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# Performance of SBI and CanBank Factors : A Comparative Study

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Factoring is a process of selling debts to financial intermediate (factor) by a client (seller). The factor pays nearly 70-80 per cent as an advance money or prepayment amount to client and balance after collection of debts. The receipt of the advance money from factor will reduce the borrowing from other sources and ultimately it reduces the cost of borrowings.

Factoring was introduced in India on the basis of the recommendations of the Kalyansundaram committee in 1990. Public sector banks viz. State Bank of India and Canara Bank were the first to set up their factoring subsidiaries in India. State Bank of India promoted SBI factors and commercial services Ltd. and Canara Bank promoted Can Bank Factors Ltd. Factoring services are required in the industries where there is a big gap between supply of goods and cash received. It is effective for newly setup industries where they are totally new in the market. Factoring helps to protect the business firm from uncertainties arising due to lack of resources. Effective collection systems of debts will help the organization to grow fast and develop relation in the market.

### Objectives of the Study

The broad objectives of the study are as follows :

(1) To examine the growth of SBI and Can Bank Factors with regards to the selected parameters.

(2) To analyse the influence of selected variables on the profitability of SBI and Can Bank Factor.

(3) To make a comparative study of SBI and Can Bank Factor with respect to growth analysis and profitability.

### Data and Methodology

In order to achieve the objectives of the study, data has been collected from annual reports of SBI Factor and CanBank factor for the period 1991-2001. The variables were identified for computing growth rates are reserves and surplus, loan funds, total assets, working capital, total income, total expenses and sales or factored debts. Growth rate analysis was employed to study the changes over a period in the selected performance related to factoring company. The growth rate of different indicators were computed by employing the following exponential functions.

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$Y = AB^X$

Where Y = Dependent variable (Performance Indicators)

A = constant

x = time (no of years)

In order to obtain the discrete or an effective growth of different variables, the computed continuous growth rates were worked out by using the following equation

$r = e^b - 1$

where r = compound rates of growth

e = natural log

b = slope parameter

The factors influencing profitability were ascertained by using regression analysis. The variables identified are income, expenses and factored debts and log linear model has been used to analyse the influence of independent variables X1 viz. Income, expenses and Factored debts on the dependent variable (Y) profit. The model employed is as under :

$LnY = B_O + B_{1Ln}X1 + B2X2 + Ut$

Where $B_1$= Independent variables

Y = Dependent variables

B0 = Slope parameter

Where X1 = Income, X2 = Expenses and X3 = Factored debts

**Analysis and Discussions**

The computed growth rates of important performance indicators of SBI Factor can be seen in the table 1 as follows :

**Table 1**

**Compound Grwoth Rate of Selected Performance Indicator of SBI Factors for the Period 1991-2001**

| Variables | Constant | Co-efficient | R-squre | T-value | C.G.R. |
|---|---|---|---|---|---|
| **Reserves & Surplus** | –354.71 | 0.18 | 0.94 | 11.327 | 20 |
| **Loan Funds** | –955.03 | 0.48 | 0.93 | 8.131 | 62 |
| **Toal Assets** | –378.80 | 0.19 | 0.90 | 8.783 | 21 |
| **Working Capital** | –370.89 | 0.18 | 0.92 | 9.668 | 20 |
| **Total Income** | –331.96 | 0.16 | .94 | 11.934 | 17 |
| **Total Expenses** | –530.11 | 0.26 | 0.84 | 6.499 | 30 |
| **Sales or Factored debts** | –607.56 | 0.30 | 0.78 | 5.00 | 35 |

*Source* : Annual Reports of SBI Facors Limited for the period 1991-2001.

It is observed that reserves and surplus is one of the important elements of owned funds which has recorded 20 per cent compound growth over the years which is observed to be reasonably good. Growth of reserves and surplus depends upon the profit earned during the years. A marginal growth of reserves and surplus could be due to less amount of profit transferred to reserves and surplus. The compound growth rate of loan fund is 62 per cent which is very high. Loan fund is borrowed from external sources. More borrowed fund will increase cost of capital which in turn reduces the size of profits. The compound growth of total assets recorded 21 per cent growth which is reasonably good. Total income recorded 17 per cent of growth rate which is considered to be poor. Total income includes income from factoring, investment income and other income. Growth of total income largely depends upon the purchase of factored debts. The compound growth rate of total expenses recorded at 30 per cent which is very high. Growth of total expenses will slow down the profit of SBI Factors.

**CanBank Factor**

The computed growth rates of important performance indicators of CanBank Factor can be seen in the table 2 as follows :

**Table 2**

**Compound Grwoth Rate of Selected Performance Indicator of CanBank Factors for the Period 1991-2001**

| Variables | Constant | co-efficient | R-squre | T-value | C.G.R. |
|---|---|---|---|---|---|
| **Reserves & Surplus** | –824.46 | 0.41 | 0.88 | 8.14 | 51 |
| **Loan Funds** | –887.91 | 0.44 | 0.48 | 2.76 | 55 |
| **Toal Assets** | –422.61 | 0.21 | 0.70 | 4.412 | 23 |
| **Working Capital** | –422.60 | 0.21 | 0.74 | 4.769 | 8 |
| **Total Income** | –538.63 | 0.27 | 0.55 | 3.169 | 23 |
| **Total Expenses** | –607.57 | 0.30 | 0.56 | 3.252 | 35 |
| **Sales or Factored debts** | –315.76 | 0.16 | 0.80 | 5.375 | 17 |

***Source*** : Annual Reports of CanBank Facors Limited for the period 1991-2001.

It can be observed from the table 2 that the reserves and surplus recorded an excellent 51 per cent growth over the years. It indicates that there is addition of earning annually. A liberal addition to its reserves and surplus narrates about the widening equity base of the CanBank Factor. The compound growth rate of loan fund is observed to have registered 55 per cent over the period of 10 years. This indicates that on an average 55 per cent amount is borrowed in the form of loan is a liability to the concern. Increase in liability weakens the financial position of the company. The total asset have registered 23 per cent compound growth over the period which is considered to be satisfactory. The growth of total asset indicate that larger amount of security is available to meet out liabilities. The compound growth of working capital is registered 8 per cent which is observed to be negligible. Working capital is very important for the factoring company since purchase in debts requires an immediate funds. Thus growth of working capital signifies that an expansion and growth of factoring business. Total income recorded 23 per cent of compound growth over the years which is considered as to be satisfactory. The growth of total income speaks that factoring services are availed by a large section of business community. The total expenses were observed to have posted 35 per cent growth which is very high and disappointing. The sales or factored debts recorded compound growth for 17 per cent which is poor over the 10 years. The recorded compound growth shows a poor response for the factoring services from enterprises.

**Comparative growth anlaysis of SBI and CanBank Factor**

The computed compound growth rates of selected variables of SBI and CanBank Factors are displayed out in table 1 and 2 to determine the growth of factoring companies. It was observed from the table that reserves and surplus of CanBank Factor registered higher growth of 51 per cent than reserves and surplus growth of SBI Factor (21 per cent). This reveals that profit earned by the CanBank Factor is quite good and helped in building adequate reserve fund. It further signifies that CanBank Factor focussed more attention on building reserve fund. The loan fund of SBI Factor recorded higher growth than the growth of loan fund in CanBank factor. In CanBank Factor, it was recorded 55 per cent whereas in SBI factor registered for 61 per cent indicating use of more borrowed fund in SBI Factor than the fund used in CanBank Factor.

More use of borrowed fund increases the cost and reduces profit. A higher borrowed funds in SBI factor points out that debt to be paid to external parties. The overall growth of total assets of CanBank factor registered higher than the growth of total assets of SBI factor. The CanBank factor registered higher than the growth of total assets of SBI factor. The CanBank Factor, overall average growth was observed to be at 23 per cent where as SBI factor it was 21 per cent. Total assets represents total investment made in fixed and current assets. Thus, it tells that CanBank Factor made more investment in fixed and current asset than the investment in current asset and fixed asset of SBI Factor. The overall average growth of working capital of SBI factor showed 23 per cent and CanBank factor was 8 per cent. More working capital in SBI Factor showed its recovery of debts is slow. A quick recovery of debts will reduce the requirement of working capital. Low working capital in Can Bank Factor speaks that the recovery procedure of debts employed were sound and healthy. Total income of CanBank Factor registered 23 per cent of overall growth which is higher than the income growth of SBI Factor (17 per cent). Total income included income from factoring, investment, and other income.

A higher compound growth of total income in CanBank factor signifies that the factoring business of CanBank Factor was increased than the factoring business SBI Factor. The overall growth of total expenses recorded higher in CanBank Factor (35 per cent) as compared to the expenses growth of SBI factors (30 per cent). An increase in total expenses in CanBank Factor will reduce profit of the business. It is observed that the total income as well as expenses of CanBan Factor were upward trend. An increased expenses in CanBank factor could be an expansion of factoring business. The total expenses included administrative expenses, interest and finance charges that area of purely variable in nature and their size is dependent upon the amount of fund borrowed from outside source. The overall compound growth of sales or factored debts of SBI Factor records at 35 per cent and CanBank Factor registered at 17 per cent. This clearly speaks that purchase of factored debts is increased in SBI Factor than the purchase debts in CanBank Factor. Thus it showed that a success of business depends upon the size of the turnover. The 35 per cent of growth of factored debts in SBI Factor is excellent where as in CanBank factor is reasonably good.

**Factors Influencing Profitability**

The selected variables have influenced profitability of the factoring companies. Income was observed to have had a positive influence on profitability of CanBank Factor than the factoring income of SBI Factor as shown in table 3.

**Table 3**

**Regression Analysis of the Factors Influencing Profitability of SBI and CanBank Factors**

| Variables | B-value | | R-square | | T-value | |
|---|---|---|---|---|---|---|
| | SBI | CanBank | SBI | CanBank | SBI | CanBank |
| Income | 0.42 | 0.86 | 0.74 | 0.95 | 4.550 | 12.625 |
| Expenses | 0.21 | 0.69 | 0.61 | 0.88 | 3.361 | 7.874 |
| Sales/ factored debts | 0.23 | 1.02 | 0.75 | 0.79 | 4.689 | 5.165 |

*Source* : Annual Reports of SBI and CanBank factors Ltd. for the period 1991-2001.

In SBI Factor it was observed that an increase in income by one rupee resulted an increase in profit by Rs.. 0.42 whereas in CanBank Factor, it is Rs. 0.86. This clearly indicates that income of CanBank Factor generated more profit than the factoring income of SBI Factor. On the other hand expenses variable has a negative influence on profit of SBI Factor and CanBank Factor. The degree of negative influence is higher in CanBank Factor than the degree of negative effect of SBI Factor. This indicates that despite of increase in expenses the profit of CanBank Factor has increased greater than SBI Factor. The sales or factored debts of CanBank Factor influence higher profit (Rs. 1.02) than SBI Factor (Rs. 0.23). Thus, it indicates that sales or factored debts of CanBank Factor generates greater profit through Sales or factored debts than profit is generated through sales or factored debts of SBI Factor. The R square speaks that all the variables selected are significant.

**Conclusions**

The growth of factoring organisation in terms of financial parameters was observed satisfactory in both factoring organisation. Reserves and surplus of CanBank Factor were found reasonably good compared to growth of reserves and surplus in SBI Factor indicating more profit earned in CanBank Factor. The growth of loan fund of CanBank Factor was shown lower compared to growth of loan fund in SBI Factor indicating low fund raised through loan which reduced liability. The growth of total asset in CanBank Factor was recorded higher compared to growth of SBI Factor signifying more investment highlighting better financial position.

The total income and of CanBank Factor were noticed to have recorded a significant annual growth rate compared to SBI Factor income variables annual growth rate denoting handsome income through factoring transaction. The SBI Factor was observed to have registered a satisfactory compound growth rate in ales or factored debts i.e. 35 per cent, where as compound growth rate of sales or factored debts in CanBank factored was observed to be 28 per cent signifying the purchase of debts were more in SBI Factor than CanBank Factor.

The overall influence of a rupee increase in variable viz. income, expenses and factored debts variable on the profitability, the CanBank Factor observed to have higher profit by registering hike in profit by Rs. 0.86, Rs. 0.69 and Rs. 1.02 respectively whereas in SBI Factor, it recorded Rs. 0.42, Rs. 0.21 and Rs. 0.23 respectively. It was observed that increase in expenses also increases profit in both factoring organisation which is against the business principles.

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