846	265
FIXED ASSETS & INVS.	10105	9050

Thus Dupont Chart is a convenient way to analyse performances but conclusions cannot be formed unless a drill down of the changes is done.

Dupont is not reliable when comparing performances of two different companies which have different financing structures as also significant differences in Assets owned Versus Rented.

WHERE ANGELS FEAR TO TREAD – FINANCING IN VILLAGES

Comments by Suresh S.

(Source: THE ECONOMIC TIMES, CHENNAI, THURSDAY, 22ND JULY 2010, PAGE 6
SPECIAL FEATURE – FINANCIAL INCLUSION by M.Rajshekhar)

- Breakeven in ‘8th month’ of commencement (Operational break even), and Total breakeven including Capital costs recovery in the ‘18th month’!
- Kshetriya Gramin Financial Services (KSHETRIYA) is a success story of lending to villagers. A private Trust set up with funds from ICICI Bank has set up three such offices - Thanjavur (Tamil Nadu), Ganjam (Orissa) and Tehri (Uttarkhand).
- Is this already a Success story? Or is it too early to trumpet success? The Thanjavur unit was set up in June 2008. It has 57 branches and 70000 customers.
- It lends at 16% pa compared to 24-36% charged by MFIs. MFIs offer only loans; KSHETRIYA offers a range of financial services – Loans, Savings, Insurance and Remittances.
- As it is not a bank, it cannot operate Current or Savings accounts; hence it offers Money Market Mutual Funds.
- Each KSHETRIYA will cover 2 or 3 districts only. This will force the branch to delve deep and seek customers within this geographical area.
- IFMR is a promoter but cannot operate the model. Hence it intends to appoint franchisees.
- After 7 years operations branch is supposed to touch turnover of Rs. 5 crores.

The economics are captured in the following Table:

Parameter	Details	Rupees	Remarks
Set up	Interiors, counters, biometric devices, 2 PCs, inverter	3.50 lakhs	
Running costs	Rent, salaries, utilities	35,000 per month	
Head office	250 branches	50-75 lakhs	Adds Rs.10000 to operating cost of branch
Spread		4%	
Disbursement	Breakeven(A+B)	(A)1.5 crores small loans	1000 loans of Rs.15 k

Disbursement	Breakeven(A+B)	(B)1.25 crores	200-250 larger loans of Rs.50000
Fee based income	Insurance & remittances	Presently 4% of Total Income	Ideal ratio 85 : 15::interest: fees

Will KSHETRIYA be able to sustain its success story of three branches? Whilst 'Time' will definitely tell, the imponderables cannot be taken lightly. They are severe and several – trained manpower, logistics, competition from MFIs, NPAs, vulnerability to local factors/forces. With a spread of 4%, it needs just one black loan to sniff out the lustre of 25 good loans. What then happens when the institution starts providing for NPAs? How does the bottom line grow? The dependence on trained local manpower is so critical, you need just one competitor to poach executives for the tables to be turned around. And finally, the intrinsic worth of the business lies in the customer – the hapless lady who is often deserted, who brings up a generation below and a generation above, who does not think twice about pawning jewels to admit her child in hospital. Social pressures can work in cases of default, but this assumes that the lender has other recourses too such as security. A pump would fail if either there is no water to be pumped, or inspite of having water, there exists an air lock. Microfinance suffers from both lack of water and air lock!

Services offered by DMS Financial Services Co. (P) Ltd.

- **Outsourcing in the financial function**
- **Placement of human resources**
- **Training in Finance, Sales, Operations and Soft skills**

For details, please contact Ms. Kanika on 044-43535302.