Analysis of IDBI Federal Life Insurance's Financial Performance and Statements in NCR: An In-Depth Review

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ABSTRACT

The research paper delves into the financial statement analysis of IDBI Federal Life Insurance, aiming to conduct a thorough examination of its financial standing. It will encompass an extensive review of the company's financial statements, key ratios, capital structure, profitability, liquidity, and solvency. Moreover, the study will compare the company's financial performance with that of its peers in the life insurance sector to pinpoint strengths and weaknesses. Recommendations for improvement will be proposed based on these findings. Additionally, the research will evaluate the influence of external factors like economic conditions, regulatory changes, and market trends on the company's financial performance. The methodology involves collecting and analyzing financial data, performing ratio analysis, and drawing conclusions to provide actionable insights. Ultimately, the research aims to offer valuable insights into IDBI Federal Life Insurance's financial health and performance, guiding strategies for sustainable growth and success.

CHAPTER -1

1.1. INTRODUCTION

Financial statement analysis provides a comprehensive understanding of IDBI Federal Life Insurance's financial health and operational efficiency for the period 2022-2023. In conjunction with this analysis, an overview of the market size and valuation of the company within the insurance industry is essential for stakeholders to gain a holistic perspective.

The insurance industry in India has witnessed significant growth over the past few years, driven by factors such as increasing awareness about financial security, rising disposable income, and favorable regulatory reforms. Within this landscape, IDBI Federal Life Insurance operates as a prominent player, contributing to the overall market size.

The market size of the insurance industry encompasses various segments, including life insurance, health insurance, and general insurance. As a life insurance company, IDBI Federal Life Insurance primarily operates within the life insurance segment. The market size of the life insurance sector is influenced by factors such as demographic trends, economic conditions, and regulatory policies.

Despite the challenges posed by the COVID-19 pandemic, the life insurance industry in India has demonstrated resilience, with continued growth in premium income and policy sales. IDBI Federal Life Insurance, leveraging its market presence and distribution network, has contributed to the expansion of the overall market size by attracting customers and offering a diverse range of insurance products and services.

Valuation plays a crucial role in assessing the worth of IDBI Federal Life Insurance as an investment opportunity. Valuation methodologies commonly used in the insurance industry include discounted cash flow analysis, comparable company analysis, and premium valuation 99metrics.

The valuation of IDBI Federal Life Insurance is influenced by various factors, including its financial performance, growth prospects, risk profile, and competitive positioning. Investors and analysts evaluate key financial metrics such as premium growth, underwriting profitability, investment returns, and expense ratios to determine the company's intrinsic value.

Additionally, qualitative factors such as brand reputation, distribution capabilities, regulatory compliance, and market dynamics also impact the valuation of IDBI Federal Life Insurance. By conducting a comprehensive valuation analysis, stakeholders can assess the company's fair value and make informed investment decisions.

About IDBI Federal Life Insurance

IDBI Federal Life Insurance Co Ltd is a joint-venture of IDBI Bank, India‘s premier development and commercial bank, Federal Bank, one of India‘s leading private sector banks and Ageas, a multinational insurance giant based out of Europe. In this venture, the life insurance corporation of india owns 49.2%in IDBI Bank while the government of india owns 45.48% and the public sector holds 4.07% and the rest percentage are held by several other holders in March 2023, in just five months of inception, IDBI Federal became one of the fastest growing new insurance companies profit Rs 3728 CR. Through a continuous process of innovation in product and service delivery IDBI Federal aims to deliver world-class wealth management, protection and retirement solutions that provide value and convenience to the Indian customer. The company offers its services through a vast nationwide network of 2137 partner bank branches of IDBI Bank and Federal Bank in addition to a sizeable network of advisors and partners. As on 28th February 2013, the company has issued over 8.65 lakh policies with a sum assured of over Rs. 26,591 Cr.

IDBI Federal today is recognized as a customer-centric brand, with an array of awards to their credit. They have been awarded the PMAA Awards (2009) for best Dealer/Sales force Activity, EFFIE Award (2011) for effective advertising, and conferred with the status of _Master Brand 2013.‖

About the sponsors of IDBI Federal Life Insurance Co. Ltd

IDBI Bank Ltd. continues to be, since its inception, India‘s premier industrial development bank. It came into being as on July 01, 1964 (under the Companies Act, 1956) to support India‘s industrial backbone. Today, it is amongst India‘s foremost commercial banks, with a wide range of innovative products and services, serving retail and corporate customers in all corners of the country from 1077 branches and 1702 ATMs. The Bank offers its customers an extensive range of diversified services including project financing, term lending, working capital facilities, lease finance, venture capital, loan syndication, corporate advisory services and legal and technical advisory services to its corporate clients as well as mortgages and personal loans to its retail clients. As part of its development activities, IDBI Bank has been instrumental in sponsoring the development of key institutions involved in India‘s financial sector –National Stock Exchange of India Limited (NSE) and National Securities Depository Ltd, SHCIL (Stock Holding Corporation of India Ltd), CARE (Credit Analysis and Research Ltd).

Federal Bank is one of India‘s leading private sector banks, with a dominant presence in the state of Kerala. It has a strong network of over 1060 branches and 1158 ATMs spread across India. The bank provides over four million retail customers with a wide variety of financial products. Federal Bank is one of the first large Indian banks to have an entirely automated and interconnected branch network. In addition to interconnected branches and ATMs, the Bank has a wide range of services like Internet Banking, Mobile Banking, Tele Banking, Any Where Banking, debit cards, online bill payment and call centre facilities to offer round the clock banking convenience to its customers. The Bank has been a pioneer in providing innovative technological solutions to its customers and the Bank has won several awards and recommendations.

Ageas is an international insurance group with a heritage spanning more than 180 years. Ranked among the top 20 insurance companies in Europe, Ageas has chosen to concentrate its business activities in Europe and Asia, which together make up the largest share of the global insurance market. These are grouped around four segments: Belgium, United Kingdom, Continental Europe and Asia and served through a combination of wholly owned subsidiaries and partnerships with strong financial institutions and key distributors around the world. Ageas operates successful partnerships in Belgium, UK, Luxembourg, Italy, Portugal, Turkey, China, Malaysia, India and Thailand and has subsidiaries in France, Hong Kong and UK. Ageas is the market leader in Belgium for individual life and employee benefits, as well as a leading non-life player through AG Insurance. In the UK, Ageas has a strong presence as the fourth largest player in private car insurance and the over 50‘s market. Ageas employs more than 13,000 people and has annual inflows of more thanEUR 21 billion.

1.2. OBJECTIVE OF STUDY

The primary objective of Financial Statement Analysis is to understand and diagnose the information contained in the financial statement with the view to judge the profitability financial soundness of the firm and to make forecast about future prospects of the firm. The purpose of analysis depends upon the person interested in such analysis and his objective. However, the following purpose or objective of the financial statement may be stated to bring out significance of such analysis:

1. To access the earning capacity or profitability of the firm.

2. To access the operational efficiency and managerial effectiveness.

3. To access the short term as well as long term solvency of the firm.

4. To assess the progress of a firm over a period of time.

5. To help in decision making and control.

1.3. SCOPE OF THE WORK

Customer satisfaction, a business term, is a measure of how products and services supplied bya company meet or surpass customer expectation. It is seen as a key performance indicator within business and is part of the four perspectives of a Balanced Scorecard. In a competitive marketplace where businesses compete for customers, customer satisfaction is seen as a key differentiator and increasingly has become a key element of business strategy. There is a substantial body of empirical literature that establishes the benefits of customer satisfaction for firms.Organizations are increasingly interested in retaining existing customers while targeting non-customers; measuring customer satisfaction provides an indication of how successful the organization is at providing products and/or services to the marketplace.

Customer satisfaction is an ambiguous and abstract concept and the actual manifestation of the state of satisfaction will vary from person to person and product/service to product/service. The state of satisfaction depends on a number of both psychological and physical variables which correlate with satisfaction behaviors such as return and recommend rate. The level of satisfaction can also vary depending on other options the customer may have and other products against which the customer can compare the organization's products.Because satisfaction is basically a psychological state, care should be taken in the effort of quantitative measurement, although a large quantity of research in this area has recently been developed. Work done by Berry (Bart Allen) and Brodeur between 1990 and 1998 defined ten 'Quality Values' which influence satisfaction behavior, further expanded by Berry in 2002 and known as the ten domains of satisfaction. These ten domains of satisfaction include: Quality, Value, Timeliness, Efficiency, Ease of Access, Environment, Inter- departmental Teamwork, Front line Service Behaviors, Commitment to the Customer and Innovation. These factors are emphasized for continuous improvement and organizational change measurement and are most often utilized to develop the architecture for satisfaction measurement as an integrated model. Work done by Parasuraman, Zeithaml and Berry (Leonard L) between 1985 and 1988 provides the basis for the measurement of customer satisfaction with a service by using the gap between the customer's expectation of performance and their perceived experience of performance. This provides the measurer with a satisfaction "gap" which is objective and quantitative in nature.

CHAPTER 2

COMPANY PROFILE

2.1. History

- 2006: IDBI Bank, Federal Bank and Belgian-Dutch insurance major Fortis Insurance InternationalNV signed a MoU to start a life insurance company
- 2008: IDBI Fortis Life Insurance Co. Ltd., which started its operations in March 2008
- 2008: IDBI Fortis opens its second branch in Andhra Pradesh in Vijayawada
- 2008: IDBI Fortis Life positive on assured return products
- 2008: IDBI Fortis launches the Bondsurance Plan
- 2009: IDBI Fortis announces Rs 250cr capital infusion
- 2009: Nimbus ropes in IDBI Fortis as title sponsor of India–Sri Lanka series
- 2009: 'IDBI Fortis' Boss-Ka-Boss receives PRCI Award
- 2009: IDBI Fortis launches Retiresurance Pension Plan
- 2009: IDBI Fortis scores with Goalsurance
- 2009: IDBI Fortis reaches the banks of Hoogly
- 2009: IDBI Fortis launches Incomesurance Immediate Annuity
- 2009: IDBI Fortis Life Insurance uses an interactive application to help users easily calculate theirtaxes
- 2009: IDBI Fortis reaches the City of Eastern Light
- 2009: IDBI Fortis receives bronze Dragon at 'PMAA 2009'
- 2009: IDBI Fortis Life Insurance introduces financial inclusion plan in rural Orissa
- 2009: IDBI Fortis launches Termsurance Protection Plan
- 2009: IDBI Fortis redefines endowment & money back with Incomesurance
- 2009: IDBI Fortis to open 65 more branches; raise headcount by 1,000
- 2010: IDBI Fortis now renamed as IDBI Federal Life Insurance Company

Technology

To monitor and manage its network equipment across 34 sites, IDBI Forties uses Tulip Proactive Managed CE solution. The solution includes device management, proactive troubleshooting and notification support. With the implementation of the solution, IDBI has reported improvement of network performance and availability, with a faster, more effective change and configuration management.

Products

IDBI Forties launched its first set of products across India in March 2008, after receiving the requisite approvals from the Insurance Regulatory and Development Authority (IRDA). IDBI Forties offers services through a nationwide network across the branches of IDBI Bank and Federal Bank in addition to a network of advisors and partners. IDBI Forties has 35 branches across the country.

INTRODUCTION TO IDBI BANK

The Industrial Development Bank of India Limited, now more popularly known as IDBI Bank, was established as a wholly-owned subsidiary of Reserve Bank of India. The foundation of the bank was laid down under an Act of Parliament, in July1964. The main aim behind the setting up of IDBI was to provide credit and other facilities for the Indian industry, which was still in the initial stages of growth and development. After the transfer of its ownership, IDBI became the main institution, through which the institutes engaged in financing, promoting and developing industry were to be coordinated. In January 1992, IDBI accessed domestic retail debt market for the first time, with innovative Deep Discount Bonds, and registered path-breaking success. The following year, it set up the IDBI Capital Market Services Ltd., as its wholly-owned subsidiary, to offer a broad range of financial services, including Bond Trading, Equity Broking, Client Asset Management and Depository Services .In September 1994, in response to RBI's policy of opening up domestic banking sector to private participation, IDBI set up IDBI Bank Ltd., in association with SIDBI. In July 1995, public issue of the bank was taken out, after which the Government's shareholding came down

(though it still retains majority of the shareholding in the bank). In September 2003, IDBI took over Tata Home Finance Ltd, renamed ‗IDBI Home finance Limited', thus diversifying its business domain and entering the arena of retail finance sector the year 2005 witnessed the merger of IDBI Bank with the Industrial Development Bank of India Ltd. The new entity continued to its development finance role, while providing an array of wholesale and retail banking products (and does so till date). The following year, IDBI Bank acquired United Western Bank (which, at that time, had 230 branches spread over 47 districts, in 9 states). In the financial year of 2008, IDBI Bank had a net income of Rs 9415.9 crores and total assets of Rs120, 601 crores.

The Present

Today, IDBI Bank is counted amongst the leading public sector banks of India, apart from claiming the distinction of being the 4th largest bank, in overall ratings. It Is presently regarded as the tenth largest development bank in the world, mainly in terms of reach. This is because of its wide network of 509 branches, 900 ATMs and319 centers. Apart from being involved in banking services, IDBI has set up institutions like The National Stock Exchange of India (NSE), The National Securities Depository Services Ltd. (NSDL) and the Stock Holding Corporation of India (SHCIL).

Objectives

The main objectives of IDBI are to serve as the apex institution for term finance for industry in India. Its objectives include

(1) Co-ordination, regulation and supervision of the working of other financial institutions such as IFCI, ICICI, UTI, LIC, Commercial Banks and SFCs.

(2) Supplementing the resources of other financial institutions and thereby widening the scope of their assistance.

(3) Planning, promotion and development of key industries and diversifications of industrial growth.

(4) Devising and enforcing a system of industrial growth that conforms to national priorities.

Functions

The IDBI has been establishedto perform the following functions:-

(1) To grant loans and advances to IFCI, SFCs or any other financialinstitutionswhich are repayable within 25 year.

(2) To grantloansandadvances to scheduledbanksorstate co-operativebanks bywayof refinancingof loans granted by such institutions which are repayable in 15 years.

(3) To grant loans and advances to IFCI, SFCs, other institutions, scheduledbanks, state co-operative banks by way of refinancingofloansgrantedbysuch institutiontoindustrialconcerns for exports.

(4) To discount or rediscount bills of industrial concerns.

(5) To underwrite or to subscribe to shares or debenture concerns.

(6) To subscribe to or purchase stock, shares, bonds and debentures of other financialinstitutions.

(7) To grantline ofcreditor loans and advances to otherfinancialinstitutionssuchas IFCI, SFCs,etc.

(8) Tograntloanstoany industrialconcern.

(9) To guaranteed referred paymentduefrom any industrial concern.

(10) To guarantee loans raised by industries from institutions.

(11) To provide consultancy and merchant bankingservicesin oroutside India.

(12) To providetechnical, legal,marketing and administrativeassistanceto anyindustrial concern or person forpromotion, management orexpansionofany industry.

(13) Planning, promoting and developing industries to fill up gapsin theindustrialstructurein India.

(14) To act as trustee for the holders of debentures or other securities.

Subsidiaries

The following are the subsidiariesof IDBI

(1) SmallIndustriesDevelopmentBankofIndia(SIDBI)

(2) IDBI Bank Ltd..

(3) IDBI CapitalMarket Services Ltd.

(4) IDBI InvestmentManagementCompany

Capital Structure and Operations

As on September 30, 1996, the authorized Capital of IDBI was Rs.2000crores. Issued, subscribed and paid up share capital was Rs.828.76crores.Reserves were Rs.6309 crores. Loan funds were Rs.35450 crores. The total outstanding loans, investments and guarantee of IDBI stood at Rs.39, 221 crore as on 31st March 1996.

INTRODUCTION TO FEDERAL BANK

Federal Bank Limited is a major Indian commercial bank in the private sector, headquartered at Aluva, Kochi, Kerala. As of 18 August 2012, Federal Bank has 1000 branches spread across 24 states in India and 1058 ATMs around the country(across 108 metro centres, 224 urban centres, 384 semi-urban locations and 87 rural areas). Federal Bank opened its 1000th branch at Muthoor, Thiruvalla in Kerala on 17 August 2012,and is planning to hire 2000 professionals by September 2012.The Bank would be the first Bank from Kerala to cross the milestone of 1000 branch network.

History

In the year 1931, Travancore Federal Bank was inaugurated at Vengal Varuttisseril at Nedumpuram, near Tiruvalla, Kerala. The 14 founders included Sri Vengal Varuttisseril Oommen Varghese, his brothers Oommen Chacko, Oommen Kurian, Oommen George and also another person from Tiiruvalla, Kavumbhagam Mundapallil Lukose, and others. Oommen Varghese was the Chairman and Oommen Chacko the Manager. After it had functioned for nearly 10 years, the bank's day to day transaction had to be stopped due to the ill-health of the Manager.

Understanding this situation, a lawyer from Perumbavoor named Sri K.P.Hormis and his acquaintances joined together, bought the bank and took over the management. In 1945, they moved the bank's registered office to Aluva and Hormis became the Managing Director. In 1947,the bank's name was shortened from Travancore Federal Bank to Federal Bank.[4]

In 1970, the bank became a Scheduled Commercial Bank. Recently, it opened a representative office in Dubai.

Acquisitions and Mergers

- In 1964, the bank embarked on a series of acquisitions that would substantially increase its size. It acquired the Chalakudy Public Bank in Chalakudy, the Cochin Union Bank inThrissur, and the Alleppey Bank in Alappuzha.
- In 1965, it acquired the St.George Union Bank in Puthenpally.
- In 1968, it acquired the Marthandom Commercial Bank in Thiruvananthapuram.
- In 2006, Federal Bank acquired Ganesh Bank of Kurundwad after the Reserve Bank of India suspended the bank. Established in 1920, Ganesh Bank had its headquarters at Kurundwad, Maharashtra. The bank had a network of 32 branches and its operations were concentrated in Sangli and Kolhapur in Maharashatra and Belgaum in Karnataka. Prior to the

merger, Federal Bank had 20 branches in Maharashtra.

- In March 2008, Federal Bank entered into a joint venture with IDBI Bank and Fortis Insurance International to form IDBI Fortis Life Insurance, of which Federal Bank owns 26 percent. The company ended the year with over 300 Cr in premiums as on 31 March 2009.
- On 24 August 2010, IDBI Fortis, rejuvenated as IDBI Federal Life Insurance with Aegas of Belgium.

INTRODUCTION TO AGEAS

Ageas N.V./S.A. is a Belgium-Dutch multinational insurance company co-headquartered in Brussels, Belgium and Utrecht, Netherlands. Ageas is Belgium's largest insurer and operates in 14 countries worldwide. The company was renamed from **Fortis Holding** in April 2010 and consists of those insurance activities remaining after the breakup and sale of the financial services group Fortis during the financial crisis of 2007-2010. It is listed on the Euronext Brussels, Euronext Amsterdam, and Luxembourg stock exchanges and forms part of the blue-chip BEL20 stock market index.

The company's roots reach back to the 1824 foundation of the Belgian life insurer Assurances Générales (now AG Insurance).[2] In 1990 AG merged with the Netherlands- based bancassurer AMEV/VSB to form Fortis. AMEV/VSB had itself been formed earlier that year by the combination of savings bank VSB (Verenigde Spaarbank) and insurer AMEV, which took advantage of the recent relaxation of Dutch legislation preventing mergers between banks and insurers. AMEV had originally been founded in Utrecht in 1920 as Algemeene Maatschappij tot Exploitatie van Verzekeringsmaatschappijen (English: General Society for Operation of Insurance).

After its creation in 1990, Fortis expanded its offerings to include private and investment banking and asset management, establishing subsidiaries around the world, and by 2007 it

had become the 20th largest business in the world by revenue. That year Fortis agreed to jointly purchase ABN AMRO with Banco Santander and Royal Bank of Scotland Group, but the onset of the crisis exacerbated problems with financing its part of the large acquisition and prompted fears of impending insolvency. Considered "too big to fail", Fortis received an

€11.2 billion bailout from the Benelux governments and saw its retail banking operations in Belgium sold to BNP Paribas and its insurance and banking subsidiaries in the Netherlands nationalized.

The remaining assets of the company, consisting principally of insurance operations but also including some distressed assets, were rebranded Fortis Holding. In April 2010 its shareholders agreed a formal change of name to Ageas N.V./S.A., with ownership of the Fortis brand passing to BNP Paribas.

Objectives:

1) To know about the reason for investment in life insurance.
2) To develop and standardize a measure to evaluate investment pattern in life insurance services
3) To evaluate the factors underlying consumer perception towards investment in life insurance policies
4) To compare the differences in consumer perception of male and female consumers
5) To open new vistas for further researches.

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2.2. INDUSTRY PROFILE

Introduction of life insurance industry in India

The business of life insurance in India in its existing form started in India in the year 1818 with the establishment of the Oriental Life Insurance Company in Calcutta, which failed in 1834. However, the success of Indian life insurance can be traced back roughly to the second decade of the nineteenth century when the Madras Equitable began transacting life insurance business in the Madras Presidency in 1829. After that, it was a rather dull phase with regard to the growth in life insurance enterprise. This dullness was due to the very critical phase through which the British insurance companies were passing due to mismanagement and inexperience, thus resulting in the failure of several British offices before 1870 and leading to the enactment of the British Insurance Act, 1870. Till the 70s of the nineteenth century, insurance had found no real place in the scheme of things and only certain European companies operating in parts of India did life insurance business on some scale.

But Indian enterprise in this sphere later began to expand and in the last three decades of the nineteenth century the following companies were started in the Bombay Presidency:

1. Bombay Mutual (1871)
2. Oriental (1874)
3. Empire of India (1897)

Few other companies were also set up in other parts of India. However, this period was Dominated by foreign insurance offices, which did good business in India, namely – Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance. The Indian offices that were setup during this period came up the hard way and had to struggle against the prevailing prejudice against life insurance and natural ignorance of the people. The recorded history of Insurance business in India, however, began in 1914 when the Government of India started publishing returns of Insurance Companies in India. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life insurance business. Later in 1928 the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life insurance business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of insuring public, the earlier legislation was consolidated and amended by the Insurance Act1938 with comprehensive provisions detailed and effective control over the activities of insurers.The Insurance Amendment Act of 1950 abolished Principal Agencies. However, there were legations of unfair trade practices. The Government of India, therefore, decided to nationalize the insurance business. An Ordinance issued on 19th January 1956 nationalized the Life Insurance sector and Life Insurance Corporation of India (LIC) came into existence in the same year. The LIC absorbed 154Indian, 16 non-Indian insurers as also 75 provident societies. Since then LIC was the only player till the late 90s when the Insurance sector was reopened for the private sector.

India's economic development made it a most lucrative Insurance market in the world. Before the year 1999, there was monopoly state run LIC transacting life business and the General Insurance Corporation of India with its four Subsidiaries transacting the rest. In the wake of reform process and passing Insurance Regulatory and Development Authority (IRDA) Act through Indian parliament in 1999, Indian Insurance was opened for private companies.

Liberalization on the Insurance sectors has allowed the foreign players to enter the market with their Indian partners. Most of the foreign Insurers have joined within the local market. India offers immense possibilities to foreign Insurers since it is the world's most populous country having over a billion people.

Insurance industry had ten and six entrants in life and non-life sector respectively in the year 2000-2001. The industry again saw two and three entrants in the life and non-life business respectively in the year 2001-2002. One additional entrant was made both in the life and in non-life business in 2004 and 2005 respectively. At present there are fourteen companies each in Life and General Insurance. The Funds earlier generated by the state owned insurers have been diversified with other new insurers. We should wait and see how the new players are going to boost up our economy.

Under the plan of insurance, a large number of people associate themselves by sharing risk, attached to individual. The risk, which can be insured against include fire, the peril of sea, death, incident, & burglary. Any risk contingent upon these may be insured against at a premium commensurate with the risk involved. Insurance is actually a contract between two parties whereby one party called insurer undertakes in exchange for a fixed sum called premium to pay the other party on happening of a certain event. Insurance is a contract whereby, in return for the payment of premium by the insured, the insurers pay the financial losses suffered by the insured as a result of the occurrence of unforeseen events. The Indian insurance market is characterized by the presence of 'young pensioners', as per an article in the 'Times of India'. Young pensioners are typically under 40 individuals who are purchasing retirement plans. The growing Indian economy has created an upwardly mobile, affluent young generatio-n, who believe in going for a planned retirement. As per data from IRDA, 28% of the premiums collected by the Indian Insurance companies are from retirement plans. Life Insurance Corporation (LIC) is India's biggest domestic institutional investor. It is also the largest life insurance company in India. LIC envisages augmenting its equity investment by one third in 2008. LIC plans to buy equities worth Rs 450 billion for the year 2008-09. The comparable figure for 2007-08 was Rs 340 billion. Thomas Mathew, LIC Managing Director expects the volatility in the stock markets to continue till October-November. The prime objective of the company is to ensure the safety of the resources invested by the company's shareholders. LIC is slated to buy up bonds worth Rs1.15 trillion in the current fiscal year. LIC expects to earn a gross investment income ranging from Rs 400 billion to Rs 450 billion in the current year, depending upon the prevalent market conditions. LIC manages total assets worth around US$175 billion. According to K N Bhandari, the Secretary General of General Insurance Council, India's general insurance sector is slated to grow at 18% rate in 2008. The comparable figure for 2007 was 13%.As per Mr.Bhandari, the present market value of the Indian general insurance sector is Rs 30,000-crore. The current penetration level of the Indian insurance sector is 0.65 %.The Indian urban sector is a significant contributor to the general insurance market P.Chidambaram, the then Indian Finance Minister, called for the insurance companies in India to make simple products for the Indian masses.

Current scenario of life insurance sector

The insurance sector was opened up for private participation four years ago. For years now, the private players are active in the liberalized environment. The insurance market have witnessed dynamic changes which includes presence of a fairly large number of insurers both life and non-life segment. Most of the private insurance companies have formed joint venture partnering well recognized foreign players across the globe.

There are now 29 insurance companies operating in the Indian market – 14 private life insurers, nine private non-life insurers and six public sector companies. With many more joint ventures in the offing, the insurance industry in India today stands at a crossroads as competition intensifies and companies prepare survival strategies in a detariffed scenario.

There is pressure from both within the country and outside on the Government to increase the foreign direct investment (FDI) limit from the current 26% to 49%, which would help JV partners to bring in funds for expansion.

There are opportunities in the pensions sector where regulations are being framed. Less than 10 % of Indians above the age of 60 receive pensions. The IRDA has issued the first license for a standalone health company in the country as many more players wait to enter. The health insurance sector has tremendous growth potential, and as it matures and new players enter, product innovation and enhancement will increase. The deepening of the health database over time will also allow players to develop and price products for larger segments of society.

State Insurers Continue To Dominate There may be room for many more players in a large underinsured market like India with a population of over one billion. But the reality is that the intense competition in the last five years has made it difficult for new entrants to keep pace with the leaders and thereby failing to make any impact in the market.

Also as the private sector controls over 26.18% of the life insurance market and over 26.53% of the non-life market, the public sector companies still call the shots.

The country‘s largest life insurer, Life Insurance Corporation of India (LIC), had a share of 74.82% in new business premium income in November 2005.

Similarly, the four public-sector non-life insurers – New India Assurance, National Insurance, Oriental Insurance and United India Insurance – had a combined market share of 73.47% as of October 2005. ICICI Prudential Life Insurance Company continues to lead the private sector with a 7.26% market share in terms of fresh premium, whereas ICICI Lombard General Insurance Company is the leader among the private non-life players with a 8.11% market share. ICICI Lombard has focused on growing the market for general insurance products and increasing penetration within existing customers through product innovation and distribution.

Intense Competition In a de-tariff environment, competition will manifest itself in prices, products, underwriting criteria, innovative sales methods and creditworthiness. Insurance companies will vie with each other to capture market share through better pricing and client segmentation.

The battle has so far been fought in the big urban cities, but in the next few years, increased competition will drive insurers to rural and semi-urban markets.

Global Standards While the world is eyeing India for growth and expansion, Indian companies are becoming increasingly world class. Take the case of LIC, which has set its sight on becoming a major global player following a Rs280-crore investment from the Indian government. The company now operates in Mauritius, Fiji, the UK, Sri Lanka, and Nepal and will soon start operations in Saudi Arabia. It also plans to venture into the African and Asia-Pacific regions in 2006.

The year 2005 was a testing phase for the general insurance industry with a series of catastrophes hitting the Indian sub-continent.

Market Share of Indian life Insurance Industry

The introduction of private players in the industry has added value to the industry. The initiatives taken by the private players are very competitive and have given immense

competition to the on time monopoly of the market LIC. Since the advent of the private players in the market the industry has seen new and innovative steps taken by the players in this sector. The new players have improved the service quality of the insurance. As a result LIC down the years have seen the declining phase in its career. The market share was distributed among the private players. Though LIC still holds the 75% of the insurance sector but the upcoming natures of these private players are enough to give more competition to LIC in the near future. LIC market share has decreased from 95% (2002-03) to 81 %(2004-05).The following companies has the rest of the market share of the insurance industry. Table shows the mane of the player in the market

Table 1.1 Market shares of various players present in market

MARKET SHARE (%)		
LIFE INSURERS		
1.	LIC	76.07
2.	ICICI Prudential	6.91
3.	Bajaj Allianz	4.75
4.	HDFC Standard	2.98
5.	Birla Sun life	1.72
6.	Tata AIG	1.66
7.	SBI Life	1.46
8.	Max New York	1.28
9.	Aviva	1.08
10.	Kotak Mahindra Old Mutual	0.71
11.	ING Vysya	0.54
12.	IDBI Federal	0.46
13.	Met Life	0.37
14.	Sahara Life	0.03
Private total		**23.93**
Public total		**76.07**
Grand total		**100.00**

Role of IRDA in Insurance Sector

IRDA plays an important role in insurance sector giving important guide lines to various companies in the area of insurance. The IRDA's green signal to insurance companies for investments in venture capital funds would provide a boost in growth pertaining to the infrastructure segment. The insurance companies would be allowed to invest about 5% of the total investment in the venture capital funds pertaining to infrastructure based projects. The total aggregate of the assets under the life insurance companies is Rs 699,375 crores. The proposed alterations in the regulations pertaining to investments of the insurance companies were settled by the Insurance Regulatory and Development Authority of India (IRDA), at the board meeting on the 25th of March 2008. Several other alterations were also done with the investment norms. The other important norm is the expansion of the sanctioned investments category, which would also include the mortgaged securities and the initial public offerings unlike previously when these two were not included. The proposal would be submitted to the Insurance Regulatory and Development Authority of India (IRDA) board for approval. The final draft was published in the Gazette of the Central Government at the end of March 2008. The alterations would help in developing the instruments of investment and provide flexibility for insurers. The alterations would provide more margins pertaining to the investments in certificates of deposit issued by the banks and term deposits. At present the insurance companies may invest about 10% of its investment funds to a particular sector. The Insurance Regulatory and Development Authority of India (IRDA) constituted a working group in the year 2006 to probe the existing investment regulations and provide review on the present statutory advices and the trends of investments for insurance companies. According to the Insurance Regulatory and Development Authority (IRDA), the private insurers had collected premium income from new business of about Rs. 18,980 crores, in 2007.

Role of Private Insurance Companies in Insurance Sector

Private sector also plays important role in this sector and tried to capture maximum shares in this sector. Max New York Life Insurance Company is the leading private life insurance company in India. Max New York Life Insurance Company Ltd. launched 'lifeline' a health insurance product on March 2008, across India. Now, the company can boast of offering complete health and life insurance products across 11 regions in India. This newly launched health insurance product of Max New York Life Insurance Company offers three groups of heath insurance solutions. The director marketing product management and corporate affairs of Max New York Life Insurance said that these three distinct heath insurance products are meant to cover eventualities like hospitalization, surgery and critical illness of the insured and these plans have been structured with features like coverage for a wide range of ailments, no claim discount on revised premium for a healthy life, a fixed premium for a five-year term, free second opinion from the best healthcare institutions of India on detection of illness. Further, it also has provision for a free telephonic medical helpline across India. The

hospitalization is covered by "Medicash Plan", which is meant to provide a fixed amount of cash benefit on a day-to-day basis during the entire period of hospitalization of the insured. The ―Medicash Plan‖ would also cover expenses for admission in ICU, lump sum benefits against an unlimited number of surgeries and recuperation benefits. The second plan of the newly launched health insurance of Max New York Life Insurance is the "Wellness Plan", which is a more attractive one and covers 'critical illness' like cancer, Alzheimer‘s, heart ailments, liver disease, deafness, permanent disability, etc. The ―Wellness plan‖ covers thirty eight critical illnesses, which is the highest number of illness covered under one insurance plan in India by any insurance company. The third health insurance policy of Max New York Life Insurance is a term plus health protection plan known as "Safety Net". Max New York Life Insurance Company is one of the fastest growing life insurance companies in India and is the first life insurance company of India to be awarded with ISO9001:2000 certification.

Modern Marketing Approach

Marketing strategies for insurance in the emerging scenario could be understood in terms of the following steps:

Having done market research and finalizing on segmentation, targeting and positioning the strategy would focus on the marketing mix namely, Product, Price, Place and Promotion. While determining the implementation methodology, the four characteristics viz. Intangibility, Inseparability, Perish ability and Variability gives rise to certain unique requirements that deserve careful attention while formulating the marketing strategy for insurance. After implementation, the insurers should concentrate on the effective control that would enhance their business.

In India Insurance is sold and not bought. The agents / Advisors by using various strategies sell the product by convincing the customers. Moreover, they push Policies with the highest premium to pocket a higher commission. The consultative approach to selling is the modern approach, which helps customers and prospects to buy. A consultant makes calls and sells just like any other sales person. The difference is in their attitude, their approach and their commitment. Here, the customer is seen as a person to be served and not a person to be sold. It helps the purchaser to make an intelligent decision. The four-step process includes:

* Need discovery
* Selection of the product
* Need satisfaction presentation, and
* Serving the sale

This approach to selling their products requires understanding of concepts and principles borrowed from the fields of psychology, communications, and sociology and needs a lot of personal commitments and self – discipline from the seller.

Product Innovations

Insurers are continuously innovating new products based on forward-looking models. They have developed new products addressing the new challenges in society and products to address the hazards from new environmental issues. Companies will need to constantly innovate in terms of product development to meet ever-changing consumer needs. Understanding the customer better will enable Insurance companies to design appropriate products, determine price correctly and to increase profitability. Since a single policy cannot meet all the Insurance objectives, one should have a portfolio of policies covering all the needs. Product development is made possible by integrating actuarial, rating, claims and illustration systems. At present, the Life Insurers are concentrating on the pension schemes and the Non-Life Insurers on many innovative schemes of various realms and thereby enriching their market share. Moreover, with increased commoditization of insurance products, brand building is going to play a vital role.

Distribution Network

While companies have been successful in product innovation, most of them are still grapping with right mix of Distribution Channels for capturing maximum market share to build brand equity, building strong and effective customer relationships and cost effective customer service. While the traditional channel of tied up advisors or agents would be the chief distribution channel, insurer should innovate and find new methods of delivering the products to customers. Corporate agency, brokerage, Banc assurance, e-insurance, cooperative societies and panchayats are some of the channels, which can be tapped by the insurers to reach the appropriate market segments. Now days, the urban masses are tapped with the new techniques provided by Information Technology through Internet. Rural masses are attracted by the consultative approach adopted by the Insurers. Moreover, they attract the customers through telephone and mobile also.

Customer Education and Services

Insurance is a unique service industry. The key industry drivers are related to life style issues in terms of perceiving insurance as a savings instrument rather than for risk cover, need based selling, quality of service and customers awareness.

In the present competitive scenario, a key differentiator is the professional customer service in terms of quality of advice on product choice along with policy servicing. Servicing focus is on enhancing the customer's experience and maximizing his convenience. This calls the effective CRM system, which eventually creates sustainable competitive advantage and enables to build long lasting relationship.

What Is Life Insurance?

Life insurance is a contract that pledges payment of an amount to the person assured (or his nominee) on the happening of the event insured against.

The contract is valid for payment of the insured amount during:

• The date of maturity, or

• Specified dates at periodic intervals, or

• Unfortunate death, if it occurs earlier.

Functions of Insurance

1. Primary function

2. Secondary function

3. Other functions

The primary functions of insurance include the following:

Provide protection - The primary function of insurance is to provide protection against future risk, accidents and uncertainty. Insurance is actually a protection against economic loss, by sharing the risk with others.

Collective bearing of risk - Insurance is a device to share the financial loss of few among many others. Insurance is a means by which few losses are shared among larger number of people. All the insured contribute the premiums towards a fund and out of which the persons exposed to a particular risk is paid.

Assessment of risk - Insurance determines the probable volume of risk by evaluating various factors that give rise to risk.

Provide certainty - Insurance is a device, which helps to change from uncertainty to certainty. Insurance is device whereby the uncertain risks may be made more certain.

The secondary functions of insurance include the following:

Prevention of Losses - Insurance cautions individuals and businessmen to adopt suitable device to prevent unfortunate consequences of risk by observing safety instructions and installation of automatic sparkler or alarm systems etc. Prevention of losses causes lesser payment to the assured by the insurer and this will encourage for more savings by way of premium. Reduced rate of premiums stimulate for more business and better protection to the insured.

Small capital to cover larger risks - Insurance relieves the businessmen from security investments, by paying small amount of premium against larger risks and uncertainty.

Contributes towards the development of larger industries - Insurance provides development opportunity to those larger industries having more risks in their setting up. Even the financial institutions may be prepared to give credit to sick industrial units which have insured their assets including plant and machinery.

The other functions of insurance include the following:

Means of savings and investment - Insurance serves as savings and investment. Hence, insurance is a compulsory way of savings and it restricts the unnecessary expenses by the insured's. For the purpose of availing income-tax exemptions people may also invest in insurance.

Source of earning foreign exchange - Insurance is an international business. The country can earn foreign exchange by way of issue of marine insurance policies and various other ways.

Risk free trade - Insurance promotes exports insurance, which makes the foreign trade risk free with the help of different types of policies under marine insurance cover.

Retirement - Life insurance makes sure that you have regular income after you retire and helps you maintain your standard of living. It can ensure that your post-retirement years are spent in peace and comfort.

Myths of Insurance:

i) Insurance is just meant for saving tax.

ii) Insurance does not give good returns

iii) Insurance products are not flexible

Why Life Insurance?

We think twice before taking the plunge into buying insurance. Is buying insurance a necessity now? Spending an _extra‘ amount, as premium at regular intervals where we do riot see immediate benefits does riot seem a necessity now may be later.

Well we could be wrong. Buying Insurance cannot be compared with any other form of investment. Insurance gives us a life long benefit and the returns will definitely come but only when we need it the most i.e. at the right time. Besides buying insurance early in life is one of the wise decisions we could take. Because the premium we would be paying would be comparatively lower. Insurance is not about how much more it can offer us when the stock market is at its peak. It may not be an attractive investment option. However, weigh the pros and cons and consider how much more it offers at a small price.

Most important of all it provides us with that unique sense of security that no other form of investment provides. It gives us a sense of financial support especially during that time of crisis irrespective of the fluctuations in the stock market. Insurance provides for our career goals right from your childhood years. If the earning member of the family is no more our child‘s educational needs will not suffer. In fact his higher education too will be provided for. We need not spend sleepless nights thinking about how to save for our child‘s marriage. Life Insurance will take care of that typical once-in-a-life-time spending on marriages.

An accident or a disability may be devastating but an insurance policy can be of utmost support for the family during such times too. Besides, it provides for additional benefits such as bonuses. We need not worry about our retirement years. The rising prices, taxes, and our lifestyle will be taken care of easily. In addition, we can relax and spend our old age in comfort and peace. Life insurance today plays a major role in ones life at various stages. Considering the benefits it offers one cannot but give a thought to buying an insurance policy at the earliest.

Importance of consumer behavior study

The study of consumers helps firms and organizations improve their marketing strategies by understanding issues such as how the psychology of consumers works, feel, reason, and select between different alternatives (e.g., brands, products); The psychology of how the consumer is influenced by his or her environment (e.g., culture, family, signs, media); The behavior of consumers while shopping or making other marketing decisions; Limitations in consumer knowledge or information processing abilities influence decisions and marketing outcome; How consumer motivation and decision strategies differ between products that differ in their level of importance or interest that they entail for the consumer; and How marketers can adapt and improve their marketing campaigns and marketing strategies to more effectively reach the consumer. One "official" definition

of consumer behavior is "The study of individuals, groups, or organizations and the processes they use to select, secure, use, and dispose of products, services, experiences, or ideas to satisfy needs and the impacts that these processes have on the consumer and society." Behavior occurs either for the individual, or in the context of a group (e.g., friend‘s influence what kinds of clothes a person wears) or an organization (people on the job make decisions as to which products the firm should use). Consumer behavior involves the use and disposal of products as well as the study of how they are purchased. Product use is often of great interest to the marketer, because this may influence how a product is best positioned or how we can encourage increased consumption. Consumer behavior involves services and ideas as well as tangible products.

Factors Influencing Consumer Behavior

Social factor: Social factor divides the society into a hierarchy of distinct classes. The members of each class have relatively the same status and members of other classes have either more or less status. It includes family, group, celebrity etc.

Cultural factor: It has potent influences that are brought up to follow the beliefs, values and customs of their society and to avoid behavior that is judged acceptable. Beliefs, values and customs set subculture apart from other members of the same society. Thus sub-culture is a distinct cultural group that exists as an identifiable segment, within a larger, more complex society.

Personal factor: It is a very important factor. Personal factors also influence buyer‗s behavior. They include age, income, occupation, life style. They simply direct our outer personality.

Psychology factor: The buying behavior of consumer is influenced by a number of psychological factors which includes motivation, perception, learning, beliefs and attitude and personality.

Applications of consumer behavior:

There are four main applications of consumer behavior:

- The most obvious is for *marketing strategy*—i.e., for making better marketing campaigns. For example, by understanding that consumers are more receptive to food advertising when they are hungry, we learn to schedule snack advertisements late in the afternoon. By understanding that new products are usually initially adopted by a few consumers and only spread later, and then only gradually, to the rest of the population, we learn that (1) companies that introduce new products must be well financed so that they can stay afloat until their products become a commercial success and (2) it is important to please initial customers, since they will in turn influence many subsequent customers‗ brand choices.
- A second application is *public policy*. In the 1980s, Acutance, a near miracle cure for acne, was introduced. Unfortunately, Acutance resulted in severe birth defects if taken by pregnant women. Although physicians were instructed to warn their female patients of this, a number still became pregnant while taking the drug. To get consumers‗ attention, the Federal Drug Administration (FDA) took the step of requiring that very graphic pictures of deformed babies be shown on the medicine containers.
- Social marketing involves getting ideas across to consumers rather than selling something. Marty Fishbein, a marketing professor, went on sabbatical to work for the Centers for Disease Control trying to reduce the incidence of transmission of diseases through illegal drug use. The best solution, obviously, would be if we could get illegal drug users to stop. This, however, was deemed to be infeasible. It was also determined that the practice of sharing needles was too ingrained in the drug culture to be stopped. As a result, using knowledge of consumer attitudes, Dr. Fishbein created a campaign that encouraged the cleaning of needles in bleach before sharing them, a goal that was believed to be more realistic.

2.3. LITERATURE REVIEW

What is Insurance?

Insurance means a promise of compensation for any potential future losses. It facilitates financial protection against by reimbursing losses during crisis. There are different insurance companies that offer wide range of insurance options and an insurance purchaser can select as per own convenience and preference.Several insurances provide comprehensive coverage with affordable premiums. Premiums are periodical payment and different insurers offer diverse premium options. The periodical insurance premiums are calculated according to the total insurance amount. Mainly insurance is used as an effective tool of **risk management** as quantified risks of different volumes can be insured.

Objectives of Insurance

Every day we face uncertainty and risk. Insurance offers individuals and organizations protection from potential losses as well as peace of mind in exchange for periodic payments known as premiums. Today, insurance companies offer a variety of insurance products in

areas such as property, casualty and life insurance. To function effectively, insurance must satisfy a number of objectives including pooling risk, paying out claims, ensuring the solvency of insurers and incentivizing safe behavior

Pooling Risk

One of the objectives of insurance is to pool the risk of a sufficiently large number of policyholders. By collecting premiums from many individuals or organizations, insurers can pay out relatively few claims each year while collecting premiums from the majority of policyholders who don't file claims over that same period. This conclusion follows the Law of Large Numbers. (Reference 1: page titled "Insurance Helps People Manage Risks")

Loss Recovery

A second key objective of insurance is to compensate policyholders following predetermined catastrophic events. For example, auto insurance policyholders are reimbursed for part or all of the damages sustained by their vehicle in a collision. Other examples of assets covered by property insurance include houses, inventory and personal possessions.

Behavioral Influence

Yet another aim of insurance is to promote and reward responsible behavior. For example, individuals with safe driving records are more likely to be quoted lower auto insurance premiums than those with unsafe driving records. Such discriminatory pricing may cause some individuals and organizations to behave with greater caution, thereby making society safer for everyone

Introduction to Financial Statement

Finance is defined as the provision of money when it is required. Every enterprise needs to start and carry out its operation. Finance is the lifeblood of an organization. Therefore, should be managed effectively.

Financial Statements are prepared primarily for decision making. Financial statement Analysis refers to the process of determining strength and weakness of the firm by properly establishing strategic relationship between the items of the balance sheet and profit and loss account. There are various methods and techniques used in analysing financial statements such as comparative statements, trend analysis, common size statement schedule of changes

in working capital, funds flow and cash flow analysis, cost volume profit analysis and ratio analysis and other operative data. The Analysis of Financial Statement is .used for decision making for various parties.Financial statements have two major uses in financial analysis. First, they are used to present a historical recover of the firm‘s financial development. Second, they are used for a course of action for the firm.

The operation and performance of a business depends on many individuals are collective decisions that are continually made by its management team. Every one of these decisions ultimately causes a financial impact, for better or works on the condition and the periodic results of the business. In essence, the process of managing involves a series of economic choices that activates moments of financial resources connected with the business.

Some of the decisions made by management one will be the major, such as investment in a new facility, raising large amounts of debts or adding a new line of products or services. Most other decisions are part of the day to day process in which every functional area of the business is managed. The combine of effect of all decisions can be observed periodically when the performance of the business is judged through various financial statements and special analysis.

These changes have profoundly affected all our lives and it is important for corporate managers, shareholders, tenders, customers and suppliers to investment and the performance of the corporations on which then relay. All who depend on a corporation for products, services, or a job must be med about their company‘s ability to meet their demands time and in this changing world. The growth and development of the corporate enterprises is reflected in their financial statement.

Meaning and Concept of Financial Analysis

The term ‗Financial Analysis‘ (also known as analysis and interpretation of financial statements) refers to the process of determining financial strengths and weakness of the firm by establishing strategic relationship between the items of the balance sheet and profit and loss account and operative data.

According to **Metcalf** and **Titard**, ―Analysing Financial Statement is a process of evaluating the relationship between component part of a financial statement to obtain a better understanding of a firm‘s position and performance‖.

In the words of **Myers,** ―Financial Statement Analysis is largely a study of relationship among the various financial factors in a businesses disclosed by single set of statement and a study of the trend of these factors as shown in a series of statement‖.

The purpose of financial Statement Analysis is to diagnose the information contained in financial statement so as to judge the profitability and financial soundness of the firm. Just like a doctor examines his patient by recording his body temperature, blood pressure etc. before making his conclusion regarding the illness and before giving his treatment, a financial analyst analysis the financial statements with various tools of analysis before commenting upon the financial health or weakness of an enterprise. The analysis and interpretation of financial statement is essential to bring out the mystery behind the figures in financial statements.

The term ‗Financial Statement analysis‘ includes both analysis and interpretation. A distinction should therefore be made between the two terms. While the termanalysis is used to mean the simplification of financial data by methodical classification of the data given in the financial statements, Interpretation means explaining the meaning and significance of the data so simplified however, both analysis and interpretation are interlinked and complimentary to each other Analysis is useless without interpretation and interpretation without is impossible most of the authors have used the term analysis only to cover the meaning both analysis and interpretation as the objective of analysis is to study the relation between various items of financial statement by interpretation. We have also used the term Financial Statement Analysis or simply Financial Analysis to cover the meaning of both analysis is and interpretation**.**

Details of Ratio and Calculation Methods

Analysis of the data on Ratio - Ratio analysis is one of the techniques of financial analysis to evaluate the financial condition and performance of a business concern. Simply, ratio means the comparison of one figure to other relevant figure or figures. According to Myers **―**Ratio analysis of financial statements is a study of relationship among various financial factors in a business as disclosed by a single set of statements and a study of trend of these factors as shown in a series of statements"

Advantages and Uses of Ratio Analysis - There are various groups of people who are interested in analysis of financial position of a company. They use the ratio analysis to work

out a particular financial characteristic of the company in which they are interested. Ratio analysis helps the various groups in the following manner:

To work out the profitability: Accounting ratio help to measure the profitability of the business by calculating the various profitability ratios. It helps

The management to know about the earning capacity of the business concern - In this way profitability ratios show the actual performance of the business. There is no big increase in profitability ratios IDBI Insurance Co. Ltd. On other side existing established Insurance Company the profit margin and returns are good.

To work out the solvency - With the help of solvency ratios, solvency of the company can be measured. These ratios show the relationship between the liabilities and assets. In case external liabilities are more than that of the assets of the company, it shows the unsound position of the business. In this case the business has to make it possible to repay its loans.

The Importance of Liquidity Ratios

Liquidity ratios are probably the most commonly used of all the business ratios. Creditors may often be particularly interested in these because they show the ability of a business to quickly generate the cash needed to pay outstanding debt. This information should also be highly interesting since the inability to meet short-term debts would be a problem that deserves your immediate attention. Liquidity ratios are sometimes called working capital ratios because that, in essence, is what they measure.

The liquidity ratios are: the current ratio and the quick ratio. Often liquidity ratios are commonly examined by banks when they are evaluating a loan application. Once you get the loan, your lender may also require that you continue to maintain a certain minimum ratio, as part of the loan agreement. An indicator of a company‘s short-term liquidity position. The quick ratio measures a company‘s ability to meet its short-term obligations with its most liquid assets. The higher the quick ratio, the better the position of the company. The quick ratio is calculated as: Also known as

Quick Ratio = Current Assets – Inventories / Current Liabilities

Significance of quick Ratio:-

The quick ratio/acid test ratio is very useful in measuring the liquidity position of a firm. It measures the firm‘s capacity to pay off current obligations immediately and is more rigorous test of liquidity than the current ratio. It is used as a complementary ratio to the current ratio. Liquid ratio is more rigorous test of liquidity than the current ratio because it eliminates inventories and prepaid expenses as a part of current assets. Usually a high liquid ratio‘s an indication that the firm is liquid and has the ability to meet its current or liquid liabilities in time and on the other hand a low liquidity ratio represents that the firm‘s liquidity position is not good. As a convention, generally, a quick ratio of "one to one" (1:1)is considered to be satisfactory.

Although liquidity ratio is more rigorous test of liquidity than the current ratio, yet it should be used cautiously and 1:1 standard should not be used blindly. A liquid ratio of 1:1 does not necessarily mean satisfactory liquidity position of the firm if all the debtors cannot be realized and cash is needed immediately to meet the current obligations. In the same manner, a low liquid ratio does not necessarily mean a bad liquidity position as inventories are not absolutely non-liquid. Hence, a firm having a high liquidity ratio may not have a satisfactory liquidity position if it has slow-paying debtors. On the other hand, A firm having a low liquid ratio may have a good liquidity position if it has a fast moving inventories

Significance of current ratio:

This ratio is a general and quick measure of liquidity of a firm. It represents the margin of safety or cushion available to the creditors. It is an index of the firm‘s financial stability. It is also an index of technical solvency and an index of the strength of working capital.

A relatively high current ratio is an indication that the firm is liquid and has the ability to pay its current obligations in time and when they become due. On the other hand, a relatively low current ratio represents that the liquidity position of the firm is not good and the firm shall not be able to pay its current liabilities in time without facing difficulties. An increase in the current ratio represents improvement in the liquidity position of the firm while a decrease in the current ratio represents that there has been deterioration in the liquidity position of the firm. A ratio equal to or near 2 : 1 is considered as a standard or normal or satisfactory. The idea of having double the current assets as compared to current liabilities is to provide for the delays and losses

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Limitations of Current Ratio

This ratio is measure of liquidity and should be used very carefully because it suffers from many limitations. It is, therefore, suggested that it should not be used as the sole index of short term solvency.

1. It is crude ratio because it measures only the quantity and not the quality of the current assets.

2. Even if the ratio is favorable, the firm may be in financial trouble, because of more stock and work in process which is not easily convertible into cash, and, therefore firm may have less cash to pay off current liabilities.

3. Valuation of current assets and window dressing is another problem. This ratio can be very easily manipulated by overvaluing the current assets. An equal increase in both current assets and current liabilities would decrease the ratio and similarly equal decrease in current assets and current liabilities would increase current ratio.

Liquidity Ratio:-

It is extremely essential for a firm to be able to meet its obligation as they become due. Liquidity ratios measures the ability of the firm to meet its current obligations .A firm should ensure that it does not suffer from lack of liquidity and also that it does not have excess liquidity. The failure of the company to meet it‘s obligations due to lack of sufficient liquidity, will result in a poor creditworthiness, loss of creditor‘s confidence etc. A very high degree of liquidity is also bad; idle assets earn nothing. Therefore it is necessary to strike a proper balance between high liquidity and lack liquidity. The most common ratios which indicate the balance of liquidity are

(a) Current ratio (b) quick ratio (c) cash ratio (d) interval measure (e) net working capital ratio.

Current Ratio:-

Current ratio is the relationship between current asset and current liability. This ratio is also known as working capital ratio which measures the other general liquidity and is most widely used to make the analysis of short term financial position of a firm. It is calculated by dividing the total current asset by total current liability.

Current Ratio=Current Assets/current Liabilities

A relatively high current ratio is an indication that the firm is liquid and has the ability to pay its current obligation in time as and when they become due. The rule of thumb is 2:1 i.e. current asset as double the current liability is consider to be satisfactory.

Working Capital Turnover Ratio:

Definition:

Working capital turnover ratio indicates the velocity of the utilization of net working capital. This ratio represents the number of times the working capital is turned over in the course of year and is calculated as follows:

Formula of Working Capital Turnover Ratio:

Working Capital Turnover Ratio = Cost of Sales / Net Working Capital

The two components of the ratio are cost of sales and the net working capital. If the information about cost of sales is not available the figure of sales may be taken as the numerator. Net working capital is found by deduction from the total of the current assets the total of the current liabilities.

Definition:

Stock turnover ratio and inventory turnover ratio are the same. This ratio is a relationship between the cost of goods sold during a particular period of time and the cost of average inventory during a particular period. It is expressed in number of times. Stock turnover ratio/Inventory turnover ratio indicates the number of time the stock has been turn over during the period and evaluates the efficiency with which a firm is able to manage its inventory. This ratio indicates whether investment in stock is within proper limit or not.

Components of the Ratio:

Average inventory and cost of goods sold are the two elements of this ratio. Average inventory is calculated by adding the stock in the beginning and at the end of the period and dividing it by two. In case of monthly balances of stock, all the monthly balances are added and the total is divided by the number of months for which the average is calculated.

Formula of Stock Turnover/Inventory Turnover Ratio:

The ratio is calculated by dividing the cost of goods sold by the amount of average stock at cost.

(a) [Inventory Turnover Ratio = Cost of goods sold / Average inventory at cost]

Generally, the cost of goods sold may not be known from the published financial statements. In such circumstances, the inventory turnover ratio may be calculated by dividing net sales by average inventory at cost. If average inventory at cost is not known then inventory at selling price may be taken as the denominator and where the opening in inventory is also not known the closing inventory figure may be taken as the average inventory.

(b) [Inventory Turnover Ratio = Net Sales / Average Inventory at Cost]

(c) [Inventory Turnover Ratio = Net Sales / Average inventory at Selling Price]

(d) [Inventory Turnover Ratio = Net Sales / Inventory]

Significance of ITR:.

Inventory turnover ratio measures the velocity of conversion of stock into sales. Usually a high inventory turnover/stock velocity indicates efficient management of inventory because more frequently the stocks are sold; the lesser amount of money is required to finance the inventory. A low inventory turnover ratio indicates an inefficient management of inventory. A low inventory turnover implies over-investment in inventories, dull business, poor quality of goods, stock accumulation, accumulation of obsolete and slow moving goods and low profits as compared to total investment. The inventory turnover ratio is also an index of profitability, where a high ratio signifies more profit; a low ratio signifies low profit.

Sometimes, a high inventory turnover ratio may not be accompanied by relatively high profits. Similarly a high turnover ratio may be due to under-investment in inventories.

It may also be mentioned here that there are no rule of thumb or standard for interpreting the inventory turnover ratio. The norms may be different for different firms depending up on the nature of industry and business conditions. However the study of the comparative or trend analysis of inventory turnover is still useful for financial analysis.

Average Collection Period Ratio:

Definition:

The Debtors/Receivable Turnover ratio when calculated in terms of days is known as Average Collection Period or Debtors Collection Period Ratio. The average collection period ratio represents the average number of days for which a firm has to wait before its debtors are converted into cash.

Formula of Average Collection Period:

Following formula is used to calculate average collection period:

(Trade Debtors × No. of Working Days) / Net Credit Sales

Significance of the Ratio:

This ratio measures the quality of debtors. A short collection period implies prompt payment by debtors. It reduces the chances of bad debts. Similarly, a longer collection period implies too liberal and inefficient credit collection performance. It is difficult to provide a standard collection period of debtors.

Debtors Turnover Ratio | Accounts Receivable Turnover Ratio:

A concern may sell goods on cash as well as on credit. Credit is one of the important elements of sales promotion. The volume of sales can be increased by following a liberal credit policy. The effect of a liberal credit policy may result in tying up substantial funds of a firm in the form of trade debtors (or receivables). Trade debtors are expected to be converted into cash within a short period of time and are included in current assets. Hence, the liquidity position

of concern to pay its short term obligations in time depends upon the quality of its trade debtors.

Definition:

Debtor‘s turnover ratio or accounts receivable turnover ratio indicates the velocity of debt collection of a firm. In simple words it indicates the number of times average debtors (receivable) are turned over during a year.

Formula of Debtors Turnover Ratio:

Debtors Turnover Ratio = Net Credit Sales / Average Trade Debtors

The two basic components of accounts receivable turnover ratio are net credit annual sales and average trade debtors. The trade debtors for the purpose of this ratio include the amount of Trade Debtors & Bills Receivables. The average receivables are found by adding the opening receivables and closing balance of receivables and dividing the total by two. It should be noted that provision for bad and doubtful debts should not be deducted since this may give an impression that some amount of receivables has been collected. But when the information about opening and closing balances of trade debtors and credit sales is not available, then the debtor‘s turnover ratio can be calculated by dividing the total sales by the balance of debtors (inclusive of bills receivables) given. And formula can be written as follows.

Debtors Turnover Ratio = Total Sales / Debtors Significance of the Ratio:

Accounts receivable turnover ratio or debtor‘s turnover ratio indicates the number of times the debtors are turned over a year. The higher the value of debtor‘s turnover the more efficient is the management of debtors or more liquid the debtors are. Similarly, low debtors turn over ratio implies inefficient management of debtors or less liquid debtors. It is reliable measure of the time of cash flow from credit sales..

CHAPTER 3

RESEARCH

METHODOLOGY

3.1Purpose of the Study

There are some questions, which arise from the study of financial statements. These could be ―Is Company‘s profitability adequate? Why is a profit low in spite of increased sales? Why is there liquidity problem though profitability is good? Why no reasons for changes in assets, liabilities and equity between two dates? Why no dividends are paid though there are good profits? From where have come cash flows and how they are applied? These and many other questions need answers, which can be possible when the financial statements are suitably analyzed

Thus financial statement analysis deals with meaningful interpretation of financial data available in financial statements to serve specific purpose of organizations of such data for their decision making .this involves identifying the purpose and selecting suitable means of analysis. Financial statement analysis is essentially purposive.

Research objective of the study

Followings are the main objectives of the project

(i) To analyses the financial position of the IDBI Federal Insurance Co. Ltd.

(ii) To compare the market position of the IDBI Federal Insurance Co. Ltd. With its competitors.

(iii) To find out the consolidated position of the IDBI Federal Insurance Co. Ltd.

(iv) To find out the future prospective of the company.

The role objective of the project is to help the management of the organization in decision making regarding the subject matter. Calculation of Financial statement and ration is only the clerical task whereas the interpretation of its needs immense skill intelligence and foresightedness. One of the easiest and most popular way of evaluating performance of the organization is to compare its present ratio with the past ones called comparison and through development action plan. It gives an indication of the direction of change and reflects whether the organizations financial p.osition and predominance has improved deteriorated or remained constant over the period of time.

3.2Research Design

Research is a careful inquiry or examination to discover new information or relationship and to expand and verify existing knowledge. Therefore, we used **descriptive research** in this study because it will ensure the minimization of bias and maximization of reliability of data collected.

3.3. Data Collection Technique

The data is collected by 2 methods:

1. Primary data
2. Secondary data.

Primary data is collected through collecting information from company officers, from external guide.

Secondary data, which is secondary in nature i.e. already, collected information this secondary data is collected through Company‘s Annual Report and discussion with them. Interpretation of:

- Balance sheet
- Profit and loss account
- Annual reports

SAMPLING DESIGN

Population:

One Company from the insurance industry, i.e. IDBI Federal Insurance Co. Ltd.

Sample Size:

2 years financial data of . IDBI Federal Insurance Co. Ltd

Sampling Method

Convenience Sampling Convenience under **non probability sampling** is applied in this project. Convenience sampling is a non-probability sampling technique where subjects are selected because of their convenient accessibility and proximity to the researcher.

3.4.Methods of Data Collection

Instruments for data collection

Basically secondary data was collected in this research.

- Information from the company records, financial documents and balance sheets
- Data collection through internet

Drafting of questionnaire

The project is based on the secondary data, there is no such questionnaire has been taken made for this project.

CHAPTER-4

DATA ANALYSIS AND INTREPRETATION

The analysis of financial statement consists of study of relationship and trends to determine whether or not the financial position and result of operations as well as the financial progress of the company are satisfactory or unsatisfactory. The analytical methods or devices, listed below are used to ascertain or measure the relationships among the financial statements items of a single set of statements and the changes that have taken place in these items as reflected in successive financial statement. The fundamental objective of any analytical method is to simplify or to reduce the data under review to more understandable terms.

Analytical methods and devices used in analyzing financial statements are as

follows1 Comparative Statement

2 Common Size statements

3 Trend Ratios

4 Ratio Analyses

Comparative

Statement

These financial statements are so designed as to provide time perspective to the various elements of financial position contained therein. These statements gives data for all the periods stated so as shows

(a) Absolute money values of each of the period stated.
(b) Increase and decrease in absolute data in terms of money values.
(c) Increase and decrease in terms of percentage.
(d) Comparison expressed in ratios

The Comparative Financial Statements Analysis is statements of the financial position at different period of time. The elements of financial position are shown in a comparative form will be covered in comparative statement from practical point of view generally two financial statements

1 Balance Sheet

2 Income Statements

Comparative Balance Sheet - The Comparative Balance Sheet analysis the study of the trend of the same items, group of items, group of items and computed items in two or more balance sheet of the same business enterprise on different dates. The change in periodic balance sheet reflects the conduct of a business. The change can be observed by comparison of the balance sheet at the beginning and at end of period and these changes can help in formation opinion about the progress of an enterprise. The comparative balance sheet has two columns for the data of original balance sheet. A third column is used to show the increase in the figures and the fourth column may be used to show percentage increase and decrease.

Comparative Balance Sheet of IDBI Federal insurance Co. Ltd. (for the year ending on 31st march, 2013 and 31st march, 2014)				
Particulars	**31.3.2013**	**31.4.2014**	**Increase/ Decrease**	**%**
Sources of Funds				
Share Capital	7,995,649	7,996,736	+ 1087	0.0136
Reserves and surplus	-	-	-	

Credit / (Debit) Fair value change account	969	-	- 969	(-) 100
Sub-Total (A)	**7,996,618**	**7,996,736**	+ 118	0.0015
Policy Holders Fund				
Credit / (Debit) Fair value change account	(1,635)	111,017	+ 112,652	
Policy liabilities	9,175,160	14,158,884	+ 4983724	54.31
Provision for linked liabilities	16,709,694	16,358,452	- 351242	(-)2.10
Funds for discontinued policies				
(i) Discontinued on account of non-payment of premium	106,772	227,345	+ 120573	112.92
(ii) Others	-			
Sub Total (B)	**25,989,991**	**30,755,698**	**+ 4,765,707**	**18.33**
Application of Fund				
Total C= (A+B)	**33,986,609**	**38,752,434**	**4,765,825**	**14.02**
Investments				
Shareholders	2,237,647	2,843,320	+ 605,673	27.06
Policyholders	9,710,071	14,465,072	+ 4,755,001	48.96
Assets held to cover linked liabilities	16,816,466	16,585,797	- 230,669	(-)1.37
Fixed assets	136,987	104,222	- 32765	(-)23.91

Sub-Total (D)	**28,901,171**	**33,998,411**	**5,097,240**	**17.63**
Current Assets				
Cash and bank balances	999,287	926,324	- 72,963	(-)7.30
Advances and other assets	1,637,296	1,994,617	+ 357,321	21.82
Sub-Total (E)	**2,636,583**	**2,920,941**	+ 284,358	10.78
Current liabilities	1,747,056	1,565,694	- 181,362	(-)10.38
Provisions	35,205	31,162	- 4,043	(-)11.4
Sub-Total (F)	**1,782,261**	**1,596,856**	**- 185,405**	**(-)10.40**
Net Current Assets/(Liabilities) (G) = (E) – (F)	**854,322**	**1,324,085**	**+ 469,763**	**54.98**
Debit balance in Profit & Loss Account (Shareholders' account)	4231116	3,429,938	- 801178	(-)18.93
Sub-Total (H)	**4231116**	**3,429,938**	**- 801178**	**(-)18.93**
TOTAL (I) = (D) + (G) + (H)	**33,986,609**	**38,752,434**	**+ 4,765,825**	**14.02**

Table No – 4. 1 (Comparative Balance Sheet of IDBI Federal insurance Co. Ltd.)

An Analysis and interpretation of the above balance sheet reveals

(1) Working Capital is increased from 5154.73 to 5670.21, which is a positive signal for the firm because increase in Working Capital leads to a better financial position and company have more funds to do business activities.

(2) There has been a drastic fall in cash balance (72,963). This reflects an adverse cash position.

(3) Fixed Assets has been decreased by 32765 and even the Share Capital Has been increased by 1087 this show even after arranging the new funds by share capital company unable to increase the Fixed Capital.

(4) Current Assets have been increased by 284,358 this shows that company used the funds of share capital to invest in current assets and want to make its liquidity situation better

4.2.2 Comparative Income Statement

Comparative profit and loss account or income statement shows the operating results for a number of accounting periods and changes in data significantly in absolute periods and changes in the data significantly in absolute money terms as well as in relative percentage.

Comparative Profit and Loss of IDBI Federal insurance Co. Ltd. **(for the year ending on 31st march, 2013 and 31st march, 2014)**				
Particulars	**31.03.2013**	**31.03.2014**	**Increase /Decrease**	**%**
Amounts transferred from the Policyholders' A/c (Technical Account)* (see note – 1)	816,086	960,742	144,656	17.7
Income from investments				
(a) Interest, dividends & rent – gross	176,685	194924	18239	10.32
(b) Profit on sale/redemption of investments -	17,691	4264	(13427)	75.89
(c) (Loss on sale/ redemption of investments) -	(5,422)	(692)	4730	87.23
(d) (Amortisation of premium) / discount on	71,118	83173	12055	0.16

investments (net)				
Other Income				
(a) Miscellaneous Income	452	667	215	47.56
Total (A)	1,076,610	1243078	166468	15.46
Expense other than those directly related to the insurance business	17240	17507	267	1.54
Bad Debts Written Off	-			
Amount transferred to the Policyholders' Account (Technical Account)	966,841	425,047	(541794)	56.03
Provision for tax - Fringe Benefits Tax / Wealth tax	97	11	86	88.65
Provisions (other than taxation)	-	-	-	
a) For diminution in the value of investments	-	-	-	
b) Provision for doubtful debts -	-	-	-	
c) Other	-	-	-	
Total (B)	984,178	441900	(542278)	55.09
Profit/(Loss) before tax = (A) - (B)	92,432	801,178	708,746	
Provision for taxation - Income Tax				
Profit/(Loss) after tax	92,432	801,178	708746	
Appropriations				
(A) Balance at the beginning of the year	(4,323,548)	(4231116)	92432	

(b) Interim dividends paid during the year	-	-	-	
(c) Proposed final dividend	-	-	-	
(d) Dividend distribution	-	-	-	
e) Transfer to reserves/other accounts	-	-	-	
Profit / (Loss) carried to the Balance Sheet	(4,231,116)	(3429938)	801178	19%
Earnings per share (Face Value of Rs.10/- each) - Basic and Diluted (in Rs.)	0.12	1		

4.3 Common Size Statements – In the comparative statements it is difficult to comprehend the changes over the years in relations to the total asset and liabilities and capital or total net sales. This limitation of comparative statements make comparison between two or more firms of industry impossible because there isno common base of comparison for absolute figures. Gain for an interpretation for underlying causes of changes over the time period a vertical analysis is required and this is not possible with comparative statements.

Common Size Statements are those in which figures reported are converted in to percentages to some common base for this financial statement are presented as percentage or ratio to total of the items and a common base for comparison is provided. Each percentage shows the relation of the individual item to its respective total.

4.3.1 Common Size Balance Sheet

In a common size Balance Sheet total assets or liability taken as 100 and all the figures are expressed as percentage of the total. Comparative common size balance sheet for different periods helps to highlight the trends in different items. If it is prepared for different firms in an industry, it facilitates to judge the relative soundness and helps in understanding their financial strategy.

Common Size Balance Sheet of IDBI Federal insurance Co. Ltd. (for the year ending on 31st march, 2013 and 31st march, 2014)				
Particulars	**31.3.2013**	**% of total**	**31.4.2014**	**% of total**
Sources of Funds				
Share Capital	7,995,649	23.52%	7,996,736	20.64%
Reserves and surplus	-		-	
Credit / (Debit) Fair value change account	969		-	
Sub-Total (A)	**7,996,618**	**23.52%**	**7,996,736**	20.64%
Policy Holders Fund				
Credit / (Debit) Fair value change account	(1,635)		111,017	0.29%
Policy liabilities	9,175,160	27%	14,158,884	36.54%
Provision for linked liabilities	16,709,694	49.17%	16,358,452	42.21%
Funds for discontinued policies				
(i) Discontinued on account of non-	106,772	0.31%	227,345	0.54%

payment of premium				
(ii) Others	-			
Sub Total (B)	**25,989,991**		**30,755,698**	**79.36%**
Application of Fund				
Total C= (A+B)	**33,986,609**	**100%**	**38,752,434**	**100%**
Investments				
Shareholders	2,237,647	6.58%	2,843,320	7.34%
Policyholders	9,710,071	28.57%	14,465,072	37.33%
Assets held to cover linked liabilities	16,816,466	49.48%	16,585,797	42.80%
Fixed assets	136,987	0.4%	104,222	0.27%
Sub-Total (D)	**28,901,171**	85.03%	**33,998,411**	**87.73%**
Current Assets				
Cash and bank balances	999,287	2.94%	926,324	2.39%
Advances and other assets	1,637,296	4.82%	1,994,617	5.15%
Sub-Total (E)	**2,636,583**	**7.76%**	**2,920,941**	**7.54%**
Current liabilities	1,747,056	5.14%	1,565,694	4.04%
Provisions	35,205	0.10%	31,162	0.08%
Sub-Total (F)	**1,782,261**	**5.24%**	**1,596,856**	**4.12%**
Net Current Assets/(Liabilities) (G) = (E) – (F)	**854,322**	**2.51%**	**1,324,085**	**3.42%**

Debit balance in Profit & Loss Account (Shareholders' account)	4231116	12.45%	3,429,938	8.85%
Sub-Total (H)	**4231116**		**3,429,938**	
	33,986,609	**100%**	**38,752,434**	**100%**

Table No. – 4.4 (Common Size Balance Sheet of IDBI Federal insurance Co. Ltd.)

4.3.2 Common Size Income Statement

In a Common size income statement the sales figure is assumed to be equal to 100 and all other figures of costa or expenses ae expressed as percentage of sales. A comparative income statement for different periods helps to reveal the efficiency or otherwise of incurring any cost or expenses. If it is being prepared for two firms, it shows the relative efficiency of each cost item for the two firms.

Common Size Income Statement of IDBI Federal insurance Co. Ltd. (for the year ending on 31st march, 2013 and 31st march, 2014)				
Particulars	**31.03.2013**		**31.03.2014**	
Amounts transferred from the Policyholders' A/c (Technical Account)	816,086	100%	960,742	100%
Income from investments				
(a) Interest, dividends & rent – gross	176,685		194924	
(b) Profit on sale/redemption of investments -	17,691		4264	

(c) (Loss on sale/ redemption of investments) -	(5,422)		(692)	

(d) (Amortisation of premium) / discount on investments (net)	71,118		83173	
Other Income				
(a) Miscellaneous Income	452		667	
Total (A)	1,076,610	131.92	1243078	129.39%
Expense other than those directly related to the insurance business	17240	2.11%	17507	1.82%
Bad Debts Written Off	-			
Amount transferred to the Policyholders' Account (Technical Account)	966,841	118.47%	425047	44.24%
Provision for tax - Fringe Benefits Tax / Wealth tax	97	0.01%	11	0.001%
Provisions (other than taxation)	-		-	
a) For diminution in the value of investments	-		-	
b) Provision for doubtful debts -	-		-	
c) Other	-		-	
Total (B)	984,178	120.60%	441900	46%

Profit/(Loss) before tax = (A) - (B)	92,432	11.32%	801,178	83.39%
Provision for taxation - Income Tax				
Profit/(Loss) after tax	92,432	11.32%	801178	83.39%

Appropriations				
(A) Balance at the beginning of the year	(4,323,548)		(4231116)	
(b) Interim dividends paid during the year	-		-	
(c) Proposed final dividend	-		-	
(d) Dividend distribution	-		-	
e) Transfer to reserves/other accounts	-		-	
Profit / (Loss) carried to the Balance Sheet	(4,231,116)		(3429938)	
Earnings per share (Face Value of Rs.10/- each) - Basic and Diluted (in Rs.)	0.12		1	

4.4 TREND RATIOS / Analysis

Trend ratio can be defined as index number of the movement of the various financial items in the financial statement for the number of periods. It is a statistical device applied in the analysis of the financial statement to reveal the trend of the items with the passage of time. Trend ratio shows the nature and rate of movements in various financial factors they provide a horizontal analysis of comparative statements and reflect the behavior of various items with the passage of time. Time ratio can be graphically presented for a better understanding by the management. That is very useful in predicting the behaviour of the various financial factors in the future. However it should be noted that conclusions is arrived at. Since trends are sometimes significantly affected by externalities.

4.5 Ratio Analysis

Ratio analysis is a powerful tool of financial analysis. A ratio is defined as **"the indicated quotient of two mathematical expressions"** and **"the relationship between two or more things".** In financial analysis, a ratio is used as a benchmark for evaluation the financial position and performance of a firm. The absolute accounting figures reported in the financial statements do not provide a meaningful understanding of the performance and financial position of a firm. An accounting figure conveys meaning when it is related to some other relevant information. For example, an Rs.5 core net profit may look impressive, but the firm's performance can be said to be good or bad only when the net profit figure is related to the firm's Investment.

The relationship between two accounting figures expressed mathematically, is known as a financial ratio (or simply as a ratio). Ratios help to summarize large quantities of financial data and to make *qualitative judgment* about the firm's financial performance. For example, consider current ratio. It is calculated by dividing current assets by current liabilities; the ratio indicates a relationship- a quantified relationship between current assets and current liabilities. This relationship is an index or yardstick, which permits a quantitative judgment to be formed about the firm's liquidity and vice versa. The point to note is that a ratio reflecting a quantitative relationship helps to form a qualitative judgment. Such is the nature of all financial ratios.

Theoretical background:

Use and significance of ratio analysis:-

The ratio is one of the most powerful tools of financial analysis.

It is used as a device to analyze and interpret the financial health of enterprise. Ratio analysis stands for the process of determining and presenting the relationship of items and groups of items in the financial statements. It is an important technique of the financial analysis. It is the way by which financial stability and health of the concern can be judged. Thus ratios have wide applications and are of immense use today. The following are the main points of importance of ratio analysis:

(A) Managerial uses of ratio analysis:-

1. Helps in decision making:-

Financial statements are prepared primarily for decision-making. Ratio analysis helps in making decision from the information provided in these financial Statements.

2. Helps in financial forecasting and planning:-

Ratio analysis is of much help in financial forecasting and planning. Planning is looking ahead and the ratios calculated for a number of years a work as a guide for the future. Thus, ratio analysis helps in forecasting and planning.

3. Helps in communicating:-

The financial strength and weakness of a firm are communicated in a more easy and understandable manner by the use of ratios. Thus, ratios help in communication and enhance the value of the financial statements.

4. Helps in co-ordination:-

Ratios even help in co-ordination, which is of at most importance in effective business management. Better communication of efficiency and weakness of an enterprise result in better co-ordination in the enterprise

5. Helps in control:-

Ratio analysis even helps in making effective control of business.The weaknesses are otherwise, if any, come to the knowledge of the managerial, which helps, in effective control of the business.

(B) Utility to shareholders/investors:-

An investor in the company will like to assess the financial position of the concern where he is going to invest. His first interest will be the security of his investment and then a return in form of dividend or interest. Ratio analysis will be useful to the investor in making up his mind whether present financial position of the concern warrants further investment or not.

(C) Utility to creditors: -

The creditors or suppliers extent short-term credit to the concern. They are invested to know whether financial position of the concern warrants their payments at a specified time or not.

(D) Utility to employees:-

The employees are also interested in the financial position of the concern especially profitability. Their wage increases and amount of fringe benefits are related to the volume of profits earned by the concern.

(E) Utility to government:-

Government is interested to know overall strength of the industry. Various financial statement published by industrial units are used to calculate ratios for determining short term, long-term and overall financial position of the concerns.

(F) Tax audit requirements:-

Sec44AB was inserted in the income tax act by financial act; 1984.Caluse 32 of the income tax act requires that the following accounting ratios should be given:

Gross profit/turnover.

(1) Net profit/turnover.
(2) Stock in trade/turnover.
(3) Material consumed/finished goods produced.

Further, it is advisable to compare the accounting ratios for the year under consideration with the accounting ratios for earlier two years so that the auditor can make necessary enquiries, if there is any major variation in the accounting ratios.

Limitations:

Ratio analysis is very important in revealing the financial position and soundness of the business. But, inspite of its advantages, it has some limitations which restrict its use. These limitations should be kept in mind while making use of ratio analysis for interpreting the financial the financial statements. The following are the main limitations of ratio analysis:

1. False results:-

Ratios are based upon the financial statement. In case financial statement are in correct or the data of on which ratios are based is in correct, ratios calculated will all so false and defective. The accounting system it self suffers from many inherent weaknesses the ratios based upon it cannot be said to be always reliable.

2. Limited comparability:-

The ratio of the one firm cannot always be compare with the performance of other firm, if uniform accounting policies are not adopted by them. The difference in the methods of calculation of stock or the methods used to record the deprecation on assets will not provide identical data, so they cannot be compared.

3. Absence of standard universally accepted terminology:-

Different meanings are given to a particular term, egg. Some firms take profit before interest and tax; others may take profit after interest and tax. A bank overdraft is taken as current liability but some firms may take it as non-current liability. The ratios can be comparable only when all the firms adapt uniform terminology.

4. Price level changes affect ratios:-

The comparability of ratios suffers, if the prices of the commodities in two different years are not the same. Change in price effect the cost of production, sale and also the value of assets. It means that the ratio will be meaningful for comparison, if the prices do not change.

5. Ignoring qualitative factors:-

Ratio analysis is the quantitative measurement of the performance of the business. It ignores qualitative aspect of the firm, how so ever important it may be. It shoes that ratio is only a one sided approach to measure the efficiency of the business.

6. Personal bias:-

Ratios are only means of financial analysis and an end in it self. The ratio has to be interpreted and different people may interpret the same ratio in different ways.

7. Window dressing:-

Financial statements can easily be window dressed to present a better picture of its financial and profitability position to outsiders. Hence, one has to be very carefully in making a decision from ratios calculated from such financial statements.

8. Absolute figures distortive:-

Ratios devoid of absolute figures may prove distortive, as ratio analysis is primarily a quantitative analysis and not a qualitative analysis.

Classification of ratios:

Several ratios, calculated from the accounting data can be grouped into various classes according to financial activity or function to be evaluated. Management is interested in evaluating every aspect of the firm's performance. They have to protect the interests of all parties and see that the firm grows profitably. In view of thee requirement of the various users of ratios, ratios are classified into following four important categories:

- **Liquidity ratios** - short-term financial strength
- **Leverage ratios** - long-term financial strength
- **Profitability ratios** - long term earning power

Liquidity ratios measure the firm's ability to meet current obligations;

Leverage ratios show the proportions of debt and equity in financing the firm's assets;

Profitability ratios measure overall performance and effectiveness of the firm

LIQUIDITY RATIOS:

It is extremely essential for a firm to be able to meet the obligations as they become due**.** **Liquidity ratios** measure the ability of the firm to meet its current obligations (liabilities). The liquidity ratios reflect the short-term financial strength and solvency of a firm. In fact, analysis of liquidity needs the preparation of cash budgets and cash and funds flow statements; but liquidity ratios, by establishing a relationship between cash and other current assets to current obligations, provide a quick measure of liquidity. A firm should ensure that it does not suffer from lack of liquidity, and also that it does not have excess liquidity. The failure of a company to meet its obligations due to lack of sufficient liquidity, will result in a poor credit worthiness, loss of credit worthiness, loss of creditors' confidence, or even in legal tangles resulting in the closure of the company. A very high degree of liquidity is also bad; idle assets earn nothing. The firm's funds will be unnecessarily tied up in current assets. Therefore, it is necessary to strike a proper balance between high liquidity and lack of liquidity.

The most common ratios which indicate the extent of liquidity are lack of it, are:

1. Current Ratio:

Current ratio is calculated by dividing current assets by current liabilities.

$$\textbf{Current Ratio} = \frac{\textbf{Current assets}}{\textbf{Current Liabilities}}$$

Current assets include cash and other assets that can be converted into cash within in a year, such as marketable securities, debtors and inventories. Prepaid expenses are also included in the current assets as they represent the payments that will not be made by the firm in the future. All obligations maturing within a year are included in the current liabilities. Current liabilities include creditors, bills payable, accrued expenses, short-term bank loan, income tax, liability and long-term debt maturing in the current year. The current ratio is a measure of firm's **short-term solvency.** It indicates the availability of current assets in rupees for every one rupee of current liability. A ratio of greater than one means that the firm has more current assets than current claims against them Current liabilities.

2. Quick Ratio: Quick ratio also called **Acid-test ratio**, establishes a relationship between quick, or liquid, assets and current liabilities. An asset is a liquid if it can be converted into cash immediately or reasonably soon without a loss of value. Cash is the most liquid asset. Other assets that are considered to be relatively liquid and included in quick assets are debtors and bills receivables and marketable securities (temporary quoted investments). Inventories are considered to be less liquid. Inventories normally require some time for realizing into cash; their value also has a tendency to fluctuate. The quick ratio is found out by dividing quick assets by current liabilities.

$$\textbf{Quick Ratio} = \frac{\textbf{Quick assets}}{\textbf{Current Liabilities}}$$

Quick Asset = Current Asset – Stock – prepaid expense

3. Cash Ratio: Since cash is the most liquid asset, it may be examined cash ratio and its equivalent to current liabilities. Trade investment or marketable securities are equivalent of cash; therefore, they may be included in the computation of cash ratio:

$$\textbf{Cash Ratio} = \frac{\textbf{Cash + marketable security}}{\textbf{Current Liabilities}}$$

4. Net Working Capital Ratio : The difference between current assets and current liabilities excluding short – term bank borrowings in called net working capital (NWC) or net current assets (NCA). NWC is sometimes used as a measure of firm's liquidity. It is considered that between two firm's the one having larger NWC as the greater ability to meet its current obligations. This is not necessarily so; the measure of liquidity is a relationship, rather than the difference between current assets and current liabilities. NWC, however, measures the firm's potential reservoir of funds. It can be related to net assets (or capital employed):

$$\textbf{NWC Ratio} = \frac{\text{Net working capital (NWC)}}{\text{(Net assets (or) Capital Employed)}}$$

4.5.3.2 LEVERAGE RATIO:

The short-term creditors, like bankers and suppliers of raw materials, are more concerned with the firm's current debt-paying ability. On other hand, ling-term creditors like debenture holders, financial institutions etc are more concerned with the firm's long-term financial strength. In fact a firm should have a strong short as well as long-term financial strength. In fact a firm should have a strong short-as well as long-term financial position. To judge the long-term financial position of the firm, **financial leverage**, or **capital structureratios** are calculated. These ratios indicate mix of funds provided by owners and lenders. As a general rule there should be an appropriate mix of debt and owners' equity in financing the firm's assets.

Leverage ratios may be calculated from the balance sheet items to determine the proportion of debt in total financing. Many variations of these ratios exist; but all these ratios indicate the same thing the extent to which the firms has relied on debt in financing assets. Leverage ratios are also computed form the profit and loss items by determining the extent to which operating profits are sufficient to cover the fixed charges.

1 Debt-Equity Ratio: The relationship describing the lenders contribution for each rupee of the owners' contribution is called debt-equity (DE) ratio is directly computed by dividing total debt by net worth:

$$\text{Debt - equity ratio} = \frac{\text{Total debt (TD)}}{\text{Net worth (NW)}}$$

2 Proprietary Ratio: This ratio indicates that the proportion of total assets funded by the shareholders. It is calculated as under

$$\textbf{Proprietary ratio} = \frac{\textbf{Equity}}{\textbf{Total Asset}}$$

A higher proprietary ratio indicates high sound financial position of the company from the long term point of view because it means that a large proportion of total asset is provided by equity and hence the firm is less dependent on external sources.

4.5.3.3 PROFITABILITY RATIOS

A company should earn profits to survive and grow over a long period of time. Profits are essential, but it would be wrong to assume that every action initiated by management of a company should be aimed at maximizing profits, irrespective of concerns for customers, employees, suppliers or social consequences. It is unfortunate that the word profit is looked upon as a term of abuse since some firms always want to maximize profits ate the cost of employees, customers and society. Except such infrequent cases, it is a fact that sufficient profits must be able to obtain funds from investors for expansion and growth and to contribute towards the social overheads for welfare of the society.

Profit is the difference between revenues and expenses over a period of time (usually one year). Profit is the ultimate output of a company, and it will have no future if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of the company in terms of profit. The profitability ratios are calculated to measure the operating efficiency of the company. Besides management of the company, creditors and owners are also interested in the profitability of the firm. Creditors want to get interest and repayment of principal regularly. Owners want to get a required rate of return on their investment. This is possible only when the company earns enough profits.

Generally, two major types of profitability ratios are calculated:

- Profitability in relation to sales.
- Profitability in relation to investment.

1 Return on Equity (ROE): Common or ordinary shareholders are entitled to the residual profits. The rate of dividend is not fixed; the earnings may be distributed to shareholders or retained in the business. Nevertheless, the net profits after taxes represent their return. A return on shareholder‘s equity is calculated to see the profitability of owners‘ investment. The shareholders equity or net worth will include paid-up share capital, share premium, and reserves and surplus less accumulated losses. Net worth also be found by subtracting total liabilities from total assets. The return on equity is net profit after taxes divided by shareholders equity, which is given by net worth:

$$\textbf{Return on Equity} = \frac{\textbf{Profit after taxes}}{\textbf{Net Worth}}$$

ROE indicates how well the firm has used the resources of owners. In fact, this ratio is one of the most important relationships in financial analysis. The earning of a satisfactory return is the most desirable objective of business. The ratio of net profit to owners‘ equity reflects the extent to which this objective has been accomplished. This ratio is, thus, of great interest to the present as well as the prospective Shareholders and also of great concern to management, which has the responsibility of maximizing the owners‘ welfare.

The return on owners‘ equity of the company should be compared with the ratios of other similar companies and the industry average. This will reveal the relative performance and strength of the company in attracting future investments.

2 Earnings per Share (EPS): The profitability of the shareholders investments can also be measured in many other ways. One such measure is to calculate the earnings per share. The earnings per share (EPS) are calculated by dividing the profit after taxes by the total number of ordinary shares outstanding.

$$\textbf{EPS} = \frac{\textbf{Profit after taxes}}{\textbf{No of Shares}}$$

3 Net Profit Margins :Net profit is obtained when operating expenses; interest and taxes are subtracted from the gross profit margin ratio is measured by dividing profit after tax by sales:

$$\textbf{Net Profit Margin} = \frac{\textbf{Net Profit}}{\textbf{Sales*}}$$

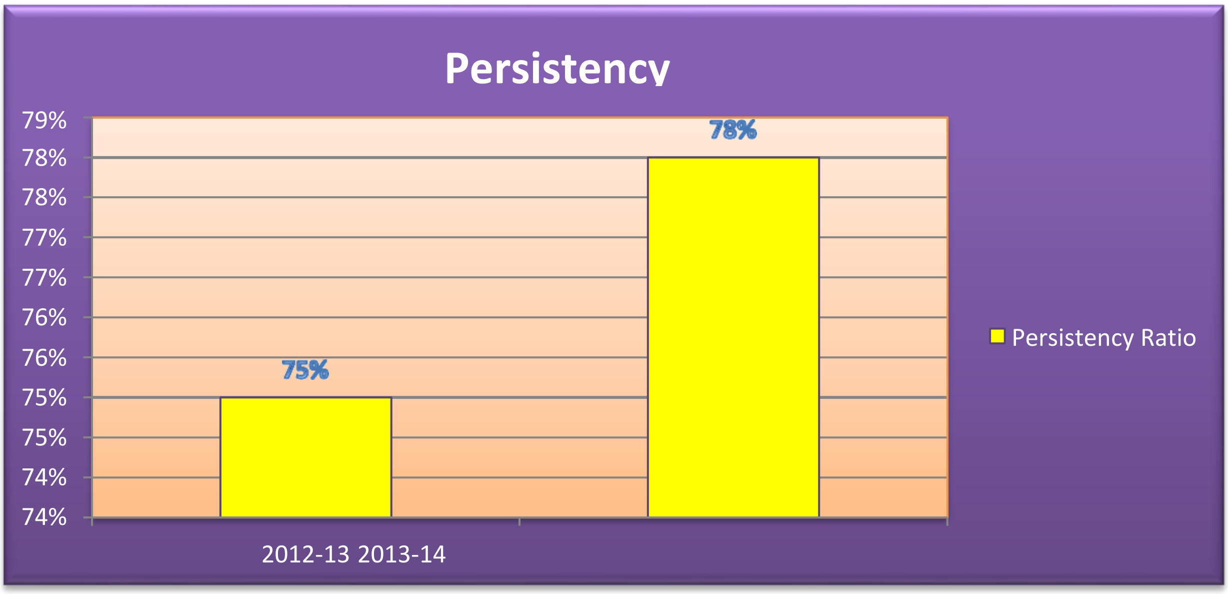
Note * = Here amount of premium account (technical) is taken as sale because it is equal to sale in Insurance industry and comes after a calculation as prescribed by IRDA

Net profit ratio establishes a relationship between net profit and sales and indicates and management‘s in manufacturing, administrating and selling the products. This ratio is the overall measure of the firm‘s ability to turn each rupee sales into net profit. If the net margin is inadequate the firm will fail to achieve satisfactory return on shareholders‘ funds. This ratio also indicates the firm‘s capacity to withstand adverse economic conditions. A firm with high net margin ratio would be advantageous position to survive in the face of falling prices, selling prices, cost of production.

4.6 Some other technical Ratio’s related to the insurance industry

1 Persistency Ratio

Percentage of an insurance company's already written policies remaining in force, without lapsing or being replaced by policies of other insurers. Since persistency is a critical factor in the viability and success of insurance companies, they constantly look for ways to increase this percentage

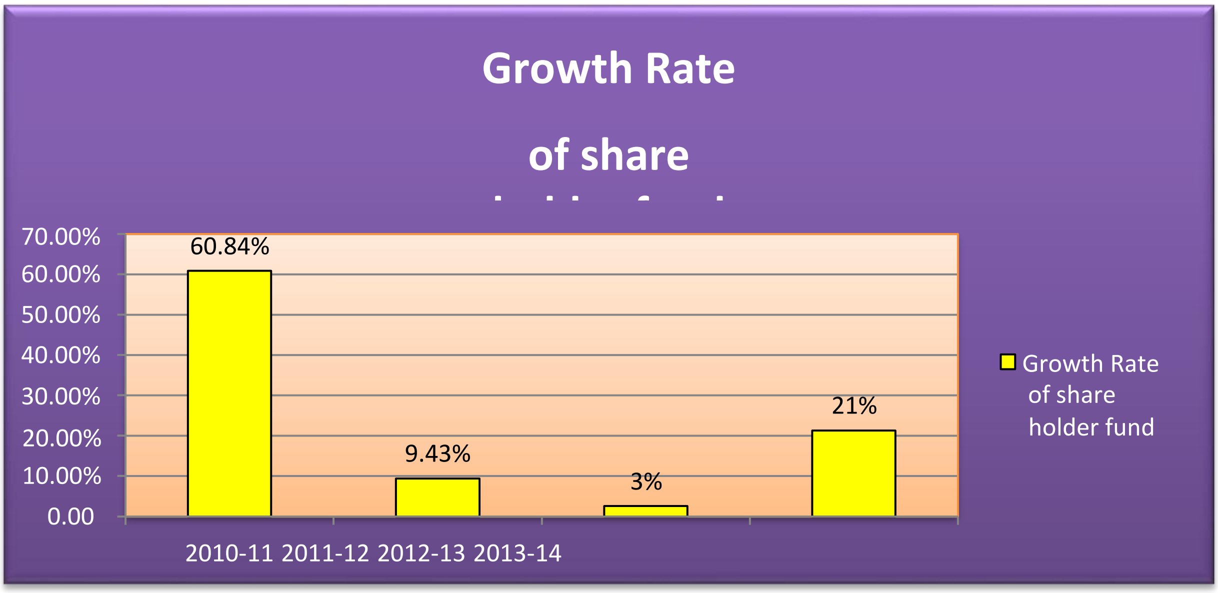


Graph No. – 4.14 (Persistency Ratio)

2 Growth rate of Shareholders Funds

Year	Growth Rate of shareholder fund
2010-11	60.84%
2011-12	9.43%
2012-13	3%
2013-14	21%

Table No. – 4.14 (Growth rate of Shareholders fund)


Growth Rate
of share
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00
60.84%
9.43%
3%
21%
2010-11 2011-12 2012-13 2013-14
Growth Rate of share holder fund

CHAPTER- 5

FINDINGS & CONCLUSION

5.1. FINDINGS

- Current ratio of the Company is continuously increasing year by year which is positive indication for the company that company is having ability to meet short term liabilities, However the current level of Current Ratio is less than the required level (i.e. 2:)

Cash ratio of the company is in green zone because in the year 2013-14 company is having 2.36 level of cash ratio which is very high in number as compare to the last year 1.816 and the Company belongs to the insurance industry so the level of cash ratio should be high at every time because at any time company need to be settle a huge claims.

- IDBI Federal Life Insurance Co Ltd. Is a Zero debt Company which means that there is no Fix burden on the company to pay interest every year, The proprietary ratio of the company is on declining phase which is not a positive signal for the company, however it is more than 1 every year it means that the all assets are arrange from the funds of equity as it is zero debt company so all the assets are purchase from the funds of equity.

- Profitability part of the Company is performing very well. The company was registered in the March 2008 and the impact of that is showing on return on equity share holder it was negative in year 2010-11 by 6.12% and after that company makes a good U turn and now having ROE 12% which is very early growth for Insurance Company. Same with the EPS it was also negative in the beginning but after that it started improving and now Rs.1.24per share.

- In the Insurance industry the main problem for the companies are to manage their NPA's But IDBI federal is having Zero NPA till now which is very positive for the company.

- Fixed Asset of the company are not showing a good numbers because in the year 2010-11 it was 170347000 but in year it is only 104222000, there is a 38% decrease in the fixed assets of the company.

- The Commission Ratio paid to the shareholder was 8.19% in 2010-11 and 8.68% in 2011-12 and 11.16% in 2012-13 and 8.28% in 2013-14, so the company performed very well for continuous three year however in the 2013-14 it was declined.

5.2. Conclusion

- IDBI Federal Life Insurance Co. Ltd. focuses on product and service innovations to meet the needs of Indian masses and enhance their quality of life.

- Despite challenges, the company has expanded its customer reach, strengthened operations, and developed innovative savings and protection solutions.

- The company achieved break-even in 2013 and has been generating profits since, indicating positive growth.

- Premiums received by the company have been increasing annually, reflecting growing business.

- Customer satisfaction is high, as indicated by the persistency ratio of 78%, which exceeds industry standards.

- Currently, the company exclusively offers life insurance products but aims to diversify into other segments such as retirement plans, health insurance, and low-cost accidental insurance to remain competitive.

CHAPTER 6

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CHAPTER 7

ANNEXURE

QUESTIONS

1) What type of IDBI Federal Life Insurance Products have you purchase?

□ Termsurance Plans ☐ Senior Citizen Plans

□ Lifesurance Plans Childsurance Plans

□ Incomesurance & Money Back Plans

2) Are you satisfied with these Products?

□ Yes No

3) How will you rate the Products of IDBI Federal Life Insurance?

Excellent Very Good

Good ☐Bad

4) What is the responses of the agents?

□ Excellent Very Good

□ Good □ Bad

5) What do you think regarding the personal attention by the by the agents of IDBI Federal Life Insurance towards the customers?

□ Excellent □ Very Good

□ Good □ Bad

6) What do you think about the returns of different plans of IDBI Federal Life Insurance?

□Excellent □ Very Good

□ Good □ Bad

7) How will you rate the after sale facilities provided by the IDBI Federal Life Insurance?

□Excellent □ Very Good

□ Good □ Bad

8) Are you satisfied with the IDBI Federal Life Insurance agency/dealer?

□ Yes □ No

9) Are you satisfied with the different plans of IDBI Federal Life Insurance?

□ Yes □ No

10) How will you rate the overall plans of IDBI Federal Life Insurance?

□ Excellent □ Very Good

□ Good □ Bad

11) Do you think that IDBI Federal Life Insurance is preferred because of its returns?

□ Yes □ No