

Analysis of Profitability of the select Private Sector Non-Banking Finance Companies in India

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ARTICLE DETAILS

Article History

Published Online: 07 August 2018

Keywords

Profit, Profitability, Return on net worth

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ABSTRACT

Profitability is the heart of any financial institution's long and short-term strategy and in today's global economic climate and regulatory environment, determining its key drivers is a critical priority. NBFCs play an important role in the financial market of a country and for this it is very important to evaluate the firms that operate in an efficient manner and also the factors which affect their profitability. In this study an attempt has been made to identify the profitability of the select private sector Non-Banking Finance Companies in India for the period of 2000-2014 through the technique of Ratio Analysis. The analysis found that the Net Profit Margin, Operating Profit Margin and Return on Net Worth showed good financial performance of the select private sector NBFCs. That is, the earning capacity of the companies is considered satisfactory.

1. Introduction

Profitability is the ability to earn profit. The most commonly used measure of profitability is in terms of size i.e., profit or loss divided by total assets. Sometimes profitability is measured by taking profit of two years to judge the more profitable year. In peer terms, the profitability is measured by comparing the profits of two firms in the same industry. Profitability is a ratio of profit expressed as a percentage of either total assets or total funds. Profit is an absolute measure and profitability is a relative measure. Profitability in this regard can be measured by the operational efficiency of a particular firm. The improved profitability is the only key parameter for evaluating the performance from the shareholders point of view. Profitability has been defined as profit earning capacity of a particular firm. The profitability is also referred as earning power or operating performance of the investment concerned. It is the primary measure of the overall success of business and measures the effective utilization of resources. It reflects the final results of the operations. The term profit and profitability are used interchangeably.

1.2 Literature Review

Gurucharan Singh Kainth (2008) attempted to analyze the performance of NBFIs in India in the post - liberalization era from 1990 - 91 to 2004 - 05. The study was based on secondary data collected from various issues of Reserve Bank of India bulletin and report on trend and progress of banking in India. It was also stated that return on total assets was quite high in the earlier years from 1990-91 through 1993-94 due to no mandatory NPA norms and hence profits were overstated. The lending rates in the NBFCs had almost halved from 15.3% in 1990-91 to 8.5% in 2004-05 and the present rates are quite comparable to the global market. A study carried out by Sufian and Chong (2008) examined the key factors that influenced the profitability of 280 commercial banks in Philippines during the period 1990-2005. Their study indicated that all the bank specific variables were the major determinants of bank profitability in the country. Particularly, the result revealed that bank size, credit risk, inflation, and expense preference behavior had negative impact on bank profitability in

Philippines whereas diversification and capitalization had positive impact. However, economic growth, money supply and stock market capitalization were found to have no significant impact on the profitability of banks in Philippines. Pasiouras and Kosmidou (2007) made a study to examine the factors that influence the profitability of commercial domestic and foreign banks in the 15 European Union countries using bank data over the period 1995-2001. They found that capital strength and efficiency management were the most determinant factors of profitability of both domestic and foreign banks; while equity to asset ratio was positively related to profitability, cost to income ratio was negatively associated. It was revealed from the study that while concentration was statistically significant and negatively related to domestic bank profitability; it was statistically significant and positively related to foreign bank profitability. Raghunatha Reddy D. Sudha Rani K. (2007) conducted a study to evaluate the performance of selected NBFCs, which accepted public deposits. For this purpose, the data were collected for a period of 6 years from 2000- 2005 and the analysis was made by using the tools like percentage analysis and ANOVA. It was found from the analysis that banks have emerged as the major source of credit of NBFCs, accounting for almost a third of their borrowings and the debentures emerged as the most important source of funds of NBFCs. Jas Bahadur Gurung (2005) analyzed the quantitative as well as qualitative information to identify and evaluate the performance and current state of affairs of finance companies in the field of hire purchase financing in Pokhara for the period 2000-2005. In the course of analysis, various statistical tools like co-efficient of determination, simple linear regression, compound growth rate, chi-square test and F-Ratios were employed. The study revealed that the credit-deposit ratio was satisfactory. The relationship between total deposit collection and total loan to hire purchase segment was highly significant. It was concluded in the study that the performance of finance companies in hire purchase financing was satisfactory. MohdAminul Islam and Jamil bin Osam (2004) in their paper aimed to empirically examine the development impact of Non-Bank Intermediaries on Economic Growth in Malaysia using time series data over the period spanning from 1974 to 2004. The estimation results suggested that both NBFIs and the other

variables used in the model play an important role in explaining the variations in the long run per capita real GDP in Malaysia. The study found evidence of a long run co integrating relationship between NBFIs and real per capita income. The empirical results indicated that the development of NBFIs positively and significantly influenced per capita income in Malaysia. Pradeep Kumar Singh (2003) analysed the financial appraisal of IDBI Bank Ltd through financial indicators for the year 1997-2001. The bank got good liquidity position and the bank had maintained a proper Cash Reserve Ratio (CRR). The author concluded that the IDBI bank was a progressive, technology driven, professionally managed entity well geared to meet competition from existing as well as new banks effectively. It was suggested that the bank should provide the best environment to bring out quality performance from its employees. Prashanta Kumar Banerjee (2003) evaluated the performance of Indian Factoring Companies through SBI and Canbank factors for the period 1993-1999. The study revealed that the capital structure and the assets quality of SBI factors were better than those of Canbank factors, whereas Canbank factors had a less earning volatility and had higher support of internal sources in augmenting capital as compared to SBI factors. Further it was found that performance of Canbank factors was better than that of SBI factors on the criteria of return on equity, factoring income to total assets and non-factoring income to total assets. Vidyavathi K. (2002) conducted a study to analyse the role of urban housing finance institutions in Karnataka for the period 1989-99. The samples of 6 Housing Finance Institutions were selected for the study. It was found that the rate of interest, ease of securing loan, speed of service, liquidity, location, advertisement, courtesy etc., were the most dominant and critical factors which influenced the decision of sample borrowers to get loan from housing finance companies. The researcher came to the conclusion that all home loan borrowers had more or less the same perception about the housing finance company.

1.3 Research Objective

- To evaluate the profitability of select private sector Non-Banking Finance Companies in India.

1.4 Research Hypothesis

H₀: There is no significant difference in the mean Profitability Ratios among the Select Private sector Non-Banking Finance Companies in India.

1.5 Methodology

The study covers a period of 15 years from 2000-2001 to 2014-2015. The overall areas of the study focused on private sector leasing and hire purchase finance companies operating in India coming under the category of Non Banking Financial Companies in India. Presently there are 132 Leasing and Hire Purchase Finance Companies were operating in India under the category of Non Banking Finance Companies (NBFC). However, only 66 companies were found listed in Bombay Stock Exchange (as on 31st March 2015). Among these 66 companies 5 companies namely Shriram Transport Finance Company Limited (STFCL), Sundaram Finance Limited (SFL), Mahindra&Mahindra Financial Services Limited (MMFSL), Cholamandalam Investment Finance Company Limited (CIFCL), Manappuram Finance Limited (MFL) were selected for the study under judgment sampling method.

1.6 Analysis of Profitability Ratios

The ratios used for measuring the profitability of the select private sector Non-Banking Finance Companies are as follows:

- Operating Profit Margin
- Net Profit Margin
- Return on Total Assets (ROTA)
- Return on Capital Employed
- Return on Net Worth (RONW)

1.6.1. Operating Profit Margin

The operating profit margin demonstrates how much revenues are left over after all the variable or operating costs have been paid. This ratio shows what proportion of revenues is available to cover non-operating costs like interest expenses. Operating Profit Margin is calculated by dividing Operating Profit by Total Income and is generally represented by percentage. Obviously, a higher operating margin is more favorable compared with a lower ratio because this shows that the company is making enough money from its ongoing operations to pay for its variable costs as well as its fixed costs.

Table 1.1
Operating Profit Margin of the Select Private Sector
Non – Banking Finance Companies

(Ratios in percentage)

Year	STFCL	SFL	MMFSL	CIFCL	MFL
2000-01	23.12	32.49	12.27	33.71	26.84
2001-02	21.73	26.70	18.07	36.35	26.84
2002-03	19.52	28.71	22.43	27.38	17.91
2003-04	17.38	21.61	23.87	21.48	18.61
2004-05	15.83	21.66	21.25	20.03	19.48
2005-06	16.71	31.46	19.41	17.71	23.39
2006-07	14.38	18.67	17.27	8.82	27.80
2007-08	17.03	23.20	15.41	8.39	29.36
2008-09	17.45	17.05	16.19	5.59	21.37
2009-10	19.78	21.74	23.07	2.46	26.44
2010-11	23.03	24.62	23.67	4.97	26.01

2011-12	21.60	24.81	22.63	10.01	24.32
2012-13	21.06	23.72	22.91	13.36	12.19
2013-14	16.42	24.13	18.57	12.30	13.68
2014-15	14.80	23.95	15.69	12.60	16.52
Mean	18.65	24.30	19.51	15.68	22.05
SD	2.94	4.23	3.63	10.34	5.40
CV (%)	15.74	17.41	18.62	65.94	24.49
AGR (%)	0.68	-1.28	0.85	-10.22*	-2.66

Source: Compiled and computed from the annual reports of non-banking finance companies.

*significant at 10% level, ** significant at 5% level, *** significant at 1% level.

It is evident from the analysis that the Operating Profit Margin of Shriram Transport Finance Company Ltd is as 18.65 per cent. The dispersion result with the standard deviation of 2.94 and the co-efficient of variation of 15.74 per cent implies that the variation in the operating profit margin is more consistent. The company has recorded a positive and significant growth of 0.68 per cent during the period of study. Sundaram Finance Ltd has recorded an average Operating Profit Margin of 24.30 per cent. The dispersion result with the standard deviation of 4.23 and the co-efficient of variation of 17.41 per cent implies that the variation in the operating profit margin is more consistent. The company has recorded a negative and insignificant growth of -1.28 per cent during the period of study. Mahindra & Mahindra Financial Services Ltd has recorded an average Operating Profit Margin of 19.21 per cent. The standard deviation of 3.63 and co-efficient of variation of 18.62 per cent implies that the variation in the operating profit margin is more consistent. The company has recorded a positive and insignificant growth of 0.85 per cent during the period of study. Cholamandalam Investment Finance Company Ltd has recorded an average Operating Profit Margin of 15.68 per cent with the standard deviation of 10.34. The co-efficient of variation of 65.94 per cent implies that the variation in the Operating Profit Margin is less consistent. The company has recorded a negative and significant growth of -10.22 per cent during the period of study.

Manappuram Finance Ltd has recorded an average Operating Profit Margin of 22.05 per cent with the standard deviation of 5.40. The co-efficient of variation of 24.49 per cent implies more consistent variation of the operating profit margin. The company has recorded a negative and insignificant growth of -2.66 per cent during the period of study. It is concluded that all the select Private Sector NBFs have adequate amount as operating profit in relation to Total Income for covering their non-operating expenses. This ratio shows that the operating efficiency of the firms is satisfactory. But the companies have recorded negative and insignificant growth in operating profit margin during the period of study except CIFCL which has negative but significant growth in its operating profit margin.

1.6.1(a) Testing of Hypothesis

In order to test the significance of the difference in Operating Profit Margin among the Non-Banking Finance Companies, "ANOVA" has been used and the results are shown in Table.

H₀: There is no significant difference in the mean Operating Profit Margin among the select private sector Non-Banking Finance Companies.

Table 1.1(a)
ANALYSIS OF VARIANCE

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	1233.005	8	154.1257	3.678594	0.001	2.012654
Within Groups	5279.146	126	41.89799			
Total	6512.152	134				

Source: Computed.

The above table shows that the calculated value of F (3.678) which is greater than the critical value of F (2.01). This analysis rejects the null hypothesis that "there is no significant difference between the operating profit margin among sample companies". Hence it is concluded that difference in the mean Operating Profit Margin is significant and is just not a matter of chance.

1.6.2 Net Profit Margin

Net Profit Margin establishes a relationship between net profit (after tax) and total income. It is the most basic profitability ratio used as the overall measure of firm's

profitability and is useful to the owners. This ratio indicates the efficiency of the firm after taking in to account the ordinary charges. Generally higher the ratio, the better is the profitability. A high net profit margin would ensure adequate return to the owners as well as enable a firm to withstand adverse economic conditions. It can also be used to determine the profitability potential of different companies. While companies in some industries are able to generate high net profit margin, other industries offer very narrow margins. It depends on the extent of competition, elasticity of demand, product differentiation, etc. of the relevant product or market.

Table 1.2
Net Profit Margin of the Select Private Sector
Non – Banking Finance Companies

(Ratios in Percentage)

Year	STFCL	SFL	MMFSL	CIFCL	MFL
2000-01	11.50	12.91	6.91	9.88	16.59
2001-02	14.16	8.22	14.57	8.71	16.59
2002-03	14.10	8.11	17.75	11.40	12.57
2003-04	14.12	11.78	21.49	13.60	14.51
2004-05	14.26	14.01	19.84	15.62	16.27
2005-06	15.59	26.89	18.15	15.79	20.05
2006-07	13.35	14.52	15.73	7.42	24.31
2007-08	15.49	19.80	14.43	6.54	26.35
2008-09	16.38	13.25	15.49	3.73	18.24
2009-10	19.40	17.83	21.84	1.22	25.04
2010-11	22.77	20.02	22.82	4.32	23.87
2011-12	21.34	20.04	21.92	8.55	22.27
2012-13	20.72	19.18	22.29	11.78	9.19
2013-14	16.03	19.12	17.91	10.76	10.54
2014-15	14.32	19.17	14.89	11.23	13.67
Mean	16.24	16.32	17.74	9.37	18.00
SD	3.29	5.08	4.27	4.23	5.46
CV(%)	20.26	31.12	24.06	45.15	30.30
AGR(%)	2.82***	5.15***	3.07**	-3.29	-0.94

Source: Compiled and computed from the annual reports of non-banking finance companies.

*significant at 10% level, ** significant at 5% level, *** significant at 1% level.

It is evident from the analysis that the average Net Profit Margin of Shriram Transport Finance Company Ltd is 16.24 percent ranging between 22.77 percent in the year 2010-11 and 11.50 per cent in the year 2000-01. The dispersion results with the standard deviation of 3.29 and the co-efficient of 20.26 percent implies that the variation in the net profit margin is more consistent. The company shows a positive and significant growth of 2.82per cent during the study period. Sundaram Finance Ltd has recorded an average Net Profit Margin of 16.32per cent with the standard deviation of 5.08. The co-efficient of variation of 31.12per cent implies that the variation in the net profit margin is moderately consistent. The growth in net profit margin shows a positive growth of 5.15 per cent which is statistically significant. Mahindra & Mahindra Financial Services Ltd has recorded an average Net profit Margin of 17.74 per cent. The standard deviation of 4.27 and co-efficient of variation of 24.06 per cent implies that the variation in the net profit margin is more consistent. The growth in net profit margin shows a positive growth of 3.07 per cent which is statistically significant. Cholamandalam Investment Finance Company Ltd has recorded an average Net Profit Margin of 9.37per cent with the standard deviation of 4.23. The co-efficient of variation of 45.15per cent implies that the variation in the net profit margin is moderately consistent. The company has recorded a negative and insignificant growth of -3.29per

cent during the period of study. Manappuram Finance Ltd has recorded an average Net Profit Margin of 18.00per cent with the standard deviation of 5.46. The co-efficient of variation of 30.30per cent implies the variables are moderately consistent. The company has recorded a negative and insignificant growth of -0.94 per cent during the period of study. From the above analysis, it can be concluded that the profitability position of all the select private sector Non Banking Finance Companies in terms of Net profit margin is commendable and satisfactory. The maximum profit is recorded in MFL (18%) followed by MMFCL (17.74%). It shows the efficiency of all the select NBFCs and ensures adequate return to the owners. The variation as shown by measures of dispersion is consistent in case of all the select NBFCs.

1.6.2(a) Testing of Hypothesis

In order to test the significance of the difference in Net Profit Margin among the sample companies, "ANOVA" has been used and the results are shown in Table 1.2(a).

H_0 : There is no significant difference in the mean Net Profit Margin among the select private sector Non Banking Finance Companies.

Table1.2 (a)
ANALYSIS OF VARIANCE

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	1261.936	8	157.742	5.642185	0.000	2.012654
Within Groups	3522.659	126	27.95761			

Total	4784.595	134			
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Source: Computed

From the above ANOVA table, it is found that differences concerning ROTA among the sample firms are significant at 5% level. The calculated value of F (5.642) is more than the table value of F (2.01) and hence, the null hypothesis that "there is no significant difference between the return on total assets among sample companies" is rejected which implies that there is significant difference in Net Profit Margin among sample firms.

1.6.3 Return On Total Assets

Return on Total Asset is an important performance indicator of business. It indicates the amount of net income generated per rupee of investment in the firm's asset and the effectiveness of the management. It reflects the combined effect of both operation and financing activities of a finance company. The ROTA measures how efficiently a company can manage its assets to produce profits during a period. Higher the ratio, the more efficient is the management in using the funds invested by creditors and owners in the total assets. Average Total Assets are calculated by dividing the sum of total assets at the beginning and at the end of the financial year. This ratio can be very well used for inter firm and inter industry comparisons.

Table 1.3
Return on Total Assets of the Select Private Sector
Non – Banking Finance Companies

(Ratios in percentage)

Year	STFCL	SFL	MMFSL	CIFCL	MFL
2000-01	2.30	2.88	0.85	1.12	3.26
2001-02	2.83	1.50	2.23	1.34	3.26
2002-03	2.86	1.44	2.96	1.68	2.02
2003-04	2.91	1.52	3.24	1.73	2.47
2004-05	2.46	1.51	2.59	1.76	2.89
2005-06	2.33	2.90	2.15	1.61	3.60
2006-07	1.76	1.39	2.11	0.81	7.21
2007-08	2.13	2.65	2.52	0.91	7.16
2008-09	2.36	1.81	2.88	0.59	4.58
2009-10	3.07	2.09	3.60	0.21	4.69
2010-11	3.64	2.34	3.38	0.64	3.64
2011-12	3.26	2.65	3.34	1.27	4.90
2012-13	2.84	2.69	3.46	1.66	1.64
2013-14	2.37	2.75	2.80	1.65	2.08
2014-15	1.94	2.59	2.37	1.76	2.39
Mean	2.60	2.18	2.70	1.25	3.72
SD	0.51	0.59	0.71	0.51	1.72
CV (%)	19.68	27.06	26.42	40.65	46.26
AGR(%)	0.07	3.27**	4.13**	-1.51	-0.85

Source: Compiled and computed from the annual reports of non-banking finance companies.

*significant at 10% level, ** significant at 5% level, *** significant at 1% level.

It is evident from the analysis of Return on Total Assets of Shriram Transport Finance Company Ltd is 2.26per cent ranging between 3.64per cent in the year 2010-11 and 1.76per cent in the year 2006-07. The dispersion result with the standard deviation of 0.51 and the co-efficient of 19.68per cent implies that the variation in the return on total assets is more consistent. The company has recorded a positive and insignificant growth of 0.07per cent during the period of study. Sundaram Finance Ltd has recorded an average Return on Total Assets of 2.18 per cent. The dispersion result with the standard deviation of 0.59 and the co-efficient of variation of 27.06per cent implies that the variation in the return on total assets is more consistent. The company has shown a positive and significant growth of 3.27 per cent over the period of study. Mahindra & Mahindra Financial Services Ltd has recorded an average Return on Total Assets of 2.70per cent. The standard

deviation of 0.71 and co-efficient of variation of 26.42per cent implies that the variation in the return on total assets is more consistent. The company has shown a positive and significant growth of 4.13per cent over the period of study. Cholamandalam Investment Finance Company Ltd has recorded an average Return on Total Assets of 1.25per cent with the standard deviation of 0.51. The co-efficient of variation of 40.65per cent implies that the variation in the return on total assets is moderately consistent. The company has recorded a negative and insignificant growth of -1.51per cent during the period of study. Manappuram Finance Ltd has recorded an average Return on Total Assets of 3.72per cent with the standard deviation of 1.72. The co-efficient of variation of 46.26per cent implies the variations are moderately consistent in the return on total assets of Manappuram Finance Ltd. The company has recorded a negative and insignificant growth of -

0.85per cent during the period of study. It can be concluded from the above analysis that the select Non Banking Financial Companies have earned less return on their total assets. The average ROTA ranged between 2.70% (MMFSL) and 1.25% (CIFCL). It shows that the performance of the sample companies, in terms of utilization of Total Asset, is not effective and the companies BFL, CIFCL, MFL, and MFCL have also showed negative but insignificant growth in total assets during the period of study.

1.6.3(a) Testing of Hypothesis

In order to test the significance of the difference in the Return on Total Assets among the Non-Banking Companies, "ANOVA" has been used and the results are shown in Table 5.3(a).

H0: There is no significant difference in the mean Return on Total Assets among the select private sector Non-Banking Finance Companies.

Table 1.3(a)
ANALYSIS OF VARIANCE

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	65.0807	8	8.135087	8.080844	0.000	2.012654
Within Groups	126.8458	126	1.006713			
Total	191.9265	134				

Source: Computed.

From the above ANOVA table, it is found that differences concerning ROTA among the sample firms are significant at 5% level. The calculated value of F (8.080) is more than the table value of F (2.01) and hence, the null hypothesis that "there is no significant difference between the return on total assets among sample companies" is rejected which implies that there is significant difference in ROTA among sample firms.

1.6.4. Return on Capital Employed

Return on Capital Employed establishes the relationship between earnings before interest and tax and the capital employed. The prime objective in any business is to obtain satisfactory return on capital invested. Hence, the return on capital employed is used as a measure of success of a business in realizing this objective. The term capital employed refers to long-term funds supplied by the lenders and owners of the firm. The higher the ratio, the more efficient is the use of capital employed. ROCE is a profitability ratio that measures how efficiently a company can generate profits from its capital employed by comparing net operating profit to capital employed. This is also known as Return on Investment or Rate of Return.

Table 1.4
Return on Capital Employed of Select Private Sector
Non – Banking Finance Companies

(Ratios in percentage)

Year	STFCL	SFL	MMFSL	CIFCL	MFL
2000-01	3.08	3.22	1.15	1.38	3.71
2001-02	3.91	1.82	3.00	1.67	3.71
2002-03	3.70	1.71	3.38	2.18	2.26
2003-04	3.61	1.79	3.71	2.14	2.65
2004-05	2.96	1.69	2.92	2.09	3.23
2005-06	2.64	3.23	2.36	1.75	4.87
2006-07	1.93	1.52	2.32	0.88	9.04
2007-08	2.33	2.98	2.77	1.00	9.73
2008-09	2.67	2.03	3.20	0.73	4.94
2009-10	3.87	2.31	4.16	0.26	4.90
2010-11	4.88	2.57	3.78	0.69	3.74
2011-12	4.29	2.93	3.65	1.34	5.07
2012-13	3.50	3.03	3.77	1.78	1.70
2013-14	2.86	3.22	3.05	1.78	2.16
2014-15	2.31	3.15	2.59	1.97	2.46
Mean	3.24	2.48	3.06	1.44	4.28
SD	0.82	0.66	0.76	0.60	2.35
CV (%)	25.31	26.72	24.89	41.83	54.95
AGR(%)	-0.31	3.21**	3.03	-2.63	-1.83

Source: Compiled and computed from the annual reports of non-banking finance companies.

*significant at 10% level, ** significant at 5% level, *** significant at 1% level.

It is evident from the analysis the Return on Capital Employed of Shriram Transport Finance Company Ltd is 3.24 per cent which ranges between 4.88per cent in the year 2010-11 and 1.93per cent in the year 2006-07. The dispersion result with the standard deviation of 0.82 and the co-efficient of variation of 25.31 per cent implies that the variation in the return on capital employed is more consistent. The company has recorded a negative and insignificant growth of -0.31per cent during the period of study. It can be seen from the analysis that Sundaram Finance Ltd has recorded an average Return on Capital Employed of 2.48 per cent. The dispersion result with the standard deviation of 0.66 and the co-efficient of variation of 26.72 per cent implies that the variation in the return on capital employed is more consistent. The company has recorded a positive and significant growth of 3.21per cent during the period of study. It can be seen from the analysis that Mahindra & Mahindra Financial Services Ltd has recorded an average Return on Capital Employed of 3.06 per cent. The standard deviation of 0.76 and co-efficient of variation of 24.89 per cent implies that the variation in the return on capital employed is more consistent during the period of study. The company has recorded a positive and insignificant growth of 3.03per cent during the period of study. Cholamandalam Investment Finance Company Ltd has recorded an average Return on Capital Employed of 1.44 per cent with the standard deviation of 0.60. The co-efficient of variation of 41.83 per cent implies that the variation in the return on capital employed is

moderately consistent. The company has recorded a negative and insignificant growth of -2.63per cent during the period of study. It is clear from the analysis that Manappuram Finance Ltd has recorded an average Return on Capital Employed of 4.28 per cent with the standard deviation of 2.35. The co-efficient of variation of 54.95 per cent implies that the variations are less consistent in the return on capital employed of Manappuram Finance Ltd. The company has recorded a negative and insignificant growth of -1.83per cent during the period of study. It can be concluded that the sample firms have earned less return on their capital employed which indicates that the long-term funds supplied by the lenders and owners are not utilized efficiently to earn a good return. The maximum return is achieved by 4.28% (MFL) followed by 3.60% (BFL). But the companies STFCL, CIFCL and MFL have also recorded negative growth in return on capital employed.

1.6.4(a) Testing of Hypothesis

In order to test the significance of the difference in Return on Capital Employed among the Non-Banking Companies, "ANOVA" has been used and the results are shown in Table.

H₀: There is no significant difference in the mean Return on Capital Employed among the select private sector Non Banking Finance Companies.

Table 1.4(a)
ANALYSIS OF VARIANCE

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	90.52661	8	11.31583	5.924211	0.000	2.012654
Within Groups	240.6724	126	1.910099			
Total	331.199	134				

Source: Computed

The above table shows that the calculated value of F (5.924) is greater than the critical value of F (2.01). This analysis rejects the null hypothesis that "there is no significant difference between the return on capital employed among sample companies". Hence, it is concluded that difference in the mean ROCE is significant and is just not a matter of chance.

1.6.5. Return on Net Worth

According to this ratio, profitability is measured by dividing the profits after taxes and average ordinary shareholders'

equity or net worth. It is the relationship between net profit (after interest and tax) and the proprietors' funds. This is probably the single most important ratio to judge whether the firm has earned a satisfactory return for its equity holders or not. The higher the ratio percentage, the more efficient management is in utilizing its equity base and the better return to investors. The two basic components of this ratio are net profits and shareholders' funds. A comparison of this ratio with that of similar firms as with the industry average will throw light on the relative performance and strength of the firm.

Table 1.5
Return on Net worth of Select Private Sector
Non – Banking Finance Companies

(Ratios in Percentage)

Year	STFCL	SFL	MMFSL	CIFCL	MFL
2000-01	24.72	14.07	6.93	7.14	22.50
2001-02	30.02	9.26	17.01	12.77	22.50
2002-03	33.57	9.38	21.86	17.65	19.09
2003-04	34.91	10.67	26.88	14.97	20.46
2004-05	24.95	11.15	23.18	11.42	25.28

2005-06	16.93	21.06	15.88	11.32	25.13
2006-07	17.55	11.45	17.09	9.68	43.99
2007-08	21.49	20.40	13.48	11.25	50.86
2008-09	26.44	13.11	14.62	9.71	18.76
2009-10	22.95	17.30	19.84	3.34	19.72
2010-11	25.27	19.42	18.61	5.81	14.74
2011-12	21.13	19.96	21.03	12.21	24.92
2012-13	19.01	19.96	19.82	15.65	8.61
2013-14	15.36	18.62	17.43	15.88	9.18
2014-15	13.46	15.38	14.72	16.30	10.39
Mean	23.18	15.41	17.89	11.67	22.41
SD	6.34	4.36	4.69	4.10	11.65
CV(%)	27.37	28.26	26.23	35.13	52.00
AGR(%)	-4.31***	4.46***	1.28	0.43	-6.05

Source: Compiled and computed from the annual reports of non-banking finance companies.
*significant at 10% level, ** significant at 5% level, *** significant at 1% level.

It is evident from the analysis of Return on Net Worth of Shriram Transport Finance Company Ltd is 23.18per cent ranging between 34.91per cent in the year 2003-04 and 13.46per cent in the year 2014-15. The dispersion results with the standard deviation of 6.34 and the co-efficient of variation of 27.37per cent implies that the variation in the return on net worth is more consistent. The company has recorded a negative and significant growth of -4.31per cent during the period of study. It can be seen from the analysis that Sundaram Finance Ltd has recorded an average Return on Net worth of 15.41 per cent. The dispersion result with the standard deviation of 4.36 and the co-efficient of variation of 28.26per cent implies that the variation in the return on net worth is more consistent. The company has recorded a positive and significant growth of 4.46per cent during the period of study. It can be seen from the analysis that Mahindra & Mahindra Financial Services Ltd has recorded an average Return on Net Worth of 17.89per cent. The standard deviation of 4.69 and the co-efficient of variation of 26.23per cent imply that the variation in the return on net worth ratio is more consistent. The company has recorded a positive and insignificant growth of 1.28 per cent during the period of study. Cholamandalam Investment Finance Company Ltd has recorded an average Return on Net Worth of 11.67per cent with the standard deviation of 4.10. The co-efficient of variation of 35.13per cent implies that the variation in the return on net worth is

moderately consistent. The company has recorded a positive and insignificant growth of 0.43 per cent during the period of study. It is clear from the analysis that Manappuram Finance Ltd has recorded an average Return on Net worth of 22.41per cent with the standard deviation of 11.65. The co-efficient of variation of 52.00per cent implies the variations are less consistent. The company has recorded a negative and insignificant growth of -6.05 per cent during the period of study. From the above analysis it is concluded that on an average the sample firms are able to generate adequate returns for their shareholders/owners on the funds invested by them. Based on the study, the companies namely MMFSL, CIFCL and MFL have recorded positive and insignificant growth in Return on Net worth.

1.6.5(a) Testing of Hypothesis

In order to test the significance of the difference in Return on Net worth among the select Non-Banking Companies, "ANOVA" has been used and the results are shown in Table 5.5(a).

H_0 : There is no significant difference in the mean Return on Net worth among the select private sector Non Banking Finance Companies.

Table 1.5(a)
ANALYSIS OF VARIANCE

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	3301.815	8	412.7269	9.171393	0.000	2.012654
Within Groups	5670.196	126	45.00155			
Total	8972.011	134				

Source: Computed

From the said ANOVA Table, it is found that difference concerning RONW among the sample firms is significant at 5per cent level. The calculated value of (8.975) is more than the table value of F (2.01). Hence, the null hypothesis that "there is no significant difference between the return on net worth among sample companies" is rejected.

2. Conclusion

From the above analysis it can be concluded that the Net Profit Margin, Operating Profit Margin and Return on Net Worth showed good financial performance of the select private sector NBFCs. That is, the earning capacity of the companies is considered satisfactory. On the other hand, Return on Total

Assets and Return on Capital Employed revealed that the resources and in the total assets of the firms are not efficiently utilized to earn an attractive return. For all the profitability ratios it is found that the computed value of "F" is higher than the

critical value of "F". Hence, it indicates that there is no significant difference among the ratios regarding the profitability of the select NBFCS.

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