

**Review Article**

**AN EVALUATION OF THE PERFORMANCE OF KERALA FINANCIAL CORPORATION IN PROMOTING MICRO, SMALL AND MEDIUM ENTERPRISES IN THE STATE OF KERALA, INDIA**

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**ABSTRACT**

Kerala Financial Corporation (KFC) is one of the eighteen State Financial Corporations (SFC) established for promoting Micro, Small and Medium Enterprises (MSMEs) in India. The major problem faced by the small and medium scale entrepreneurs is to get adequate credit facility at affordable interest rates. In this scenario, it is very important to conduct a study relating to the performance of KFC in promoting MSME segment in Kerala. This article has two main objectives, mainly to scrutinize the function of KFC in promoting the MSME segments in Kerala and to advise appropriate measures for the development KFCs and the MSMEs they help. This research paper is based on the performance of KFC in the last 6 years (2012-13 to 2017-18). The data were collected through secondary sources like articles, journals, manuals and annual reports of KFC, and analyzed using different financial and statistical tools like average, standard deviation and average annual growth. The findings of the study indicate that the operational performance of KFC was affected negatively due to decrease in Net Profit and Loan operations of KFC were subdued in certain districts like Kollam, Pathanamthitta, Alappuzha and Palakkad. The recommendations based on the findings are also discussed in this paper.

**Keywords:** Indian Financial Corporation (IFC), State Financial Corporation (SFC), Kerala Financial Corporation (KFC), Operational and Financial Performance, Average Annual Growth (AAG), Economic Development, Micro, Small and Medium Enterprises (MSME's).

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**INTRODUCTION**

The normal banking system in India seems to be unsuitable for providing capital support for industrial firms. Hence Indian Financial Corporation (IFC) was established under the Act (1948), which supports small industries in different states of India. At the time of setting up IFC, the inevitability of the establishment of parallel institutions, which would support smaller industries in different states, had also been recognized because it was not possible for a single institution to handle the capital needs of small firms spread all over the country.

Accordingly, the State Financial Corporation Act (SFC) was passed in 1951 empowering the state government to set up financial institutions for industrial development in their respective states. At present, there are 18 SFCs operating in India.

**HISTORICAL BACKGROUND OF KERALA FINANCIAL CORPORATION**

Kerala Financial Corporation (KFC) was established under the State Financial Corporation Act of 1951, was a pioneer in the area of providing medium and long-term finance to MSME segments. It played a key role in the development of industrially and economically backward areas in the state of Kerala. KFC was incorporated as the Travancore Cochin Financial Corporation in the year December 1953. In 1956 it was renamed as Kerala Financial Corporation. It played a big role in the development of Micro, Small and Medium enterprises (MSMEs) in Kerala. It has fulfilled the objectives of developmental lending such as industrialization of backward area, promotion of first generation entrepreneurs and assistance to start up projects of women with the result that KFC has become a large industrial conglomerate today.

Since the formation of KFC, the main objective is to provide medium term and long-term financial support to small and medium enterprises in Kerala, with a view to accelerate the rate of growth of industrial production, providing additional employment opportunities and reducing regional imbalances.

**NEED OF THE STUDY**

Micro, Small and Medium Enterprises (MSMEs) have been considered as the back bone of economic development. In developing countries like India, MSME sector provides more employment opportunities large enterprises do. The development of MSMEs is noteworthy because of their fundamental role in the economic development. Its income generation activities contribute to eradicate poverty by utilizing their resources. KFC meets the credit needs of MSME units by advancing loans. KFC has been engaged in the field for more than 67 years. The objective of the study is to evaluate KFC in its function of promoting MSMEs in Kerala and the progress it has made in fulfilling the need of the industrialist in the best way and to suggest how it can give more contribution in fulfilling the objectives.

**REVIEW OF LITERATURE**

Babu N.K (2008) studied the role of State Level Financial Institutions in the industrial development of Kerala with special reference to the Kerala Financial Corporation. He found that Kerala was still characterized by industrial nervousness due to many factors like scarcity of finance, political unsteadiness, dearth of technical know-how, risk-averse mindset of the people, etc. He also found an extensive district-wise inequality in industrial expansion. He also identified industrial production in Kerala was skewed to a small number of commodities. He

suggested that a healthier and creative approach was needed for industrial development in Kerala.

Simon T. C (2006) studied the influence of KFC in the industrial development of the northern districts of Kerala. He found that many regions in Kerala industrially improved due to the involvement of KFC. He suggested the need for revamping the structure of financial support of KFC. He found a substantial decline both in the number and the amount of loans given by Kerala Financial Corporation during his study period.

Gopakumar B (2005) studied the role of Institutional Finance in the development of small scale industries in Kerala, analyzed the function of KFC in development of MSME sector and identified the unsettled and recovery troubles faced by KFC. In this thesis he also suggested recommendations for the improvement of KFC's present status.

Jancy Davy (2004) in her doctoral thesis titled "Role of financial institutions in the industrialization of Kerala" did a comparative analysis between the financial assistance offered by the commercial banks and Developmental Financial Institutions (DFI) for the economic development and industrialization in Kerala. For this study, she selected the Developmental Financial Institutions like Kerala Financial Corporation (KFC) and Kerala State Industrial Development Corporation (KSIDC). She observed that the practice followed by these corporations contributed greatly to help genuine entrepreneurs.

Jacob V. L (2002) conducted a study on the lending policy and recovery performance of KFC. He found that growing over dues was a severe difficulty faced by KFC. An active involvement in supervision and follow-up practice should be implemented to avoid escalation of dues.

Padmakumar K (1991) conducted a study on 'Business Plans for KFC: Futuristic Options,' analyzing the then practice followed by KFC in framing its business plans. He found that a decentralized planning system was not followed by KFC. The business plans and overall mission for all of its sub-systems followed by the corporation should be decentralized. He observed that a few developed areas of the state enjoyed the main portion of the assistance given by the corporation.

K. B. Pavithran (1989) analyzed the role of the Kerala Financial Corporation in the rural industrialization of Kerala. Pavithran found that the corporation made administrative delay in disbursing the financial support already approved and in collecting the disbursed financial credit. This carelessness affected the smooth running of KFC.

Krishna Kumar S (1982) studied the strategy for massive development of small scale industries in Kerala. He suggested a systematic reorganization and renewal of the management of the corporation. He found that the lending policies and functioning of commercial banks and the government in the Kerala were far better.

From the above literature reviews, it is clear that there is a need to evaluate the role played by Kerala Financial Corporation in the promotion of MSME sector in the state of Kerala. Hence, the researcher has taken up the study.

#### OBJECTIVES OF THE STUDY

1. To analyze the performance indicators of KFC in the promotion of MSMEs in the State of Kerala.
2. To recommend appropriate actions for upgrading the functions of Kerala Financial Corporation.

#### LIMITATION OF THE STUDY

1. The study is based on the data of the last six years (2012-13 to 2017-18).
2. The study does not contain a comparison of performance of KFC with other State Financial Corporation.

#### RESEARCH METHODOLOGY

To achieve the aforesaid objectives data were gathered from both primary and secondary sources. The primary data on the policies and procedures were procured, with the help of officials of KFC. This article largely depends on secondary data which include published annual report, journals, manuals, pamphlets and other printed literature of KFC. The Period of study for evaluation of performance in terms of key result areas of KFC for a detailed analysis of loans sanctioned and disbursed is from 2012-13 to 2017-18. The parameters for evaluation are operational results, loans sanctioned, loans disbursed, and recoveries. Statistical Techniques used for analyzing the data are Mean, Standard Deviation and Average Annual Growth.

#### DATA ANALYSIS AND FINDINGS

##### 1. Performance of KFC

The corporation had an extensive and exciting journey, promoting a large number of organizations in the MSME sector in Kerala for the last 67 years constantly helping the industrial movement and economic situation in the State. The following table shows the operational performance of KFC in the last six financial years:

**Table 1: Performance of the corporation (Rs. in Crores)**

Financial Year	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	AAG*	Mean	S.D
Portfolio size	1401.43	1800.37	2038.18	2400.19	2474.11	2451.79	10.26	2094.34	432.49
Sanctions	661.39	989.62	947.45	1025.99	385.31	723.93	13.18	788.95	246.98
Disbursement	475.94	754.73	657.09	838.36	655.27	600.23	7.16	663.60	125.05
Recovery	540.22	565.13	684.27	758.26	874.28	944.67	9.98	727.80	163.07
Total income	257.7	266.19	287.06	308.47	364.73	376.88	3.68	310.17	50.30
Total Expenditure	154	198.47	218.26	261.21	356.86	356.69	15.85	257.58	84.21
Operating Profit	103.7	67.73	68.81	47.27	7.87	20.19	1.47	52.59	35.16
Net profit	68.49	41.34	14.37	5.33	5.69	8.3	-19.19	23.92	25.70
Capital Adequacy Ratio %	22.73	21.57	20.47	16.83	17.03	17.46	-5.73	19.70	3.08
Gross NPA%	3.51	3.45	7.85	10.57	8.51	6.37	19.30	6.71	2.84
Net NPA %	0.36	0.35	3.71	5.93	4.25	2.03	156.08	2.77	2.24

Source: Annual report 2012-13 to 2017-18

Kerala Financial Corporation is one of the best performing public sector enterprises in the state of Kerala. On the basis of profitability, KFC would also be the top among the eighteen State Financial Corporations in India. The above table shows that the net profit of the corporation has decreased (AAG -19.19) due to the increase in the cost of expenditure (AAG 15.85). The major functional areas like Sanction (AAG 13.18), Disbursement (AAG

7.16) and Recovery (AAG9.98), the corporation made significant improvement in the performance. The corporation's capital adequacy ratio was the highest in the year 2012-13. Thereafter it decreased year after year, mainly on account of decrease in net profit. During the study period, the corporation was able to attract new beneficiaries including young entrepreneurs. So, it achieved remarkable increase in the overall loan operations

(AAG 10.26). The Gross and Net Non-performing Assets were the highest in 2015-16 and the lowest 2012-13. During the period of the study, average amount of portfolio size, loan sanctioned, loan disbursement and loan recovery was Rs.2094.34 crore, Rs.788.95 crore, Rs.663 crore, Rs.727.80 crore respectively. And also,

average Operating Profit and Net Profit were 52.59 crore and 23.92 crore respectively.

#### **Loan Operations (Overall Summary)**

The overall summary of loan operations of KFC is summarized in table 2.

**Table 2: Overall Loan Operations**

Sl. No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	AAG	Mean	SD
1.	Applications received during the year	19789.2	116543	109704	20242	50423	78491.1	101.0	65865.	42644
2.	Total applications for consideration including the previous year application.	21879.5	117995	112060	22407	54385	85280.1	92.30	69001	42719
3.	Applications sanctioned	16958	101173	95709	13796	38582.68	73746.6	112.7	56661	38829
4.	Amount disbursed	11902.2	75473	7851.7	65709	65527.45	60022.9	195.4	47748	29781

Source: Annual report 2012-13 to 2017-18

Table 2 shows the details of the number of applications considered by the corporation in each year improving upon the earlier period. The highest number of applications were received in 2013-14 and the lowest in 2012-13. The general situation is characterized by an Average Annual Growth of 101.05 relating to the number of applications received, and AAG 92.30 growth in the consideration of application. A parallel rise was seen in gross sanctions (AAG 112.74) and also in disbursements (AAG 195.45) on the basis of the number of units. Out of this evaluation, it is

concluded that the function of the corporation in the development of industrialization steadily improved yearly. Average number of applications received and sanctioned during the last six years was 65865 and 56661 respectively.

#### **Size-wise Summary of Loan Sanctioned**

The size-wise details of loan sanctioned by KFC to Micro, Small and Medium Enterprises as described in the Table -3.

**Table 3: Size-wise categorization of Loans Sanctioned (Rupees in lakh)**

Size	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	AAG	Mean	SD
MICRO	16989.22	47808.07	40901	95999	37258.98	72422.13	55.81	51896	28060
SMALL	33703	29224.32	40349.18	2789*	614.50	810	-19.07	17915	18445
MEDIUM	15200	24140.9	14005	3811	709.20	514.50	-27.47	9730	9562
Total	65892	101173.29	95256.04	102599	38582.68	73746.63	14.02	79542	25076

Source: Annual Reports 2012-13 to 2017-'18

**Note:** KSSEDM-Kerala State Self Entrepreneur Development Mission started in 2012 by Government of Kerala with a mission to inculcate entrepreneurial confidence among youth of Kerala. The implementing agency was KFC. The mission was scrapped by the subsequent Government in 2016. This has resulted in substantial decrease in loan sanctioned amount of KFC.

Table 3 describes the credits sanctioned to the industrial units by KFC on the basis of different sizes like Micro, Small and Medium. The key part of support of enjoyed by the corporation went to the Micro division (Average Rs.51896 lakhs). Moreover, there was an unfavorable tendency with an AAG of -19.07 in the case of

loans sanctioned to Small sector and -27.47 overall decrease in Medium sector. We can understand that the amount of loan sanctioned by the corporation to the Small and Medium decreased yearly. On the other hand, the loan sanctioned to the Micro sector improved yearly (AAG of 55.81). Out of this, we can conclude that the corporation gives maximum preference to the Micro sector enterprises.

#### **Size-wise Summary of Loans disbursement**

The size-wise details of loan disbursed by KFC to Micro, Small and Medium Enterprises are mentioned below

**Table 4: Size-wise summary of Loans Disbursement (Rs in lakh)**

Size	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	AAG	Mean	SD
MICRO	13800	32002	28077.73	78800	60742.6	58787.22	45.69	45368	24529
SMALL	24400	25513	32676.32	2100	1894.35	870.59	-20.79	14576	14478.00
MEDIUM	9392	17958	4954.98	2936	2890.50	365.18	-18.48	6416	6408.76
Total	47592	75473	65709.03	83836	65527.45	60022.99	7.16	66360	12505.75

Source: Annual Reports of KFC for 2012-'13 to 2017-'18.

Table 4 gives details of loan disbursement on size-wise classification; in Micro sector the overall increase on AAG is by 45.69; but in the case of small and medium enterprises the yearly decrease on AAG analysis was at -20.79 and -18.48 respectively. The highest Average loan disbursement amount was in Micro sector and the lowest in Medium sector.

#### **Revenue District-wise review of Loan Operations**

KFC has classified the districts of Kerala into sixteen revenue districts. Hence this study is also done on the basis of the sixteen revenue districts. The following table gives the information relating to the revenue district-wise review of loan operation

**Table 5: Revenue District-wise review of Loan Operations (Rs. in lakh)**

Revenue Districts	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	AAG	Mean	SD
Trivandrum	13716.75	14536.36	12414.02	9460.26	3907.56	9179.02	7.29	10535	3913
Kollam	3859.90	5381.15	2266.62	5356.30	2210.45	6377	41.27	4241	1747
Pathanamthitta	3384.46	7724.00	6993.13	4330.31	2156.00	1578	.6098	4360	2521
Alapuzha	2079.50	3561.35	3927.90	3817.32	1718.05	2355.34	10.14	2909	969.7
Kottayam	3020.50	5171.00	5385.45	7921.28	1056.60	3508.80	44.64	4343	2358
Idukki	1111.00	1742.50	2215.67	3458.22	1015.20	2558	36.90	2016	928.3
Thodupuzha	2205.25	3314.65	3958.36	3386.40	1437.60	1546.90	.888	2641	1056
Ernakulam	8433.25	12122.25	13522.50	8947.27	5945.25	8593.15	5.407	9593	2753
Perumbalur	3058.60	2708.22	5262.10	5869.30	1690.40	1679.10	3.75	3377	1791
Trissur	4703.35	5944.84	6974.16	8177.78	2902.20	7385.50	25.15	6014	1943
<b>Districts</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>AAG</b>	<b>Mean</b>	<b>SD</b>
Palakkad	3439.70	4557.56	3803.95	8208.56	1896.25	3710.30	25.09	4269	2118
Malappuram	3527.08	6582.40	5639.11	6228.4	2477.91	4587.42	17.94	4840	1610
Kozhikode	5533.66	12021.40	10459.26	9255.07	2484.32	5339.60	22.42	7515	3632
Wayanad	2623.20	5671.44	4568.60	3304.32	2619.50	2933	10.05	3620	1238
Kannur	3103.38	6076.95	3343.36	8290.64	1627.49	4396.50	48.09	4473	2383
Kazargode	2092.64	4057.22	4521.85	6587.49	3437.90	6665	40.73	4548	1816
<b>Grand Total</b>	<b>65892.22</b>	<b>101173.29</b>	<b>94745</b>	<b>102599</b>	<b>38530.68</b>	<b>72392.63</b>	<b>13.48</b>	<b>79222</b>	<b>25097</b>

Source: Annual Reports of KFC for 2012-'13 to 2017-'18

From the above (Table 5), a favorable or constructive Average Annual Growth has been seen in terms of the sanctions of loan to all the revenue districts. With regard to total sanctions, an AAG of 13.48 was increased yearly. Highest overall increase in loan sanction among the districts was at Kannur (AAG 48.09), second, third and fourth positions went to Kottayam, Kollam and Kazargode respectively. It's clear that KFC gave priority to the development of economically weaker districts in the state of Kerala. The highest average amount of loan sanctioned was at Trivandrum district and the lowest at Idukki district.

#### SUGGESTIONS

As per the findings concluded above, the researchers would like to suggest the following:

- Operational performance of KFC is affected negatively by a decrease in Net Profit. Hence the corporation should improve its financial performance through reduction of non-operating expenses, and more emphasis should be given to Small and Medium business sectors.
- NPA showed decreasing trend in the first three years and slowly it showed an increasing trend, which affected the loan operation. Hence, it is suggested to strengthen the loan recovery method. The researcher suggests methods like increasing the discount rate for timely reimbursement and decreasing the interest rate to the beneficiaries.
- Loans sanctioned and disbursed showed an increasing trend during the years 2012-13, 2013-14 and 2014-15 and then subsequently decreased in the year 2015-16, 2016-17 and 2017-18. So, the corporation should take appropriate steps to increase the amount of loan sanctioned and disbursement.
- Loans sanctioned and disbursed for Small and Medium enterprise sector depicted a decreasing trend in year 2015-16, 2016-17 and 2017-18. This adversely affected the overall performance of the organization. Appropriate action should be taken in this regard by KFC to improve the same.
- Loan operations of KFC was subdued in certain districts like Kollam, Alappuzha, Pathanamthitta and Palakkad. Adequate measure should be adopted by KFC to bring it on par with other districts of Kerala.

#### CONCLUSION

Kerala Financial Corporation has been providing various financial assistance to the Micro, Small and Medium sector of the State for the last 67 years. KFC has its head office functioning at Trivandrum and now it has sixteen branches in the State. Overall loan sanctioned, disbursement and recovery increased AAG 13.18, 7.16 and 7.98 respectively. In the case of Net Profit of the corporation showed a decreasing trend in the last five years (AAG -19.19). NPA depicted a decreasing trend in the first three year and increasing trend in the last three year. The number of applications improved every year (AAG 92.30). Loan sanctioned (AAG 55.81) and disbursed (AAG 45.69) to Micro level enterprises showed an increasing trend; but in the case of Small and Medium sector there was decrease. KFC played a key role in the growth of Micro, Small and Medium scale sectors in the state of Kerala, India.

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