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Analysis of Reporting Consecutive Losses in ABC Finance Plc Since Financial Year 2009/2010: A Case Study

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Abstract:
The study mainly focuses on the ABC Finance PLC, a company listed in the Colombo Stock Exchange (CSE) under the diversified financial sector according to the Global Industry Classification Standards (GICS). The company is registered as a licensed finance company and registered finance leasing establishment as well. During the FY 2008/2010 the company has acquired ABC credit card company, a financially weak company that was engaged in local credit card operations, through debt funding, which is a significant event of the company. The main focus of this study is to identify the reasons for reporting consecutive losses in ABC Finance PLC since financial year 2009/2010, and provide recommendations. The study employed ratio analysis and graphical analysis to find out the reasons behind reporting consecutive losses. Accordingly, the study finds that company's interest expense on is higher during the period between FY 2008/2009 to 2017/2018 compared to other financial years because of the acquisition funded by debt. Another observation is loans and advances interest income are decreasing while there is a loan and advances growth in the company, mainly because of more loans being non-Performing as a result of high credit risk of borrowers. The hire purchase interest incomes show a decreasing trend during the period of company making losses mainly because of decrease in the demand for hire purchase service of ABC Finance Plc. Further, the company's fee-based income is decreasing, establishment expenses are increasing, director's emoluments of the company are increased bylarge percentage (395.6%) from FY 2008/2009 to 2009/2010 and it is maintained in the same level after that year which is as a result of a decision made with the intention to motivate the directors to increase the performance. In order to be away from the consecutive loss-making situation, it is recommended that the company should settle the debt obtained for the acquisition to reduce the interest expense on borrowing, reduce the credit risk, engage with promotion for its services, use a performance-based payment method for directors, and have a better expense management system for this company

Keywords: *Loss making, profitability, organizational performance, interest expense*

1. Introduction

Profitability is the ability of a company to use its resources to generate revenue in excess of its expenses. In other words, this is a company's capability of generating profits from its operations. Profitability is a key measure of assessing performance of a company as a whole. Investors, creditors, managers, government, suppliers, customers an all-other stakeholder who has an interest on a company use profitability to analyze how well a company is doing and the future potential it could have if the operations were managed properly. Profitability is a very important aspect for profit earning businesses. Earning a profit is important to a small business because profitability is one of the main factors that determine the ability of obtaining finance from a bank and also it will attract investors to fund its business. Companies cannot remain in business without turning a profit.

Financial institutions play an important role in financial market of a country and for this it is very important to evaluate the operations of financial institutions of a country operates in efficient manner and also what are the factors which affect the profitability of financial institutions. A financial institution generates profit from the differential between the level of interest it pays for deposits and other sources of funds, and the level of interest it charges in its lending activities. Historically, profitability from lending activities has been dependent on the needs and strengths of customers. In recent history, investors have demanded a more stable revenue stream and banks have therefore placed more emphasis on transaction fees, primarily loan fees but also including service charges on an array of deposit activities and other services (international banking, foreign exchange, insurance, investments etc.). Lending activities, however, still provide the bulk of a financial institutions income. Therefore, financial institutions have to take many measures to ensure that they remain profitable while responding to increasingly changing market conditions. Sometimes although interest income, interest expense, other income and other expenses does not show many fluctuations when they take as a whole, but when it is analyzed separately the components will show fluctuations. Therefore, when analyzing profitability of a finance company that point should be considered with more importance.

Factors that affect the profitability of a financial institution are both endogenous and exogenous. Endogenous factors are within the control of management such as quality of management and its policies, efficiency of management in generating revenues and controlling costs, capitalization and location. Exogenous factors are outside management control, especially macro-economic indices such as interest rates, exchange rates, inflation, and other regulatory and market constraints. If a company is making loss it is a special case that needs to be focused by the managers of a company, because there are many long-term and short-term consequences of loss making. Specially if a company is consecutively loss making more careful attention need to be given. Losses of a company reduce its operations. This reduction may include laying off employees, selling equipment or assets and closing underperforming business facilities. Companies may need to take additional measures depending on the consistency of business losses and whether their initial reduction methods have lessened the impact of operational losses.

Consistent business losses may force the company into bankruptcy. While many businesses try to avoid bankruptcy by selling the business to a competitor or securing additional financing to continue operations, bankruptcy may be the final option. Underperforming small businesses may require the business owner to declare personal bankruptcy, depending on how the company is organized. Business bankruptcy may be a long and arduous process, depending on the size of the company and other aspects relating to business operations. Declaring bankruptcy may also create an economic ripple affecting other companies in the business environment. Specially, when a company in the finance sector goes into bankruptcy it can create a situation of financial instability in entire finance system of the country.

1.1. Problem Statement

'Negative financial performance in ABC Finance Plc consecutively, from financial year 2009/2010.'

According to the Table 1 below, this company have reported profits up to financial year (FY) 2008/2009, but from FY 2009/2010 onwards it is reporting losses. From FY 2008/2009 to 2009/2010 the company's profit is reduced by 128%. The losses have increased to Rs.215,320,000 at the end of FY 2010/2011 from loss of Rs. 14,286,000 at end of FY 2009/2010, an increase of 1407%. From FY 2010/2011 to 2011/2012 the loss has been decreased by 52% and when it is 2012/2013 further the loses have reduced by 16%. From FY 2012/2013 to 2013/2014, 2013/2014 to 2014/2015 the loss has been increased by 150% and 42% respectively. From FY 2015/2016 to 2016/2017 again the loss has been increased by 58%. Although the percentage change of loss varies(volatile) with the time throughout the period between FY 2009/2010 to 2017/2018, the ABC Finance Plc has been reporting significant loses, which is a critical issue for the company.

In this company from FY 2009/2010 onwards the return on asset ratio (ROA), return on equity ratio (ROE), earnings per share (EPS) are negative. And also, the debt-to-equity ratio and cost to income ratio is increasing significantly from FY 2009/2010. This company doesn't pay a dividend from financial year 2009/2010 as the company was loss making.

Year (as at 31st of March)	Profit before Tax (PBT) Rs.	% Change
2008	21,814,000	-
2009	51,653,000	136.79%
2010	-14,286,000	-127.66%
2011	-215,320,000	1407.21%
2012	-103,725,000	-51.83%
2013	-86,672,000	-16.44%
2014	-216,890,000	150.24%
2015	-308,354,000	42.17%
2016	-129,895,000	-57.87%
2017	-203,034,000	56.31%
2018	-148,525,000	-26.85%

Table 1: Profit before Interest Tax & Its Percentage Change
Source: Author Constructed

1.2. Purpose of the Study

This main focus of this study is identifying the reasons for consecutive losses in ABC Finance Plc since financial year 2009/2010, identify solutions and provide recommendations. This study is important as a tool for building knowledge and for facilitating learning and also this is helpful for organizations that suffer from an issue like ABC Finance Plc is facing, to get rid of the continuing loss-making situation.

1.3. Scope of the Study

The objective of identifying the reasons for the issue of this company is going to be achieved by analysis of data that collected from different sources. For the purpose of data analysis, secondary data is obtained from both annual reports and internal reports of ABC Finance Plc and primary data are collected from direct interviews with some directors of the company. The analytical tools used for the data analysis are graphical analysis and ratio analysis. These types of tools are used in order to give a clear understanding for the reader. The time frame used for this study is period between FY 2009/2010 to FY 2017/2018. For some analysis, in order to provide clear understanding time period between FY 2007/2008 to 2017/2018 is used.

1.4. Limitations

The findings of this study have to be seen in light of some limitations. But the maximum efforts are taken to minimize the impact of those limitations on the quality and reliability of the study. The following are the major limitations of this study and ways of overcoming them.

Limited access to necessary data and obtaining data on time are major limitations that affect to this study. Although the necessary data are available, the access for those data are very limited specially to internal data as most of the required data are not available in annual reports. When obtaining data from internal data bases and internal reports it takes certain period of time and some delays occur. So that obtaining data on time is a problem when carrying out the study.

Lack of previous studies in this area is the next limitation. Literature review is an important part of any study, because it helps to identify the scope of works that have been done so far in the area. Literature review findings are used as the foundation to be built upon to achieve the objectives. Although there are limited previous studies regarding loss making situations, the study is carried out with the available previous studies. The available amount is sufficient to manage the study.

1.5. Summary

ABC Finance Plc is reporting losses since financial year 2009/2010, is a serious issue that the company is facing, as profitability is one of the main factors that affects the survival of an organization. The rate of change of losses is volatile during the period. With the use of data obtained from different sources that necessary to analyse the issue of this company, aim of this study is to provide solutions and recommendations for it. This study is important as a tool for building knowledge and for facilitating learning and also this is helpful for ABC Finance Plc to get rid of the continuing loss-making situation. And also, this study is carried forward by minimizing its limitations.

1.6. Problem Environment

1.6.1. History of the Company

ABC Finance Plc is a public limited liability company incorporated in Sri Lanka under the banking and finance sector. This company is registered under Dirisavi Board at CSE.

1.6.2. Services of the Company

ABC Finance Plc provides services, fixed deposits, savings deposits, leasing, hire purchase, real estate, gold loans (pawning), loans and advances, margin trading.

In this company Fixed deposits are available for different maturity periods of three months, six months, one year, two years, three years, four years and five years. This company pays additional 0.5% for senior citizens over 60 years for one year upon general interest rates of different maturities.

This company provides leasing facilities under six categories such as, car leasing, transportation, small business. Machinery. Agriculture and vehicle sale.

ABC Finance Plc gold loans (Pawning) is an easy way for obtaining short term finance for any kind of income generating activities or consumer needs. Any citizen who is over 18 year is eligible to obtain loans under this scheme against pledge of gold jewelry/ gold biscuits and coins. They offer a very competitive rate of interest from 1.33% to 1.5% per month. This is very competitive in comparison to many others offering this service including informal money lenders. This Company always offers an attractive rate of advance depending on carat value of the gold/ jewelry. Borrowers can enjoy a repayment period up to 12 months or sooner as they wish. The pledged articles could be redeemed immediately after the settlement with no prior notice.

Also, this company provides short- and long-term loans to individuals and corporates at a fair interest based on the maturity, value of collaterals, credit worthiness of the customers.

1.6.3. Industry Analysis

The below Figure 1 shows the composition of financial system of Sri Lanka

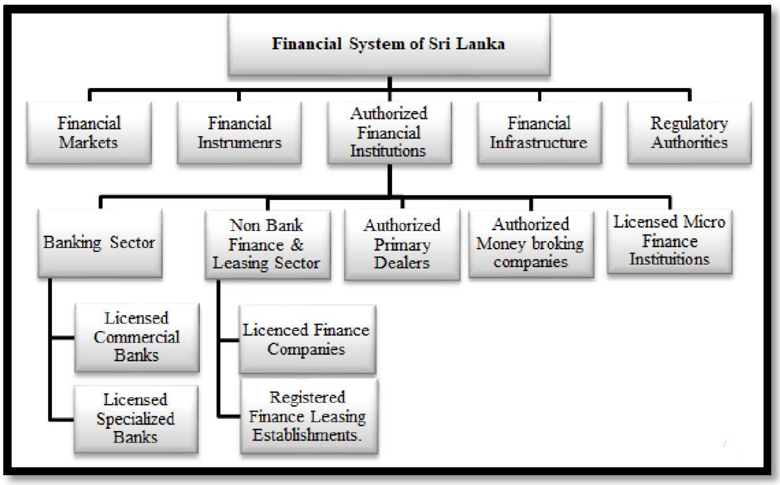

Figure 1: Financial System of Sri Lanka
Source: CBSL

According to the Figure 1 ABC Finance Plc is categorized under Non-Bank Finance & Leasing Sector. It is registered as a licensed finance company and registered finance leasing establishment as well. There are 26 licensed commercial banks, 6 licensed specialized banks, 43 licensed finance companies, 43 registered finance leasing establishments, 15 authorized primary dealers, 9 authorized money broking companies, 2 licensed micro finance companies in Sri Lanka.

Other companies registered under the non-bank finance and leasing sector, licensed commercial banks and licensed specialized banks are the direct competitors of ABC Finance Plc, as they are also providing exactly similar services that ABC Finance Plc is providing. Authorized primary dealers, authorized money brokering companies, licensed micro finance institutions are the indirect competitors of ABC Finance Plc, as they are also providing finance related services which are closely similar and substitute for the ABC Finance Plc's services

The banking sector in Sri Lanka, which comprises Licensed Commercial Banks and Licensed Specialized Banks, dominates the financial system and accounts for the highest share of the total assets in the financial system. Banks play a critical role within the Sri Lankan financial system, as they are engaged in provision of liquidity to the entire economy, while transforming the risk characteristics of assets. Therefore, the banking sector is a huge competitor for ABC Finance Plc.

1.6.4. The Regulatory Structure for the Non-Bank Finance and Leasing Sector

Non-Bank Finance and leasing sector includes Licensed Finance Companies and Specialized Leasing Companies. The supervision of Non-Bank Finance and leasing sector is conducted through examinations, continuous surveillance, granting regulatory approvals, issuance of directions and prudential requirements, investing in to companies carrying on finance business and accepting deposits without authority and investigating in to public complaints. The directions regulations and rules issued under the provisions of the Finance Business Act (FBA) mainly cover minimum capital adequacy, liquidity requirements, provisioning for bad and doubtful debts, single borrower limits, limits on equity investments etc.

Licensed finance company's regulation and supervision are governed by the FBA No. 42 of 2011 which was enacted on 09.11.2011 repealing and replacing the Finance Companies Act No 78 of 1988 to strengthen the regulation and supervision of licensed finance companies to control unauthorized finance businesses. The specialized leasing companies are under Finance Leasing Act No 56 of 2000.

1.6.5. Industry analysis using Porters Five Force Model

Five competitive forces that shape every industry and every market has been identified by Michel Porter (1980). Those five forces determine the intensity of competition and hence the profitability and attractiveness of an industry. The organizations can use these competitive forces for improve the position of the organization. The industry nature of non-bank finance and leasing sector can be observed by below Figure 2.

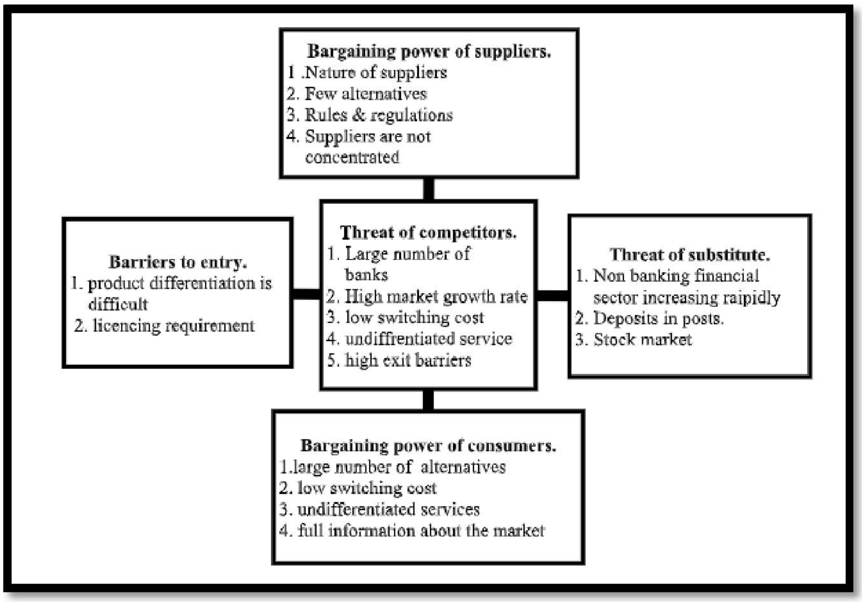

Figure 2: Non-Bank Finance & Leasing Sector Industry Analysis Using Porters Five Force Model
Source: Author Constructed

1.7. Background of the Issue

Year (as at 31st of March)	Profit before Tax (PBT) Rs.	% Change
2008	21,814,000	-
2009	51,653,000	136.79%
2010	-14,286,000	-127.66%
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2012	-103,725,000	-51.83%
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2016	-129,895,000	-57.87%
2017	-203,034,000	56.31%
2018	-148,525,000	-26.85%

Table 2: Profit before Interest Tax & Its Percentage Change
Source: Author Constructed

The issue of ABC Finance Plc is that the company is reporting losses consecutively from FY 2009/2010. This is a major issue for an organization as profitability is a key measure of organizational performance. And also due to the losses from FY 2009/2010 Company was in a situation of inability to pay dividend for its shareholders, this means the company is failed to maximize the shareholders wealth, which is a major interest of shareholders.

As a consequence of negative profits of ABC Finance Plc since FY 2009/2010 the ROA, EPS, ROE ratios. And also, the debt-to-equity ratio and cost to income ratio is increasing significantly from FY 2009/2010. ABC Finance Plc 's losses from the FY 2009/2010 to 2017/2018 are shown in the above table 2.1.

With reference to the table 2.1 it is clear that, losses of the company are volatile and making losses by the company consecutively is a serious issue. This company have reported profits up to FY 2009/2010, but from FY 2010/2011 onwards it has been reporting losses. From FY 2008/2009 to 2009/2010 ABC Finance Plc 's profit has been reduced by 128%t. The losses have increased to Rs. 215,320,000 at the end of FY 2010/2011 from loss of Rs. 14 286 000 at end of FY 2009/2010, an increase of 1407%. From FY 2010/2011 to 2011/2012 the loss has been decreased by 52% and when it is 2012/2013 further the loses have reduced by 16%. From FY 2012/2013 to 2013/2014, 2013/2014 to 2014/2015 the loss has been increased by 150% and 42% respectively. From FY 2015/2016 to 2016/2017 again the loss has been increased by 58%. Although the percentage change of loss varies with the time throughout the period between financial year 2009/2010 to 2017/2018, the ABC Finance Plc has been reported significant loses, which is a critical issue for the company.

1.8. Summary

ABC Finance Plc, which is in the banking and finance sector and registered under dirisavi board at CSE. It is categorized under Non-Bank Finance & Leasing sector under the financial system of Sri Lanka. Industry competition for the company is very high due to presence of large number of competitors who provide similar services. ABC Finance Plc provides services such as, fixed deposits, savings deposits, leasing, hire purchase, real estate, gold loans (pawning), loans and advances, margin trading. Reporting losses or negative financial performance in this company consecutively from FY 2009/2010, is the issue that is studying under this project.

2. Literature Review

2.1. Introduction

This chapter includes past findings regarding profitability and performance of financial institutions, such as determinants of profitability, how different factors impacts on profitability etc. Review is done based on four major sub sections, they are profitability, liquidity, working capital and Non-Performing Loans (NPL).

2.2. Profitability

Smirlock (1985) finds a positive and significant relationship between size and bank profitability. But according to Naifar (2010) performance is significantly related to expenses management, ownership structure and bank loans.

Bourke (1989) and Molyneux and Thornton (1992) sate that bank non-interest expenses, operating expenses, are crucial in determining profitability, as they reflect efficiency in management. Accordingly, a negative impact of these expenses is expected on profitability since improved management of these expenses will increase efficiency and therefore increase profits.

Pasha and Fathima (1998) attempts to test and confirm the impact of external environmental (economic and political) factors on corporate profitability in Pakistan during the period 1975-1976 to 1991-1992. This has found that there is a negative relationship between political factors, inflation on the corporate profitability. So, while the governments need to provide an external economic and political environment favourable for businesses, the businesses too need to learn to anticipate and respond to external factors by viewing them as an essential function of business management.

Gibson (2005) states that staff cost might be positively associated with profitability since banks with higher paid staff may enjoy better quality, or because management share its profits with its employees.

According to the study of Klein and Marquardt, (2006) found that no accounting factors tend to play the dominant role in explaining accounting losses in their study about 'Fundamentals of Accounting Losses'

Gill, (2014) questions the rationale of paying a high remuneration to executives who are working in loss making companies using loss making Bombay Stock Exchange (BSE) listed companies for 2009-2011. The neoclassical wage model assets that the remuneration of executive directors is positively related to their company's financial performance. However, evidence suggests that executives can obtain a higher level of personal compensation regardless of how the company performs.

The study on 'Risk, Profitability and Competition' by Tan and Floros (2014) using a sample of Chinese commercial banks, reveal that there is a negative impact of competition on bank profitability, also found that banks with profitability normally operate in a less competitive environment.

Menicucci and Paolucci, (2015) states that size and capital ratio are significant company level determinants of bank profitability in Europe, while higher loan loss provisions result in lower profitability levels. And also banks with higher deposit and loans ratio tend to be more profitable but the effects on profitability are statistically insignificant in some cases.

Fidanoski et al. (2017) proved that there is a crucial positive impact of assets size (economies of scale), loan portfolio and GDP growth on the banks' profitability. Further, the negative impacts on profitability have risks and administrative costs.

2.3. Liquidity

Tobin (1958) states that liquidity is held for transaction purposes and for investments purposes. Tobin's research was a simplification of Keynes' liquidity preference theory. Keynes (1936) forwarded that money is demanded for transaction, speculative, and precaution purposes. Therefore, it can be firmly said that liquid assets over and above mandatory requirements are held for transaction, speculative and precautionary purpose.

Bourke (1989) in his study on performance of banks in twelve countries in Europe, North America and Australia found evidence that there is a positive relationship between liquid assets and bank profitability. Also, Olagunju et al. (2012) found that there is a positive significant relationship between liquidity and profitability. But Molyneux and Thornton, (1992) recognized that there is inverse relationship between bank profitability and liquidity as higher liquid assets reduce the ability of banks to generate income. They attributed this to the fact that banks hold liquid assets as an obligation to the requirements imposed by the authorities ignoring that the banks also hold liquid assets for various other reasons also.

Chen, (2010) assert that in market-based financial system liquidity risk is positively related to net interest margin an indication that banks with high levels of illiquid assets receive higher interest income.

2.4. Working Capital

Ricci and Vito, (2000) revealed that the Working Capital Management basic purpose is to have controls on financial resources in such a way that, profitability and risk associated with them, can be balanced. According to Panday, (2016) there is statistically significant positive relation between cash conversion cycle (CCC) and profitability, but no statistically significant relationship between liquidity and profitability in case of Dabur Nepal Private Limited (DNPL).

Vural et al. (2012) state that there is a positive relationship between cash conversion cycle and firm value while there is a negative relationship between leverage and firm value in their study about 'Effects of working capital management on firms' performance'. This means, extending the cash conversion cycle will increase the firm value and lower leverage will lead to increasing of the firm value. Lan Le et al. (2018) revealed that working capital management have a significant positive relationship with firm performance in Vietnamese listed firms as CCC had statistically significant relationships with two out of three firm performance measurements, return on equity (ROE) & return on sales (ROS) in their study about 'Impact of Working Capital Management on Financial Performance'. But Lazaridis and Tryfonnidis, (2006) forwarded an opposite view, that there is a significant negative relationship between CCC and firm performance. According to Mubeen, (2019) consistent receivable policies over a period of time will be helpful for nonfinancial firms in Pakistan, to boost their financial performance.

2.5. Non-Performing Loans (NPL)

Azeem and Amara, (2014) analyzed data of sixteen major banks irrespective of size, ownership and functionality from 2006-2012 by using panel fixed effect model in his study about 'Impact of Profitability on Quantum of Non – Performing Loans'. The study has been revealed that impact of Non-Performing Loans on profitability is negative.

Araka et al. (2018) attempts on effect of Non-Performing Loans on Financial Performance of Commercial Banks in Kenya. This study sought to establish the relationship between interest rate regulations and non-performing loans on financial performance of commercial banks in Kenya. The study used questionnaires to collect primary data and used secondary data for period 2013 – 2017 from Bank's Annual Reports. The study found that there is strong, relationship between NPLs and financial performance which affect financial performance of commercial banks. Management of NPLs in banks help to improve the financial performance of banks as interest on loans is the biggest income of banks and increases the liquidity position of banks, helps in protecting the bank's reputation and reduces losses

Rajaraman and Vasishtha, (2001) revealed that banks with higher than the average non-Performing loans ratio have a poor operating efficiency in their study about 'Non – Performing Loans of PSU banks'

3. Summary

This chapter explains about what past researchers revealed about banks or other financial institutions profitability and performance. Sometimes findings of two researchers contradicts with each other. The review is organized in four sub sections as profitability, liquidity, working capital and non-performing loans related literature. Accordingly, factors like: the size, competitive environment, expense management, ownership structure affects banks profitability.

4. Design

4.1. Introduction

This chapter describes the way in which the project is carried out and each and every step taken to complete the project. Simply this is the framework that has been created to find reasons for negative financial performance of ABC Finance Plc with the intention of providing solutions and recommendations.

4.2. Sample and Sampling Procedures

This study is based on a single company, ABC Finance Plc and also this analyzes the causes behind the issue of loss making during the period between FY 2009/2010 and FY 2017/2018. In most of the case, the analysis is carried out using the data from financial year 2007/2008 to 2017/2018. But in some cases, the analysis is based on data from financial year 2001/2002 to 2017/2018 for the better understanding and knowledge of the reader.

4.3. Data and Data Collection

For this study data is collected from both secondary and primary data sources. Secondary data are collected mainly from company internal data base & internal reports by making a request to the company. Another source of secondary data is annual reports and web site of this company. In annual reports, aggregated figure is available and in order to obtain the composition of those internal reports and company data base are required.

Only primary data source is direct interviews with some managers and directors of the company. By this kind of discussion, verbal explanation regarding the situation of the company is obtained.

Different websites other than the ABC Finance Plc are used in order to obtain definitions and to gain a clear understanding regarding some matters. Previously done research papers are also very supportive for the progress of this study. From research papers and case studies, can get a clear understanding regarding how to do the project in an effective manner. In order to carry out the literature review previous research articles are very useful.

4.4. Data Analysis Techniques

The data collected from different secondary and primary sources are analyzed using two techniques, graphical analysis and a ratio analysis. Therefore, different graphs and ratios are used in order to show the behavior of different variables throughout the period. Supportive data for ratio analysis and graphical analysis are attached under the appendices section.

Different ratios such as; percentage change in a particular variable, contribution given by particular variable are incorporated here, also different line graphs are used to show behavior of particular variables very clearly to the reader. Sometimes the graphical view of a particular variable is clearer for the reader than the ratio, as the graphical view is more useful in identifying the trend of the variable during the particular time period.

The analysis is based on four major categories, interest expense analysis, interest income analysis, other income analysis and operating expenses analysis and under each major category composition is analyzed in detail.

4.5. Summary

For the progress of this study, analysis is carried out using the data from financial year 2007/2008 to 2017/2018. But in some cases, the analysis is based on data from financial year 2001/2002 to 2017/2018 for the better understanding of the reader. The necessary data for the analysis is obtained from several secondary and primary data sources like: annual reports, internal reports and data base and also interviews with directors and managers of the company. The data analysis is based on four major categories: interest expense, interest income, other income and operating expenses using different ratios and graphs.

5. Data Analysis and Discussion

5.1. Introduction

This chapter will bring in the presentation of the findings and analysis derived from the data analysis. Basically, for the analysis in order to identify the reasons for the issue graphical analysis of data and ratio analysis are used as the main tools. Identifying the reasons for the issue correctly is very important to provide recommendations or solutions to the issue.

5.2. Analysis of Interest Expense

ABC Finance Plc pay interest for borrowings, overdrafts, deposits of customers, commercial papers and preference shares. Below table show an item wise analysis of interest expense of this company based on percentage contribution.

According to the below Table 3, interest paid for borrowings, overdraft, deposits of customers and commercial papers give a high contribution for the total interest expense. Also, up to the FY 2007/2008 the interest expense on borrowings as a percentage of total interest expense ratio is around 30 – 40% and from the FY 2008/2009 it drastically increased and, in some years, it is very closer to 80%. Therefore, further analysis of interest expense on borrowings is important for this study.

Year (Ended 31st of March)	Interest on Borrowings as A % of Total Interest Expense	Overdraft Interest as A % of Total Interest Expense	Interest Paid for Customer Deposits as a % of Total Interest Expense	Commercial Paper Interest as a % of Total Interest Expense	Preference Shares Interest as a % of Total Interest Expense
2002	34.0%	38.6%	-	26.5%	0.9%
2003	36.6%	38.7%	-	23.7%	1.0%
2004	38.6%	40.0%	-	20.3%	1.0%
2005	39.4%	35.7%	-	23.8%	1.1%
2006	39.0%	39.2%	-	21.1%	0.7%
2007	39.2%	40.8%	-	19.5%	0.5%
2008	38.4%	31.3%	-	30.0%	0.3%
2009	69.0%	19.2%	-	11.6%	0.2%
2010	71.8%	8.9%	-	19.1%	0.2%
2011	78.2%	9.4%	-	12.3%	0.2%
2012	77.6%	3.7%	18.5%	-	0.2%
2013	63.4%	1.9%	30.1%	4.5%	0.1%
2014	43.9%	0.3%	38.5%	17.1%	0.1%
2015	42.7%	0.6%	41.5%	15.1%	0.1%
2016	43.2%	0.6%	39.1%	17.0%	0.2%
2017	49.6%	5.4%	32.0%	12.7%	0.2%
2018	58.6%	1.5%	39.7%	-	0.2%

Table 3: Contribution of Different Interest Expense Categories To Total Interest Expense
Source: Author Constructed

5.2. Analysis of Borrowings Interest Expense

As the next step total interest expense is compared with the interest income from FY 2001/2002 to 2017/2018. In other words, interest expense is calculated as a percentage of interest income for each year, as shown in the below Table 4.

According to the ratio that has been calculated in Table 4, it is clearly observable that, interest expense as a percentage of interest income for the period between FY 2001/2002 to 2007/2008 is below 60%. After the FY 2007/2008 there is a rapid increase in this percentage, which is above 65% and, in some years, it is more than 90%.

Year (As at 31st of March)	Interest Expense as a Percentage of Total Interest Income
2002	48.78%
2003	43.43%
2004	39.21%
2005	32.80%
2006	38.01%
2007	42.75%
2008	57.27%
2009	65.04%
2010	72.06%
2011	69.72%
2012	64.74%
2013	66.47%
2014	78.86%
2015	72.14%
2016	74.66%
2017	93.68%
2018	78.67%

Table 4: Interest Expense as a Percentage of Total Interest Income
Source: Author Constructed

From FY 2007/2008 to 2008/2009 the interest expenses on borrowings have increased from 83 million to 243 million, which is about 193% increase. At the same time the company borrowings also increased from Rs.580 million to Rs.1677 million. Therefore, it is understandable that the gradual increase in interest expense from FY 2008/2009 is due to increase in debt financing. The evidence to this explanation is provided by below Table 5.

Year	Total interest expense Rs.	Interest on borrowings Rs.	% Change (Interest expense)	Interest on borrowings as a % of total interest expense	Borrowings balance as at 31st of March Rs.	% change (Borrowings balance)
2002	66,780,000	22,730,000	-	34.04%	234,761,000	-
2003	58,287,000	21,340,000	-6.1%	36.61%	258,472,000	10.1%
2004	57,404,000	22,164,000	3.9%	38.61%	300,872,000	16.4%
2005	54,470,000	21,481,000	-3.1%	39.44%	414,982,000	37.9%
2006	83,903,000	32,762,000	52.5%	39.05%	562,654,000	35.6%
2007	129,669,000	50,890,000	55.3%	39.25%	512,876,000	-8.8%
2008	215,396,000	82,762,000	62.6%	38.42%	579,947,000	13.1%
2009	351,822,000	242,855,000	193.4%	69.03%	1,677,134,000	189.2%
2010	391,831,000	281,244,000	15.8%	71.78%	1,928,679,000	15.0%
2011	383,609,000	299,875,000	6.6%	78.17%	1,829,063,000	-5.2%
2012	301,190,000	233,693,000	-22.1%	77.59%	1,451,737,000	-20.6%
2013	425,598,000	269,705,000	15.4%	63.37%	1,227,143,000	-15.5%
2014	591,995,000	260,007,000	-3.6%	43.92%	1,149,960,000	-6.3%
2015	475,897,000	203,172,000	-21.9%	42.69%	1,124,940,000	-2.2%
2016	281,622,000	121,576,000	-40.2%	43.17%	1,111,983,000	-1.2%
2017	342,347,000	169,933,000	39.8%	49.64%	1,350,000,000	21.4%
2018	339,682,000	199,105,000	17.2%	58.62%	1,090,876,000	-19.2%

Table 5: Analysis of Interest Expense on Borrowing
Source: Author Constructed

5.2. Analysis of Behavior of Interest Expense in XYZ Finance Plc

Year (ended 31st of March)	Interest Expenses as a Percentage of Interest Income
2002	39.52%
2003	40.21%
2004	43.98%
2005	47.41%
2006	44.09%
2007	40.57%
2008	42.76%
2009	45.91%

Year (ended 31st of March)	Interest Expenses as a Percentage of Interest Income
2010	45.42%
2011	47.06%
2012	48.67%
2013	49.59%
2014	52.05%
2015	42.53%
2016	40.01%
2017	45.30%
2018	47.33%

Table 6: Interest Expense as a Percentage of Interest Income in XYZ Finance PLC
Source: Author Constructed

XYZ Finance Plc is also having a stated capital which is closer to the stated capital of ABC Finance Plc and also it provides same services that ABC Finance Plc is also providing. They are the two reasons which contributed towards the selection of XYZ Finance Plc for the comparison. And also, in order to carry out a comparison, the interest expense as a percentage of interest income is calculated for XYZ Finance Plc too, which is a profit-making company. It is shown in the below Table 6.

But with regard to the calculation of interest expense as percentage of interest income of XYZ Finance Plc it is almost around the range of 40% to 50% throughout the period. Accordingly, it can be concluded that the interest expenditure as a percentage of interest income in ABC Finance Plc is very high during the period of FY from 2009/2010 to 2017/2018.

Major reason behind the increase of borrowings from FY 2007/2008 to 2008/2009 is the decision of ABC Finance Plc to acquire ABC credit card Company, a financially weak company that was engaged in local credit card operations, through debt funding. The consideration for acquisition of the Company was Rs.700Mn deposit liabilities payable to credit card holders and Rs.185Mn for other liabilities, the main assets included a property at Colombo 02 valued at Rs450Mn, ownership of PQR Finance Company valued at Rs.387Mn and credit card receivables. The credit card company had around 7,500 credit card holders with the active number of card holders numbering 2,500 and this company was the only company engaged in credit card operations other than banks at the time of acquisition.

Since taking over, no new cards have been issued, as Central Bank of Sri Lanka is expected to bring in new regulations covering the credit card industry. Then during the financial year 2009/2010 Central Bank (CBSL) had instructed that no credit card related business be transacted. As a result, the operation continued to be a significant drain on the parent company. Therefore, ABC Credit Card Company, is engaging in recoveries only, no new operations are done up to the current financial year. And, it is necessary to mention that PQR Finance Company were in losses since the acquisition.

In this case of acquisition, the ABC Finance Plc did not analyze the macro environment situation prevailed in that time, if they analyzed that well, they will get to know the coming guidelines of CBSL regarding the credit card operations businesses. Sometimes the owners sold the company because of knowing that the coming regulation. So, it can be concluded that the interest expenditure on borrowings has been increased mainly due to a poor management decision.

5.3. Analysis of the Total Interest Income

The total interest income of ABC Finance Plc is composed of interest from bills of exchange, leases, hire purchase, loans & advances, pawning, margin trading and other. Below Table 6 depicts the percentage contribution of each component towards the total interest income.

Year (ended 31st of march)	Bills of Exchange Interest Income	Lease Interest Income	Hire Purchase Interest Income	Loan & Advances Interest Income	Pawning Interest Income	Margin Trading Interest Income	Other Interest Income
	as a % of total interest income						
2008	6.5%	58.3%	31.6%	13.5%	-	-	0.1%
2009	3.8%	44.6%	38.8%	12.9%	-	-	-
2010	1.7%	41.4%	45.1%	11.7%	-	-	0.2%
2011	0.7%	36.7%	54.6%	7.8%	-	-	0.1%
2012	0.4%	40.1%	51.1%	6.5%	0.8%	0.5%	0.7%
2013	11.6%	37.3%	33.4%	5.1%	4.2%	5.4%	3.0%
2014	3.9%	41.3%	27.3%	4.2%	5.1%	9.1%	9.1%
2015	1.4%	44.3%	27.0%	4.7%	0.7%	9.9%	12.0%
2016	2.2%	33.5%	32.5%	2.7%	0.7%	13.4%	15.0%
2017	9.5%	28.1%	33.5%	7.9%	0.8%	9.9%	10.3%
2018	14.0%	30.4%	24.3%	6.1%	0.7%	8.5%	16.1%

Table 7: Contribution of Different Interest Income Categories to Total Interest Income
Source: Author Constructed

According to Table 7, lease interest income and hire purchase interest income are the sources that gives highest contribution for the total interest income, which is more than 50%. It is also observable that the contribution given by hire purchase interest income is declining with the time. And also, the loans & advances interest income contribution for the total interest income from FY 2010/2011 is lower than the contribution given in the period from FY 2007/2008 to FY 2009/2010. Therefore, loans & advances interest income, hire purchase interest income and lease interest income is further analyzed below.

5.4. Analysis of Loans & Advances Interest Income

Year	Loans & Advances Balance (as at 31st of March) Rs.	Loans Balance % Change	Loans & Advances Interest Income Rs.	Loans & Advances Interest Income % Change	Loans & Advances Interest Income/Loans & Advances
2008	358,744,000	-	52,343,000	-	14.6%
2009	439,705,000	22.6%	64,108,000	22.5%	14.6%
2010	437,917,000	-0.4%	58,538,000	-8.7%	13.4%
2011	444,946,000	1.6%	43,146,000	-26.3%	9.7%
2012	494,953,000	11.2%	30,085,000	-30.3%	6.1%
2013	522,590,000	5.6%	32,844,000	9.2%	6.3%
2014	552,961,000	5.8%	31,767,000	-3.3%	5.7%
2015	582,129,000	5.3%	30,932,000	-2.6%	5.3%
2016	601,866,000	3.4%	10,075,000	-67.4%	1.7%
2017	648,417,000	7.7%	28,989,000	187.7%	4.5%
2018	677,225,000	4.4%	25,567,000	-11.8%	3.8%

Table 8: Analysis of Loans & Advances Interest Income
Source: Author Constructed

According to the above analysis in table 8, the loans and advances interest income / loans and advances ratio is declining, which signs negative performance of this company. This is more clearly shown in figure 5.1.

After analyzing the loan interest income, it can be observed that the loan interest income is decreasing since financial year 2009/2010. From FY 2008/2009 to 2009/2010, 2009/2010 to 2010/2011, 2010/2011 to 2011/2012 the loan interest income has been reduced by 8.7%, 26.3 % and 30.3% respectively. And from financial year 2012/2013 to 2013/2014, 2013/2014 to 2014/2015 and 2014/2015 to 2015/2016 the loan interest income reduced by 3.3%, 2.6% and 67.4% respectively. Again, when it comes to 2018 it has been reduced by 11.8%. The huge drop in loan interest income from financial year 2014/2015 to 2015/2016 is about Rs. 20 million. Therefore, it is clear that there is a negative trend in loans & advances interest income

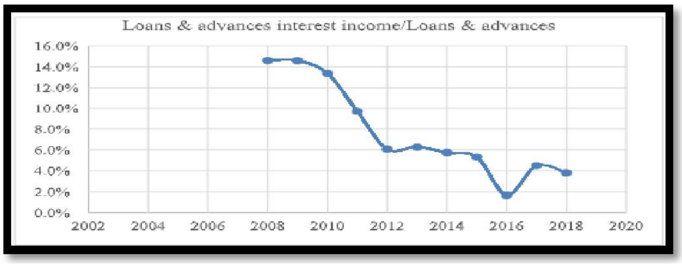

Figure 3: Loans & Advances Interest Income/Loans & Advances Ratio
Source: Author Constructed

The loans & advances interest income is decreasing since financial year 2009/2010 while the Loans and advances balance is increasing, which is an issue. It can be clearly observed by the below Figure 4.

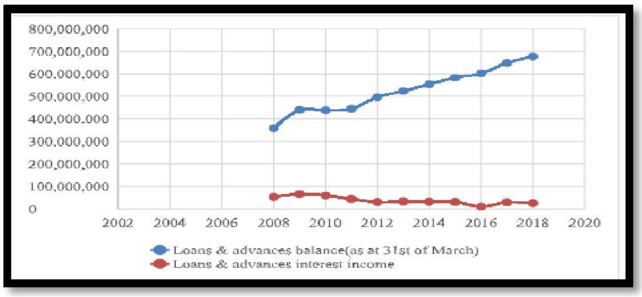

Figure 4: Behaviour of Loans & Advances Interest Income Vs Outstanding Balances
Source: Author Constructed

Another important point to mention is, the loan interest income is decreasing in the above-mentioned way while the outstanding loan balances are increasing. Simply the loan interest income is decreasing while there is a loan growth. When there is a loan growth the loan interest income also should be increasing. But here there is a negative relationship between the loan growth and loan interest income.

The loans and advances interest income are decreasing mainly because of the credit risk of the company, that the borrowers of loan are defaulting the payments, so that becomes Non performing Loans (NPL). The company policy is; interest receivable on advances is recognized on an accrual basis. Interest ceases to be taken to revenue when interest or principal is in arrears for three (3) months or more and thereafter such income is recognized on a cash basis. Further in instances where interest is suspended, the interest accrued up to three months is also removed from the interest income and transferred to the interest in suspense account. Therefore, when the interest is default it reduces the amount that recognize as interest income from loans and advances in the financial statements, so that the total interest income is also decreasing.

5.5. Analysis of Hire Purchase Interest Income

Below table shows a clear analysis of hire purchase interest income from FY 2007/2008 to 2017/2018

Year (As At 31st Of March)	Hire Purchase Balance Rs.	% Change In Hire Purchase Balance	Hire Purchase Interest Income Rs.	% Change In Hire Purchase Interest Income	Hire Purchase Interest Income / Hire Purchase Balance
2008	529,750,000	-	110,908,000	-	20.9%
2009	770,113,000	45.4%	193,088,000	74.1%	25.1%
2010	1,028,860,000	33.6%	226,102,000	17.1%	22.0%
2011	1,263,547,000	22.8%	300,345,000	32.8%	23.8%
2012	840,472,000	-33.5%	237,519,000	-20.9%	28.3%
2013	901,931,000	7.3%	214,154,000	-9.8%	23.7%
2014	937,653,000	4.0%	204,946,000	-4.3%	21.9%
2015	615,468,000	-34.4%	178,096,000	-13.1%	28.9%
2016	335,829,000	-45.4%	122,762,000	-31.1%	36.6%
2017	315,770,000	-6.0%	122,453,000	-0.3%	38.8%
2018	290,263,000	-8.1%	102,567,000	-16.2%	35.3%

Table 9: Analysis of Hire Purchase Interest Income
Source: Author Constructed

According to the Table 9, hire purchase amount is decreasing in some financial years as a result of decreasing the demand for ABC Finance Plc hire purchase service and as a result of that the interest income that could be earned from hire purchase is also decreasing.

The interest income from hire purchase is increasing from financial year 2007/2008 to 2010/2011and after that the hire purchase interest income is decreasing. So, there is a decreasing trend in the interest income from hire purchase in the years in which company was reporting losses.

When it comes to financial year 2011/2012 from year 2010/2011 there is a huge drop in hire purchase income which is about 20.9%. Again, when it is 2012/2013 it has been reduced by further 9.8 percent. Then in financial years 2013/2014, 2014/2015, 2015/2016, 2016/2017 and 2017/2018 the interest income from hire purchase has been reduced by 4.3%, 13.1%, 31.1%, 0.3% and 16.2% respectively. This behavior is clearly can be observed by the below Figure 5.

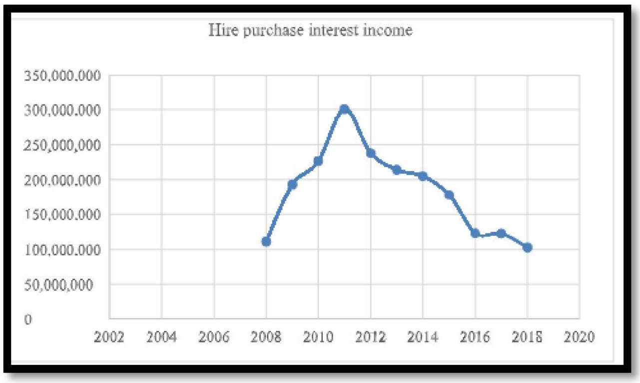

Figure 5: Behaviour of Hire Purchase Interest Income over the Time
Source: Author Constructed

When finding reasons for the issue, just analyzing interest income and interest expense does not make a full analysis. So, it is critical to analyses other income and operating expenses of the company too. From here onwards the analysis is focused on the company's other income and operating expenses.

5.6. Analysis of Other Income

Total other income of the ABC Finance Plc is composed of lot categories. They are: fee-based income, profit or loss on sale of shares, profit or loss on real estate sales, dividend income, profit or loss on property plant and equipment sales, foreign exchange income, staff loan income, bad debt recovery, profit or loss from financial assets and other. Among those, major component that gives highest contribution to total other income is fee-based income. The below Table 9shows analysis of fee-based income, which includes total other income, fee-based income, percentage change in fee-based income from year to year and contribution of fee-based income for total other income.

Year (as at 31st of March)	Total Other Income Rs.	Fee Based Income Rs	% Change in Fee-based Income	Fee Bases Income as a % of Total Other Income
2008	32,090,008	6,960,000	-	21.7%
2009	55,949,009	9,100,000	30.7%	16.3%
2010	51,637,010	8,029,000	-11.8%	15.5%
2011	46,390,011	5,782,000	-28.0%	12.5%
2012	27,041,012	5,949,000	2.9%	22.0%
2013	101,424,013	5,871,000	-1.3%	5.8%
2014	88,413,014	4,421,000	-24.7%	5.0%
2015	28,882,015	3,962,000	-10.4%	13.7%
2016	19,935,016	2,700,000	-31.9%	13.5%
2017	14,285,017	2,781,000	3.0%	19.5%
2018	60,023,018	3,002,000	7.9%	5.0%

Table 10: Analysis of Fee - Based Income
Source: Author Constructed

ABC Finance Plc is engaging in fee-based activities. They are advisory services, loan syndications, guarantees, trusteeships and securitization issues. There is a negative trend in fee-based income during the period of financial year 2008/2009 to 2017/2018 which simply means the fee-based income is decreasing throughout the period. It can be observed clearly using the below Figure 6.

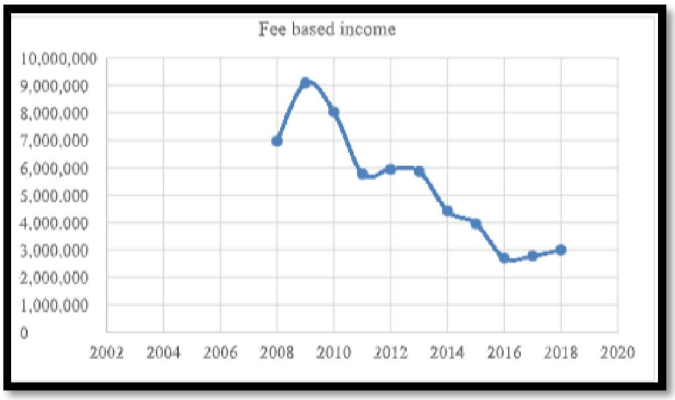

Figure 6: Behaviour of Fee - Based Income over the Time
Source: Author Constructed

The fee-based income is decreasing from FY 2008/2009 to 2009/2010, 2009/2010 to 2010/2011 by 11.77%, 27.99% respectively. In FY 2011/2012 fee-based income increased slightly which is not material. And again, in the FY 2012/2013 it is decreased by 1.31% which is negligible. But from FY 2012/2013 to 2013/2014, 2013/2014 to 2014/2015 and 2014/2015 to 2015/2016 the fee-based income decreased by 24.7%, 10.38% and 31.38% respectively, which are considerably high percentages. And also, it can be observed that fee based is gradually decreasing from FY 2008/2009.

5.7. Analysis of Operating Expenses

In ABC Finance Plc expenses like directors' salaries, depreciation, legal expenses, staff salaries, premises equipment and establishment expenses, donations are included under operating expenses. There are more than 15 categories of operating expenses in this company. Therefore, establishment expenses, directors' emoluments, employee salaries & benefits and legal expenses are further analyzed below which are major categories (spends significant amount) of operating expenses, that gives highest contribution for total operating expenses.

5.7.1. Analysis of Establishment Expenses

The below Table 10 shows in-depth analysis of establishment expenses of this company. The establishment expenses were in the range of 20 million to 25 million during the time period 2007/2008 to 2009/2010. But after financial year 2009/2010 establishment expenses were increased rapidly and when it is financial year 2017/2018 it was very closer to 100 million. This increase is mainly due to the business expansions and opening of new branches.

Year (as at 31st of march)	Total Operating Expenses Rs.	Establishment Expenses Rs.	% Change in Establishment Expenses.	Establishment Expenses as a % Of Total Operating Expenses
2008	138,877,000	22,832,000	-	16.4%
2009	137,447,000	26,711,000	16.99%	19.4%
2010	166,204,000	25,796,000	-3.43%	15.5%
2011	418,541,000	34,965,000	35.54%	8.4%
2012	287,425,000	40,205,000	14.99%	14.0%
2013	361,263,000	39,642,000	-1.40%	11.0%
2014	422,853,000	42,148,000	6.32%	10.0%
2015	508,305,000	46,621,000	10.61%	9.2%
2016	237,503,000	59,287,000	27.17%	25.0%
2017	236,222,000	79,152,000	33.51%	33.5%
2018	275,847,000	99,422,000	25.61%	36.0%

Table 11: Analysis of Establishment Expenses
Source: Author Constructed

According to the Table 11 establishment expenses shows an increasing trend. It is more clearly shown by below Figure 7.

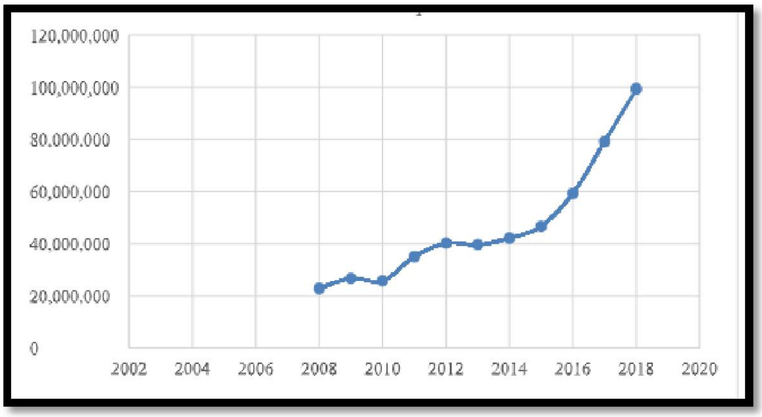

Figure 7: Behaviour of Establishment Expenses over the Time
Source: Author Constructed

5.7.2. Analysis of Directors' Emoluments

The below table 5.10 and Figure 8 depict the behavior of directors' emoluments during the period.

Year (As at 31st of March)	Director's Emoluments Rs.	% Change in Directors Emoluments	Director Emoluments As a % of Total Operating Income
2008	983,000	-	0.71%
2009	932,000	-5.19%	0.68%
2010	4,619,000	395.60%	2.78%
2011	6,105,000	32.17%	1.46%
2012	6,254,000	2.44%	2.18%
2013	5,451,000	-12.84%	1.51%
2014	7,163,000	31.41%	1.69%
2015	6,668,000	-6.91%	1.31%
2016	6,294,000	-5.61%	2.65%
2017	6,721,000	6.78%	2.85%
2018	6,967,000	3.66%	2.53%

Table 12: Analysis of Director's Emoluments
Source: Author Constructed

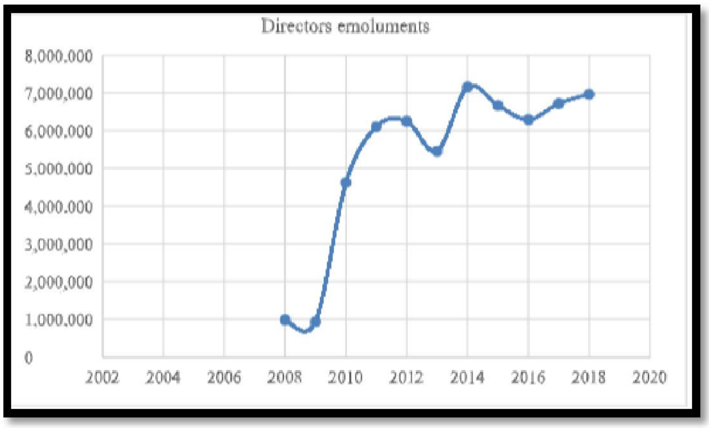

Figure 8: Behaviour of Directors' Emoluments over the Time
Source: Author Constructed

Major observation that can be made is the directors emoluments have increased by 395.6% from FY 2008/2009 to 2009/2010. That increase is about Rs. 3.5 million. After the financial year 2009/2010 there are slight increases and decreases in directors' emoluments expenses. But the increase which take place in 2009/2010 does not drops within the time period up to 2017/2018 financial year. The major factor contributed towards the increase in director's salary is ABC Finance Plc is to be away from loss making situation, further and further director's salaries are increased to motivate the employees. This has been done based on the perception that increasing salary may increase the director's motivation towards the increase in performance of the company. But this expense also affected negatively towards the profitability of the company.

5.7.3. Analysis of Employee Salaries & Benefits

Year (As at 31st of March)	Employee Salaries & Benefits Rs.	% Change In Employee Salaries & Benefits	Employee Salaries as A % of Total Operating Income
2008	19,802,000	-	14.26%
2009	22,789,000	15.1%	16.58%
2010	37,448,000	64.3%	22.53%
2011	39,602,000	5.8%	9.46%
2012	59,147,000	49.4%	20.58%
2013	69,663,000	17.8%	19.28%
2014	88,263,000	26.7%	20.87%
2015	73,186,000	-17.1%	14.40%
2016	80,598,000	10.1%	33.94%
2017	83,977,000	4.2%	35.55%
2018	110,586,000	31.7%	40.09%

Table 13: Analysis of Employee Salary & Benefits
Source: Author Constructed

According to the table 13, the employee salaries also increased rapidly. The increase of salaries from 2008/2009 to 2009/2010 is 64.3 percent, and it is Rs.14 million increase. This increase is mainly due to staff strength increased from 64 at end of financial year 2008/2009 to 74 at end of financial year 2009/2010 as more staff was recruited for business expansions and reorganization. Below table 14 and Figure 9 shows the number of employees in the company in each year and behaviour of salary expense respectively.

Year (as at 31st of March)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number of employees	61	64	74	123	124	155	117	110	110	118	124

Table 14: Number of Employees of the Company
Source: Author Constructed

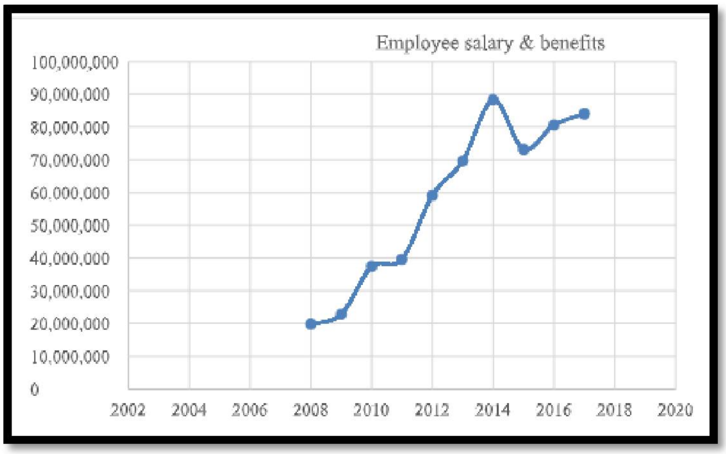

Figure 9: Behaviour of Employee Salary & Benefits over the Time
Source: Author Constructed

5.7.4. Analysis of Legal Expenses

Legal expenses are also increasing rapidly in this company. The increase of the legal expenses is mainly due to the legal actions taken against customers who are not paying the instalments and interest rates for a longer period of time. In financial year 2012/2013 legal expenses are at a very high level which is more than 9 million. The graphical analysis related to legal expenses is shown in below figure 5.8.

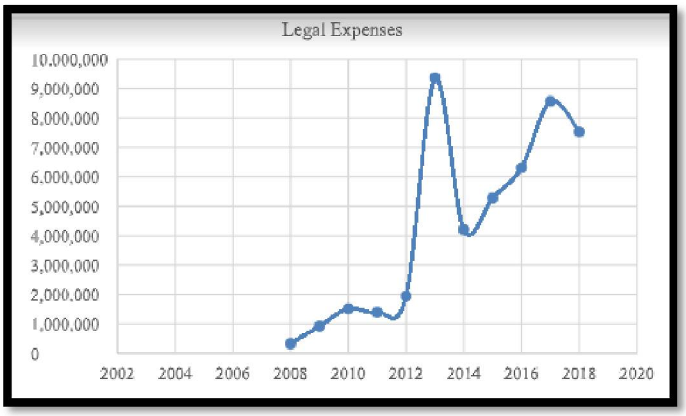

Figure 10: Behaviour of Legal Expenses over the Time
Source: Author Constructed

5.8. Summary

The main focus of data analysis is identifying the reasons for the issue and providing solutions. Accordingly, total interest expense, total interest income, total other income and total operating expenses are analyzed separately. The reasons identified through the analysis are stated below.

Through the analysis of total interest expenses one reason identified is increasing of borrowing interest expenses as a result of financing an acquisition by debt during the financial year 2008/2009. Through the analysis of total interest income reasons identified are, the loans & advances interest income is decreasing since financial year 2009/2010 while the Loans and advances balance is increasing, hire purchase interest income is decreasing.

When the total other income categories are analyzed, it is observed that the fee base income is decreasing since financial year 2008/2009, being a reason for negative effect on profitability of the company. When the operating expenses are analyzed, it was found that the director's salaries are rapidly increasing since the financial year 2009/2010. The salaries of directors are increased (fixed amount) in order to motivate the directors to make profits through better performance of the company, which won't works as expected. There is an increasing trend in employee salaries of this company, and this was due to recruitment of more staff for business expansion and reorganization. This company's establishment expenses are increasing throughout the time which makes a negative effect on profitability and this increase is due to due to the business expansions and opening of new branches. It can be observed that the legal expenses of the ABC Finance Plc are increasing and currently it is about 7 to 8 million. This legal expense is due to the legal actions taken against customers who are not paying the installments and interest rates for a longer period of time.

6. Summary Conclusions & Recommendations

6.1. Introduction

This chapter includes an overview of the study and procedure followed in conducting this in order to get a clear understanding about the project for the reader. And also, most importantly this chapter focus on conclusions that can be made based on the data analysis and provide with recommendations, solutions and improvements based on the conclusions, in simple terms this explains how the issue should be addressed.

6.2. Overview of the Project

ABC Finance Plc is listed in CSE under the banking and finance sector, also the shares are listed in the dirisavi board. According to the financial system of Sri Lanka this company is categorized under Non-Bank Finance & Leasing sector.

In order to address the issue of 'Reporting losses in ABC Finance Plc from the FY 2009/2010' data is collected from different sources. They are: internal reports, internal data base, annual reports, website, direct interviews with managers and some directors of the company. The one and only primary data source is management interviews. Through that it was able to know about managerial decisions that have been taken and also managers idea regarding the consecutive loss-making situation of ABC Finance Plc. For an example decision to acquire a company in financial year 2008/2009, financing by debt.

Then the data collected through all of the primary and secondary data sources are analyzed in order to identify the causes for the negative financial performance of the company. So, for the purpose of data analysis ratio analysis and graphical analysis are the two techniques used. Mainly the components of interest expense, interest expense, interest income, other income and operating expenses are analyzed using graphical and ratio analysis techniques.

In order to provide reader a clear understanding analysis is carried out using the data from financial year 2007/2008 to 2017/2018, but in some cases, the analysis is based on data from financial year 2001/2002 to 2017/2018.

6.3. Conclusions

From the data analysis following conclusions can be made:

This company's contribution of interest expense on borrowing for the total interest expense and interest expense as a percentage of interest income ratio are higher during the period between FY 2008/2009 to 2017/2018 than the other financial years, because of the increased interest expense due to an acquisition funded by debt.

The loans and advances interest income are decreasing while there is a loan and advances growth in the company. The reason is high credit risk as borrowers defaulting the instalments, so that becomes Non-Performing Loans (NPL).

The hire purchase interest incomes show a decreasing trend during the period of company making losses. According to the management this is mainly because of decrease in the demand for hire purchase service of ABC Finance Plc.

Through the analysis of other income sources, it is identified that the fee-based income is decreasing. Another observation is that the establishment expenses are increasing, and it is very closer to Rs. 100 million during the recent financial years, due to the business expansions and opening of new branches.

The director's emoluments of the company are increased by large percentage (395.6%) from FY 2008/2009 to 2009/2010 and it is maintained in the same level after that year also (does not decreased), which is as a result of a decision made with the intention to motivate the directors to increase the performance.

As the final conclusion it can be stated that, there is an increasing trend in employee salary & benefits and legal expenses in this company during the period of loss making.

6.4. Recommendations

It is recommended that the company should settle the debt obtained for the acquisition, in order to reduce the interest expense on borrowing. Therefore, the loan can be settled by selling some of the assets received by ABC Finance Plc from the acquisition. Through the acquisition they received ABC credit card company Ltd and PQR Finance Company, property at Colombo 02 valued at Rs450Mn and several assets and liabilities. But the main barrier to sell the major asset they received, property at Colombo 02 valued at Rs.450Mn, is that the current operations are in that building. So, if it is possible to save more costs by selling that property and settling debt, it is recommended to rent out a building to held current operations. Another option is that, as the PQR Finance Company is in losses since acquisition, so it is recommended that to divest the acquired company or restructure that. ABC Credit Card Company is engaging in recoveries only, no new operations are done up to the current financial year due to the regulation of CBSL, the next option is that recovering the credits as soon as possible and use the money to settle the loan.

It is recommended to reduce the credit risk by Comprehensive credit appraisals for different risk levels, Higher approvals with increasing loan amounts, obtaining collateral where possible, setting exposure limits for borrowers and industry sectors, appraisals of clients through CRIB reporting system, regular review of clients fallen due in to the overdue category and closely following them up. This will lead to avoid defaulting principal and interest payments by borrowers, finally being a solution to reduction of interest received on loans and advances provided by the company to its customers. Consequently, it will lead to reduce future legal costs of the company that to be incurred for the legal cases against loan defaulting customers. These measures should be implemented before approving a loan or an advance, that means these are preventive measures that the company can adopt.

It is recommended that this company should do promotion for its services. Looking at the annual reports it is clear, that the company does not spend on promotion and marketing activities. Therefore, engaging with different promotional activities, like television commercials that highlight the benefits of ABC Finance Plc services will lead to increase the demand for its services. So, this will solve the problem of decreasing hire purchase interest income due to decrease in demand for hire purchase service and decrease in fee-based income also.

It is recommended that to use a performance-based payment method for directors. For an example certain percentage of incremental amount of profit from one financial year o another is giving as a bonus for the directors. So, in order to obtain the bonus, the directors have to make strategies to enhance the performance of the company and also should have profits increments. And also, this avoid that the directors being self-interested.

It is recommended to have a better expense management system for this company, to manage the rapidly increasing expenses like employee salary & benefits.

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