Financial Performance Evaluation - A Comparative Study Of Some Selected NBFCs

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INTRODUCTION

Non-Banking Finance Companies (NBFCs) play an extremely fundamental role in the economic growth in general and in the huge growth of the financial sector in particular. Immense possibilities of Indian financial sector have attracted various groups and companies to set up their NBFCs. In recent years, NBFCs variously called as *'Finance Corporation', 'Loan Company', 'Finance Company'* etc. have mushroomed all over the country and have been making progress (Datt & Sundaram, 2005). The NBFCs in India are broadly classified on the basis of their principal activities. They are namely as follows: **(a)** Leasing Finance Companies **(b)** Hire-purchase Finance Companies **(c)** Loan Finance Companies **(d)** Investment Finance Companies **(e)** Residuary Non-Banking Finance Companies **(f)** Miscellaneous Non-Banking Companies (chit fund) **(g)** Mutual Benefit Finance Companies **(h)** Micro Financial Companies **(i)** Housing Finance Companies **(j)** Insurance Companies **(k)** Stock Broking Companies **(l)** Merchant Banking Companies. They are regulated by different authorities namely, **i)** Ministry of Company Affairs, GOI **ii)** Securities and Exchange Board of India (SEBI) **iii)** Chits of each state **iv)** Reserve Bank of India **v)** National Housing Board **vi)** Insurance Regulatory and Development Authority (RBI, 2004). A study on NBFCs faces serious definitional and data difficulties. The number of such companies at work is very large and it runs into thousands. But only a small proportion of them reports to or files return with the RBI. There has also been a blurring of categories due to emergence of multi-service companies (Bhole, 2004). The RBI (Amendment) Act, 1997 defines a NBFC as an institution or a company whose principal business is to accept deposit under any scheme or arrangement or in any other manner and to lend in any manner. NBFCs perform a diversified range of functions and offer various financial services to individuals, corporates and institutional clients. They have been playing a positive role in accessing certain depositor segments and catering to specialized credit requirements of certain classes of borrowers. A thriving, healthy and growing non-banking financial sector is necessary for promoting the growth of an efficient and competitive economy (Bhole, 2004).Therefore, it is enormously significant for all the stakeholders to know the financial performances of those NBFCs. Measurement and comparative analysis of financial performance of the companies are intended to assist the finance managers analyze their companies' activities from a financial standpoint and provide useful information needed to take the right kind of managerial decisions. On the one hand, it helps the managers to take improved decisions through the preparation of effective financial planning and on the other hand, the stakeholders- especially the lenders, the investors, shareholders and the security analysts get a clear picture regarding the strengths and weaknesses of the companies. Financial analysis provides valuable insights into a company's performance on various counts: **(a)** A simple analysis of short term liquidity **(b)** Judgment regarding credit worthiness **(c)** Predicting bankruptcy **(d)** Forecasting bond rating **(e)** Assessment of market risk and return **(f)** Assessment of corporate resource management and excellence and above all **(g)** A comprehensive assessment of the strengths and weaknesses of the company (Chandra, 2002).In this study, five listed NBFCs have been considered for analyzing comparative financial performance. This kind of comparison indicates the relative financial position and performance of the company. One can easily resort to such a comparison, as it is not difficult to get published financial statements of similar companies (Pandey, 2005).

A BRIEF PROFILE OF THE SELECTED NBFCs

A. Reliance Capital Limited (RCL or R) was incorporated in 1986 at Ahmedabad in Gujarat as Reliance Capital and Finance Trust Limited but the name RCL came into effect from January 5, 1995. The shares of RCL are listed on the BSE and NSE of India. It was initially engaged in the business of leasing, bill discounting and inter-corporate deposits. Later, it diversified its activities in the areas of asset management, mutual funds, general insurance, stock broking, private equity and proprietary investments, consumer finance and other activities in financial services. As a NBFC, it

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got its registration in December, 1998 (www.reliancecapital.com).

B. LIC Housing Finance Ltd. (LICHFL or L) is one of the leading housing finance companies, promoted by Life Insurance Corporation of India and was incorporated in 1994. The company is recognized by the National Housing Bank. The main objective of the company is to provide long-term finance to individuals for purchase/construction/repair and renovation of new/existing flats/houses and it also provides loans to professionals for purchase/construction of clinics/nursing homes/diagnostic centres/ office spaces and also for purchase of equipments. The company is listed on the BSE and NSE. It also provides loans to NRIs. It has an extensive marketing network with its corporate office at Mumbai, 6 regional offices, 13 back offices and 130 marketing units across the country (www.lichousing.com).

C. Bajaj Auto Finance Limited (BAFL or B) is registered with the Reserve Bank of India as a NBFC with effect from March 5, 1998. It has been classified as an *'Asset Finance Company (Deposit taking)'* which primarily deals in the business of financing consumer durables, two wheelers, personal computers, personal loans and loans against shares and property etc. It has more than fifty branches across the country and its headquarters are at Pune. The equity shares of this company are listed on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). It is one of the major finance companies in India (www.bajajfinance.com).

D. Housing Development Finance Corporation Limited (HDFCL or H) was incorporated in 1977 for the purpose of providing long-term finance to households for their housing needs. This company offers home loans, deposit product and property related services. It also offers specialized financial services to the customer base through partnership with the financial institutions worldwide. The company is listed on the BSE and NSE. Its distribution network now spans 267 outlets, which include 56 of the corporation's wholly owned distribution company, HDFC Sales Private Limited. Apart from that, HDFC covers 2400 locations through outreach programmes. It also has presence in the global financial sector and offers a wide spectrum of housing financial products and services in India (www.hdfc.com).

E. Infrastructure Development Finance Company Limited (IDFCL or I) was set up based on the recommendations of the *'Expert group on 'Commercialization of Infrastructure Projects'*. The Group in *'India Infrastructure Report'* recommended a new approach and identified the need for a specialized financial intermediary for infrastructure and it was incorporated on January 30, 1997 in Chennai. IDFCL has broadened its initial focal on power, roads, ports and telecommunications to a framework of energy, information technology, integrated transportations, urban infrastructure, health care, food and agro-business infrastructure, education infrastructure and tourism (www.idfc.com).

OBJECTIVES OF THE STUDY

Basically, this study intends to assess, compare, test and analyze the financial performance (FP) of the selected five NBFCs and so, two sets of hypotheses have been taken. They are as as follows:

1ST SET OF HYPOTHESES

☸Null Hypothesis: Ho1: There is no significant difference among the financial performance of the selected NBFCs. i.e.,$FP_{(RCL)} = FP_{(LICHFL)} = FP_{(BAFL)} = FP_{(HDFCL)} = FP_{(IDFCL)}$.

☸Alternative Hypothesis: HA1: There is significant difference among the financial performance of the selected NBFCs. i.e., $FP_{(RCL)} \neq FP_{(LICHFL)} \neq FP_{(BAFL)} \neq FP_{(HDFCL)} \neq FP_{(IDFCL)}$.

2ND SET OF HYPOTHESES

☸Null hypothesis: Ho2: There is no significant difference among the years of financial performance. i.e., $FP_{(2004\text{-}05)} = FP_{(2005\text{-}06)} = FP_{(2006\text{-}07)} = FP_{(2007\text{-}08)} = FP_{(2008\text{-}09)}$.

☸Alternative hypothesis: HA2: There is significant difference among the years of financial performance i.e., $FP_{(2004\text{-}05)} \neq FP_{(2005\text{-}06)} \neq FP_{(2006\text{-}07)} \neq FP_{(2007\text{-}08)} \neq FP_{(2008\text{-}09)}$.

METHODOLOGY OF THE STUDY

This study has taken up five NBFCs incorporated in India and all of them have been listed on the BSE and/or on the

NSE. The study is specially based on the secondary date sources, procured and extracted from the financial statements of the selected companies covering a period of five years from 2004-05 to 2008-09(*http://businesstoday.intoday.in)*. Data of last five years are sufficient to have an idea about the past financial performance of the selected companies. Two kinds of tools (statistical tools and financial tools) have been used to test and analyze the hypotheses. The tests have been conducted at 5% level of significance. The critical value of F with 4 and 20 degrees of freedom is 2.87 and the critical value of F with 1 and 9 degrees of freedom is 5.31.

i) Statistical Tools Used In This Study : Different statistical tools like, Arithmetic Mean, Standard Deviation, Coefficient of Variation, Correlation and Analysis of Variance have been used extensively. **Arithmetic Mean (A.M.)** is an ideal measure of central tendency, which is rigidly defined, easy to calculate, based on all observations and affected least by fluctuations of sampling has been applied in this study (Gupta, 2005). It has been used to get a stable average and it is easy to understand the results of the study. **Standard Deviation (STDEV)** being the most important and widely used measure of dispersion has been used in this study to know how the data are spread out. **Coefficient of Variation (C.O.V.)** has been used to compare the series given in different units of measurement as STDEV will not be suitable in the case of comparison (Beri, 2008). Another tool, **Correlation**, has been used to measure the degree of relationship between every two selected companies as well as the relationship between every two years for analyzing the financial performance of the companies during those covered years with respect to the value of coefficient of correlation. **Analysis of Variance (ANOVA)** is another tool that has been used to examine whether the financial performance of the selected NBFCs differ significantly from various angles. It has been applied to test the differences of two or more means of independent samples. In this study, one way classification implies that there is only one criterion on the basis of which data are classified, and it has been applied to test the hypotheses (Beri, 2008).

ii) Financial Tools Used In This Study : Various kinds of financial ratios have been used to analyze the financial performance of the selected NBFCs. These ratios are as follows: **Per Share Ratios** indicate how the equity shares of the company is assessed in the capital market since the earnings per share and dividends per share etc. are the important indicators to assess the risk and return from the company. Per share ratios considered here are as follows: **(i)** Earnings Per Share (EPS) **(ii)** Dividend Per Share (DPS) **(iii)** Operating Profit Per Share (OPPS) **(iv)** Net Operating Income Per Share (NOIPS) and **(v)** Free Reserves Per share (FRPS).**Profitability Ratios** assess the adequacy of profits earned by the companies (Kishore, 2009). Profitability ratios considered here are as follows: **(i)** Operating Margin (OM) **(ii)** Gross Profit Margin (GPM) **(iii)** Net Profit Margin (NPM) **(iv)** Return on Net Worth (RONW) and **(v)** Return on Long Term Funds (ROLTF). **Leverage Ratios** refer to the use of debt finance and help in assessing the risk arising from the use of debt capital (Chandra, 2002). The ratios are as follows: **(i)** Long Term Debt/Equity (LTD/E), **(ii)** Total Debt./Equity (TD/E) **(iii)** Owners Fund as a % of total source (OF/TS), **(iv)** Fixed Asset Turnover Ratio (FATR). **Liquidity ratios** measure the liquidity of the companies and their ability to meet the short-term financial obligations (Kishore, 2009). The ratios are as follows: **(i)** Current Ratio (CR) **(ii)** Current Ratio (Incl. short-term loan) [C.R.(STL)] **(iii)** Quick Ratio (QR).**Pay-out Ratios** indicate the growth of the owners' equity as a result of retention policy (Pandey, 2005). The ratios are as follows: **(i)** Dividend Pay-out Ratio (DPR) **(ii)** Earnings Retention Ratio (ERR).**Coverage Ratios** show the relationship between debt servicing commitment and the sources for meeting the burdens. The ratios are as follows: **(i)** Cash Flow Time / Total Debt (CFT/TD) **(ii)** Financial Charges Coverage Ratio (FCCR) **(iii)** Financial Charges Coverage Ratio (Post-tax) (FCCR-PT). **Component Ratios** indicate the efficiency of management of resources i.e., how effectively the company employs its resources which involve comparison between the level of assets and investment in various accounts like, inventories, fixed assets etc. These ratios are based on the relationship between the level of activity, represented by sales or cost of goods sold and levels of various assets (Chandra, 2002). The ratios considered here are as follows: **(i)** Selling Cost Component Ratio (SCCR), **(ii)** Long-tern Assets/Total Assets (LTA/TA).

DATA ANALYSIS AND INTERPRETATION

Table 1 shows that the absolute values of total fund, sales and net profit of HDFCL for the year 2008-2009 are ₹ 969934.7 million, ₹ 109695.6 million and ₹ 22825.4 million respectively and they are also the highest in respect of these three issues among the selected NBFCs. RCL has grown in terms of net profit and total fund at a very high rate in comparison to other companies during the last five years though its growth rate of sales is not attractive. The sales of BAFL has increased at 411 per cent rate within the last five years but the rate of change of net profit of this company has

Table 1 : Total Fund, Sales And Net Profit Of The Selected Companies (Amount In Million ₹)

TOTAL FUND OF COMPANY	2004-05	2005-06	2006-07	2007-08	2008-09	% CHANGE
RCL	26779.2	42899.6	65625.9	153508.1	205859.7	769
LICHFL	122428.9	151259.2	178764.3	221760.9	276557.6	226
BAFL	9560.9	15138.1	26193.2	27269	27001.4	282
HDFCL	405305.1	511896.8	627444.2	810985.6	969934.7	239
IDFCL	84340.1	119107.4	177710.2	277428.8	296187.3	351
SALES OF COMPANY	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**% CHANGE**
RCL	2747.9	6469.9	8735.7	20669.9	29398.8	107
LICHFL	10233.4	12379.2	15471.3	20894	28801.7	281
BAFL	1453.3	2101.2	3527.6	4096.6	5974.9	411
HDFCL	34006	42655.4	58755	81763.5	109695.6	323
IDFCL	7186.3	10138	15005.5	25236.6	33132.5	461
NET PROFIT OF COMPANY	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**% CHANGE**
RCL	1058.1	5376.1	6461.8	10254.5	9680.2	915
LICHFL	1437.2	2085.7	2792.8	3871.9	5316.2	370
BAFL	556.9	376.9	472.2	201.2	339.2	61
HDFCL	10365.9	12573	15703.8	24362.5	22825.4	220
IDFCL	3040.2	3756.4	4628.7	6691.7	7359.2	242

come to a negative, which would be a matter of grave concern for BAFL. In 2004-05, the net profit of LICHFL jumped from ₹ 1437.2 million in 2004-05 to ₹ 5316.2 million in 2008-09, almost four times higher than that of 2004-05. The rate of change of sales of IDFCL is the highest among the selected NBFCs and the rate of change of total fund of the company is the second highest after that of RCL. The IDFCL managed to increase its net profit in the last five years. BAFL managed its operations in 2004-05 with comparatively small amount of funds i.e., ₹ 9560.9 million, whereas, the NBFC, with a higher amount of total fund i.e., HDFCL has managed its business with ₹ 405305.1 million in 2004-05. Overall, the total funds, sales and net profit of all the NBFCs increased and became double in the last five years, except, the net profit of BAFL, which is a negative in terms of percentage change from the year 2004-05 to the year 2008-09.

Table 2 : One Way Analysis Of Variance Between Every Two Selected Companies At A Time (Data of 5 years -2004-05 to 2008-09) and (CRITICAL VALUE OF F=5.317645)

RATIOS/COMPANY	R&L	R&B	R&H	R&I	L&B	L&H	L&I	B&H	B&I	H&I
1. Earning Per Share (₹)	0.4	3.4	11.5*	12.8*	5.75*	5.58*	15.4*	41.2*	4.4	102*
2. Dividend Per Share (₹)	6.46*	0.4	62.7*	21.5*	7.25*	29.6*	25.9*	60.1*	4.7	95.4*
3. Operating Profit Per Share (₹)	11.4*	0.1	16.3*	5.74*	13.7*	0.6	20.0*	18.9*	45.9*	25.4*
4. Net Operating Income Per Share (₹)	11.6*	5.73*	14.7*	5	6.04*	0.4	23.6*	1.9	98.9*	26.2*
5. Free Reserves Per Share (₹)	10.7*	1.5	0.1	41.0*	23.0*	3.71*	26.9*	0.2	65.2*	10.6*
6. Operating Margin (%)	0.3	44.4*	4.5	1	62.2*	10.5*	0.7	84.8*	70.7*	16.5*
7. Gross Profit Margin (%)	4.4	47.9*	17.6*	6.12*	64.3*	8.98*	0.6	86.5*	72.6*	12.9*
8. Net Profit Margin (%)	14.9*	14.0*	7.64*	5	0.5	28.4*	16.4*	6.50*	8.48*	1.18
9. Return On Net Worth (%)	4	2.6	16.9*	0.5	7.99*	4	3.1	18.1*	4.3	17.5*
10. Return On long Term Funds (%)	18.1*	0.5	10.9*	12.6*	9.26*	1.8	0.9	6.59*	7.30*	0.14
11. Long Term Debt / Equity	454*	0	54.6*	51.8*	867*	5.89*	264*	61.5*	127*	20.1*
12. Total Debt/Equity	325*	4.6	51.5*	42.6*	424*	4	182*	44.0*	39.7*	18.4*

13. Owners fund as % of total Source	18.5*	4.1	16.7*	11.2*	146*	3.3	106*	93.1*	41.0*	29.2*
14. Fixed Assets Turnover Ratio	44.8*	5.60*	7.38*	6.75*	36.5*	20.9*	10.9*	2.3	3.2	0.52
15. Current Ratio	2.6	11.2*	2.8	10.7*	101*	0	7.23*	603*	439*	20.9*
16. Current Ratio (Inc. ST Loans)	5	6.57*	0.3	0	71.8*	9.9*	15.5*	84.7*	24.2*	2.1
17. Quick Ratio	2.6	13.1*	2.8	9.9*	132*	0	7.16*	789*	531*	20*
18. Dividend payout Ratio (Net Profit)	1.5	1.2	14*	2.5	0	27*	0.6	7.90*	0.1	13*
19. Earning Retention Ratio	0.9	1.5	12*	1.1	0.7	93*	0.1	44*	0.1	31*
20. Cash Flow Time Total Debt	125*	5.94*	127*	40*	0.9	29.9*	49*	0.3	1.2	15*
21. Financial Charges Coverage Ratio	3.9	3.5	3.6	3.4	1.8	21.3*	17*	0.1	0.4	3.22
22. Coverage Ratio (Post Tax)	3.9	3.6	3.7	3.5	1	21.4*	11.1*	0	0.4	2.18
23. Selling Cost Component	90*	57*	1.1	1	40*	176*	314*	55*	59*	35*
24. Long term assets / Total Assets	0.3	39.5*	1.6	17*	11.8*	2.3	4.7	137*	11*	57*
*Indicates Significant Difference										

Table 2 contains the results of one way analysis of variance between every two selected NBFCs at a time and the results show that out of 240 F values, 153 values (*indicates significant difference) are significantly different i.e., in sixty per cent of the cases, significant differences have been observed. In case of per share ratios, the differences between LICHFL & BAFL, LICHFL & IDFCL and HDFCL & IDFCL are significant. In case of leverage ratios, the differences among RCL, LICHFL & IDFCL are significant and the differences between LICHFL & BAFL and LICHFL & IDFCL are significant. In other cases, say, coverage ratios, the differences among BAFL, LICHFL, HDFCL and IDFCL are not significant. In case of component ratios, the difference between RCL & HDFCL is not significant. In case of liquidity ratios, the difference between RCL & LICHFL is not significant. Similarly, in case of pay-out ratios, the differences among the RCL, LICHFL, BAFL and IDFCL are not significant and the differences among the LICHFL, BAFL and IDFCL are also not significant. In case of coverage ratios also, BAFL ratios are not significantly different from the coverage ratios of LICHFL, HDFCL and IDFCL.

Table 3 : Coefficients Of The Correlation Between Every Two Selected Companies At A Time (Data of 5 years -2004-05 to 2008-09)

CORRELATION OF RATIOS(COMPANY-WISE)	R&L	R&B	R&H	R&I	L&B	L&H	L&I	B&H	B&I	H&I
1. Earning Per Share (₹)	0.86	-1	0.87	0.9	-0.8	0.92	0.98	-0.84	-0.8	0.91
2. Dividend Per Share (₹)	0.97	-0.7	0.96	0.97	-0.8	0.99	0.88	-0.81	-0.7	0.86
3. Operating Profit Per Share (₹)	0.98	-0.9	0.97	0.97	-0.9	1	0.99	-0.94	-1	1
4. Net Operating Income Per Share (₹)	0.99	0.96	-0.4	0.98	0.98	-0.4	0.99	-0.5	0.95	-0.3
5. Free Reserves Per Share (₹)	0.85	0.96	0.81	0.85	0.71	0.93	0.94	0.7	0.73	1
6. Operating Margin (%)	-0.9	0.98	-0.7	-0.5	-0.9	0.58	0.7	-0.72	-0.4	0.04
7. Gross Profit Margin (%)	-0.7	0.87	-0.9	-0.1	-0.9	0.96	0.67	-0.98	-0.4	0.46
8. Net Profit Margin (%)	0.14	-0.3	0.36	0.3	-0.9	-0.6	-0.9	0.43	0.79	0.74
9. Return On Net Worth (%)	0.83	-0.9	-0.6	-0.8	-0.8	-0.8	-0.8	0.39	0.66	0.87
10. Return On long Term Funds (%)	-0.3	0.83	-0.1	-0	-0.6	0.98	0.94	-0.49	-0.5	0.96
11. Long Term Debt / Equity	0.85	-0.4	-1	-0.1	-0.1	-0.7	0.19	0.6	0.13	0.26
12. Total Debt/Equity	0.57	-0.5	-0.9	-0.2	-1	-0.7	0.37	0.62	-0.6	0.11
13. Owners fund as % of total Source	0.36	-0.4	-0.9	-0.2	-1	-0.7	0.48	0.65	-0.6	0.05
14. Fixed Assets Turnover Ratio	1	0.69	0.99	0.17	0.71	1	0.14	0.74	0.32	0.14
15. Current Ratio	-0.7	0.01	-0.3	0.46	0.08	0.05	-0.3	0.44	0.78	-0.1
16. Current Ratio (Inc. ST Loans)	-0.2	0.86	0.49	-0.3	-0.5	-0.1	0.73	0.4	-0.3	-0.5
17. Quick Ratio	-0.8	0.91	-0.2	0.45	-0.8	0.05	-0.4	-0.53	0.46	-0.1
18. Dividend payout Ratio (Net Profit)	0.84	-0.3	0.53	0.65	0.06	0.54	0.91	0.5	0.42	0.56

19. Earning Retention Ratio	0.62	-0.2	0.13	0.57	-0.4	-0.7	0.82	0.51	-0.3	-0.3
20. Cash Flow Time Total Debt	-0.5	0.18	0.42	-0.1	-0.7	-1	-0.7	0.66	0.68	0.66
21. Financial Charges Coverage Ratio	-0.7	-0.1	0.22	-0.1	-0.6	-0.8	-0.7	0.72	0.93	0.91
22. Coverage Ratio (Post Tax)	0.2	-0.3	0.17	0.03	-0.9	-0.8	-1	0.53	0.85	0.83
23. Selling Cost Component	-0.3	0.95	-0.5	0.41	-0.4	0.76	0.24	-0.56	0.58	0.22
24. Long term assets / Total Assets	-0.5	-0.7	-0.3	-0.6	0.93	0.88	0.93	0.9	0.9	0.76

Table 3 shows the results of calculations of the coefficients of correlation between every two selected NBFCs at a time indicate some specific characteristics of financial performance of the selected companies. In case of per share ratios, the coefficient of correlation among RCL & LICHFL, LICHFL & IDFCL and RCL & IDFCL are highly positive. In case of profitability ratios, the relationships between LICHFL and BAFL are moderately high to highly positive. In case of leverage ratios, the relationship between HDFCL & IDFCL, HDFCL & LICHFL and LICHFL & IDFCL are positive but very low. But the relationship between RCL & HDFCL is high but negative in the field of leverage. The relationships between RCL & LICHFL are positive and moderately high to very high in case of pay out ratios. But in case of liquidity ratios, the same two companies show a highly negative relationship between themselves. In case of component ratios, LICHFL and HDFCL show a highly positive relationship but BAFL and IDFCL show a moderate to highly positive relationship between themselves. The estimation of correlation coefficients show that free reserves per share ratios between every two companies are highly positive and the relationships of fixed assets turnover ratios between every two selected NBFCs are low to highly positive in all the cases.

Table 4 : Coefficients Of The Correlation Between Two Ratios At A Time
(Data Of 5 Years -2004-05 to 2008-09)

COMPANY/RATIO	DPS&FRPS	DPS&NPM	DPS&OFTS	EPS&TD/E	GPM&TD/E
RCL	0.83	-0.57	-0.78	0.61	-0.96
LICHFL	0.98	0.81	-0.89	0.9	0.97
BAFL	-0.96	0.95	-0.92	0.92	0.89
HDFCL	0.91	-0.82	0.75	-0.64	-0.82
IDFCL	0.98	-0.85	0.004	0.19	0.94

Table 4 demonstrating the value of correlation between dividend per share and free reserve per share indicate that except BAFL, there is a strong positive relationship between the two ratios of all the selected companies. Only in case of BAFL, a strong negative relationship is observed. In case of LICHFL and BAFL, the relationship between DPS & NPM, EPS & TD/E and GPM & TD/E, ratios are strong and positive. There are strong negative relationships between DPS & NPM observed in case of RCL & LICHFL and BAFL & LICHFL and RCL & BAFL. Moderately high to very high positive relationships are observed in case of correlation between EPS & TD/E ratios of all these three NBFCs.

Table 5 : Coefficients of Correlation Among Net Profit, Total Fund and Sales Of The Selected Companies
(Data Of 5 Years -2004-05 To 2008-09)

COMPANY	NP & TF	SALES & NP	TF & SALES
RCL	0.873894097	0.875232406	0.998096926
LICHFL	0.999706425	0.996887218	0.99478021
BAFL	-0.654838476	-0.583391017	0.867318698
HDFCL	0.941874282	0.914845992	0.994539683
IDFCL	0.996477868	0.990057301	0.97772132

Table 5 showing the results of correlation among net profit, total fund and sales of the selected NBFCs indicates a very strong positive relationship in all of these three important indicators of financial performance. Only exception is BAFL, where a moderately negative relationship is observed in case of correlation between net profit and total fund and also in between sales and net profit of the company.

Table 6
Average*, Standard Deviation and Coefficients of variation*** of various ratios and the Results of One Way Analysis of Variance between the years**** (Data of 5 years from 2004-05 to 2008-09) and (CRITICAL VALUE OF F=2.86608)**

Column :	1	2	3	4	5	6	7	8	9
Ratio\Year	2004-05*	2005-06*	2006-07*	2007-08*	2008-09*	A.M*	STDEV**	C.O.V*** (%)	F****
1. EPS(₹)	19.9	23.5	27.1	32	37.9	28.08	7.082514	25.1	0.4722787
2. DPS (₹)	6.7	6.8	7.5	8.5	10.5	8	1.571623	19.6	0.1539251
3. OPPS (₹)	62.2	75.4	96.1	125.7	170.3	105.94	43.23012	40.8	0.8121043
4. NOIPS(₹)	74.7	90.9	112.6	149.8	202	126	50.95513	40.4	0.4833407
5. FRPS (₹)	73	105	125.9	178.3	193	135.04	50.16396	37.1	1.4205423
6. OM (%)	85.3	83.9	83.5	79.1	77.9	81.94	3.238518	3.9	0.0992809
7. GPM (%)	82.5	82.8	83	78.6	77.3	80.84	2.683841	3.32	0.0678319
8. NPM (%)	31.4	35	32	25.4	19.8	28.72	6.082105	21.2	0.4813525
9. RONW (%)	16.4	15	15.9	14.5	14.1	15.18	0.957601	6.4	0.0716356
10. ROLTF (%)	13.1	10.6	10.1	10.2	12.5	11.3	1.398213	12.3	0.5762439
11. LT D /T E	4.4	4.9	5.1	4.5	4.4	4.66	0.320936	6.8	0.0278081
12. T D/TE	5	5.3	5.5	4.8	5	5.12	0.277489	5.4	0.0199811
13. OF / TS (%)	24.8	33.4	30	24.1	23	27.06	4.449494	16.4	0.1691236
14. FATR	10	12.5	16.7	22.8	21.2	16.64	5.476587	32.8	0.6291491
15. CR	16.1	17.3	19.2	16.2	18.3	17.42	1.340522	7.7	0.0923924
16.CR(Inc.STL)	9.2	10.3	10.8	9.8	5.9	9.2	1.937782	21.1	0.3991068
17. QR	15.1	16.7	18.5	15.6	17.9	16.76	1.451895	8.6	0.0924125
18.DPR (NP)	36.8	33.5	27.9	24.7	27.2	30.02	4.970614	16.5	1.3808044
19. ERR	61.7	69.4	71.4	69.6	71.4	68.7	4.027406	5.9	0.7181639
20. CFT/TD	29.6	31.6	33.1	47.1	35.4	35.36	6.896593	19.5	0.3862759
21. FCCR	1.8	4	4.8	1.9	1.5	2.8	1.494992	53.2	0.6512527
22.CR (PostTax)	1.7	3.8	4.3	1.7	1.3	2.56	1.381304	53.9	0.632232
23. SCC	2.9	3.5	3.6	5.5	3.8	3.86	0.976217	25.2	0.0958118
24. LTA / TA	0.2	0.2	0.2	0.3	0.4	0.26	0.089443	34.4	0.4414492

Table 6 demonstrates that the **Earnings per share** increased over the last five years. In 2004-05, it was ₹19.9 per share, but in 2008-09, it became ₹ 37.9 per share. The trend of distributing dividend to the shareholders was also marginally incremental. Operating profit of all the companies went up from the year 2004-05 to 2008-09. It was ₹ 62.20 per share in 2004-05 and in 2008-09, it became ₹170.30 per share. Net operating income of the companies within this period increased from ₹ 74.70 per share to ₹ 202.00 per share. The rate of retaining free reserves also showed an upward trend from ₹ 73.00 per share to ₹ 193.00 per share in this period. **Operating margin** showed a slight declination in these five years and also, is the case of gross profit margin. But the net profit margin declined steadily from 31.4 per cent to 19.8 per cent. The rates of return on net worth and return on long term fund were affected marginally. **Debt-equity compositions** during this period were maintained almost unchanged. The owners' fund as a percentage of total sources was reduced to a small extent from 24.8 per cent to 23 per cent in these five years, though some increment in owners' fund was observed in the year 2005-06 and 2006-07. There has been a steady increase of FATR from 10 times to 21.2 times over the years. **Liquidity position** was strengthened in these years. Current ratio increased from 16.1 per cent in 2004-05 to 18.3 per cent in 2008-09. The quick ratio also went up from 15.1 per cent in 2004-05 to 17.9 per cent in 2008-09, though current ratio (including short-term loan) dipped down to 5.9 per cent in 2008-09.**Dividend pay-out ratio** decreased from 36.8 per cent in 2004-05 to 27.2 per cent in 2008-09 and the earnings retention ratio went up from 61.7 per cent in 2004-05 to 71.4 per cent in 2008-09.**Cash flow times** of the selected NBFCs are not of linear trend-rather, it is erratic. In the year 2007-08, cash flow time reached its peak at 47.1 days. Both the fixed cost coverage ratio and the coverage ratio (past tax) decreased in the last years from 1.8 and 1.7 to 1.5 and 1.3 respectively, though in the

year 2006-07, these ratios reached their peaks at 4.8 and 4.3 times respectively. **Selling cost component ratio** increased every year with its peak at 5.5 in 2007-08. Long term assets out of total assets also went up from 0.2 in 2004-05 to 0.4 in 2008-09 i.e., a gradual and marginal increment is noticed in the long term assets' possession of the companies.

Table 7 : Average*, Standard Deviation And Coefficients Of Variation Of Various Ratios Of The Selected Companies (data Of 5 Years -2004-05 To 2008-09)**

COLUMN NO:	1	2	3	4	5	6	7	8
RATIO/COMPANY	RCL*	LICHFL*	BAFL*	HDFCL*	IDFCL*	A.M*	STDEV**	C.O.V***(%)
1. EPS(₹)	28.81	35.55	13.81	57.99	4.4	28.112	20.708163	73.6
2. DPS (₹)	4.34	8.4	3.5	22.8	1.08	8.024	8.6707716	107.8
3. OPPS (₹)	48.72	189.49	44.16	233.72	13.78	105.974	98.606145	93
4. NOIPS(₹)	58	206.7	107.86	242.79	14.89	126.048	96.761142	76.7
5. FRPS (₹)	173.42	83.04	216.12	189.2	13.69	135.094	84.276486	62.3
6. OM (%)	88.41	90.49	42.69	96.21	92.15	81.99	22.155081	27
7. GPM (%)	85.2	90.23	41.62	95.68	91.77	80.9	22.277021	27.5
8. NPM (%)	55.08	16.85	12.87	27.36	31.71	28.774	16.566111	57.6
9. RONW (%)	12.9	18.1	6.87	24.17	14.15	15.238	6.4157049	42.2
10. ROLTF (%)	13.85	8.42	15.77	9.52	9.19	11.35	3.2552189	28.7
11. LT D /T E	0.62	10.54	0.57	8.08	3.64	4.69	4.4820866	95.5
12. T D/TE	0.94	10.51	1.84	8.42	4.06	5.154	4.1620524	80.7
13. OF / TS (%)	60.13	8.72	35.67	11.08	19.99	27.118	21.268763	78.5
14. FATR	4.07	40.69	8.39	13.1	17.16	16.682	14.293907	86.1
15. CR	14.94	21.31	3.16	20.93	27.01	17.47	9.0678801	51.9
16.CR(Inc.STL)	8.67	17.46	1.29	10.65	8.15	9.244	5.7937881	62.6
17. QR	14.43	21.21	0.73	20.87	26.84	16.816	10.008435	59.5
18.DPR (NP)	21.32	27.9	28.68	42.19	30.24	30.066	7.5849641	25.2
19. ERR	77.72	71.51	69.49	54.52	70.41	68.73	8.5713564	12.4
20. CFT/TD	6.89	60.15	45.11	37.11	27.72	35.396	19.884498	56.2
21. FCCR	7.98	1.32	1.6	1.55	1.74	2.838	2.8784406	101.4
22.CR (Post Tax)	7.39	1.25	1.46	1.45	1.62	2.634	2.6619222	101.1
23. SCC	0.29	2.82	15.73	0.53	0.08	3.89	6.7099963	172.4
24. LTA / TA	0.45	0.386	0.03	0.55	0.15	0.3132	0.216174	68.9

Table 7 indicates that the **Earnings per share** of the selected NBFCs varies from company to company and on an average, it ranges from ₹ 4.40 per share to ₹ 57.99 per share. HDFCL is the topper in EPS followed by LICHFL, RCL, BAFL and IDFCL respectively. Regarding dividend per share, the same trend is observed in DPS of HDFCL i.e., ₹ 22.8 per share, whereas DPS of IDFCL was ₹ 1.08 per share. In the field of operating profit per share, HDFCL is the highest earner and the sequential order of the companies remains the same as in case of EPS and DPS. In this connection, it can be mentioned that BAFL managed to increase its NOIPS to ₹107.86, which is higher that those of RCL and IDFCL i.e., ₹ 58 and ₹ 14.89 per share respectively. **Operating margin and gross margin** of HDFCL are the highest among those of the selected NBFCs i.e., 96.21 per cent and 95.68 per cent respectively. But the net profit margin of RCL is the highest among those of the selected companies. RONW of HDFCL is the highest but ROLTE of BAFL is the highest among those of the selected NBFCs. RONW ratios range from 6.87 per cent to 24.17 per cent, whereas, ROLTF ratios range from 8.42 per cent to 15.77 per cent. **The long term debt and total debt** of LICHFL and HDFCL are comparatively higher than those of the other companies. Owners' fund as a percentage of total source of RCL is the highest i.e., 60 per cent followed by the OF/TS of BAFL i.e., 35.67 per cent. Fixed asset turnover ratio of LICHFL in the highest i.e., 40.69 per cent among the selected NBFCs followed by the FATR of IDFCL i.e., 17.16 per

cent. Long term total debt of BAFL is the lowest - 0.57 per cent among those of the other companies selected in the study. **Current ratios and quick ratios** of BAFL are smaller in comparison to those of the other companies. Current ratio of IDFCL is as high as 27.01 times of current liabilities, whereas, current ratio of BAFL is 3.16 times of its current liabilities. The quick ratio IDFCL is higher in comparison to that of HDFCL and LICHFL. The quick ratio of BAFL is very low i.e., .73 times of its current liabilities. **Dividend payout ratio** of HDFCL is better than those of the other companies. DPR of HDFCL is 42.19 per cent. Earning retention ratio of RCL (77.72 per cent) is the highest among those of the other companies. Earning retention ratios range from 54.52 per cent to 77.72 per cent. The lowest in this ratio category is HDFCL. **Coverage ratios** of RCL are the highest among those of the NBFCs. Cash flow time to total debtor of RCL is 6.89 days, whereas, it is 60.15 days in case of LICHFL, the highest cash flow time period among all the companies followed by 37.11 days of HDFCL. Fixed cost coverage ratio and coverage ratio (past tax) of LICHFL are the lowest among those of all the companies in these categories. **Selling cost component and long term asset to total assets** of BAFL are higher than those of other companies i.e., 15.73 per cent and 0.03 per cent respectively. Selling cost component of IDFCL is the lowest i.e., 0.08 per cent among those of the selected companies. The long term assets of HDFCL is the highest among those of all the companies i.e., 55 per cent followed by the LTA/TA of RCL i.e., 45 per cent.

Table 8 : **One Way Analysis Of Variance Between Selected Companies (Data Of 5 Years -2004-05 To 2008-09) And (critical Value Of F=2.86608)**

RATIOS	Source of Variation	SS	df	MS	F
1. Earning Per Share (₹)	Between Groups	8575.7699	4	2143.9425	13.721226*
	Within Groups	3125.0013	20	156.25006	
2. Dividend Per Share (₹)	Between Groups	1503.6456	4	375.9114	42.995699*
	Within Groups	174.86	20	8.743	
3.Operating Profit Per Share (₹)	Between Groups	194464.48	4	48616.12	13.354958*
	Within Groups	72806.098	20	3640.3049	
4.Net Operating Income Per Share (₹)	Between Groups	123827.82	4	30956.954	7.7902488*
	Within Groups	79476.163	20	3973.8082	
5. Free Reserves Per Share (₹)	Between Groups	142057.41	4	35514.353	8.3314094*
	Within Groups	85254.131	20	4262.7065	
6. Operating Margin (%)	Between Groups	9815.009	4	2453.7523	48.058634*
	Within Groups	1021.1494	20	51.05747	
7. Gross Profit Margin (%)	Between Groups	9923.8118	4	2480.9529	56.465023*
	Within Groups	878.75744	20	43.937872	
8. Net Profit Margin (%)	Between Groups	5489.0007	4	1372.2502	9.5961518*
	Within Groups	2860.001	20	143.00005	
9. Return On Net Worth (%)	Between Groups	822.75892	4	205.68973	8.5752848*
	Within Groups	479.72688	20	23.986344	
10. Return On long Term Funds (%)	Between Groups	212.08578	4	53.021446	6.6791368*
	Within Groups	158.76736	20	7.938368	
11. Long Term Debt / Equity	Between Groups	401.8573	4	100.46433	83.501081*
	Within Groups	24.063	20	1.20315	
12. Total Debt/Equity	Between Groups	345.80792	4	86.45198	64.139512*
	Within Groups	26.95748	20	1.347874	
13. Owners fund as % of total Source	Between Groups	9049.0935	4	2262.2734	15.101309*
	Within Groups	2996.1288	20	149.80644	
14. Fixed Assets Turnover Ratio	Between Groups	4087.8329	4	1021.9582	16.319233*
	Within Groups	1252.4587	20	62.622934	

15. Current Ratio	Between Groups	1644.9224	4	411.23061	23.71192*
	Within Groups	346.8556	20	17.34278	
16. Current Ratio (Inc. ST Loans)	Between Groups	671.96178	4	167.99045	9.0418995*
	Within Groups	371.5822	20	18.57911	
17. Quick Ratio	Between Groups	2003.5923	4	500.89808	26.137548*
	Within Groups	383.27856	20	19.163928	
18. Dividend payout Ratio (Net Profit)	Between Groups	1150.2268	4	287.55671	5.0289763*
	Within Groups	1143.5994	20	57.179968	
19. Earning Retention Ratio	Between Groups	1469.4255	4	367.35638	6.5890278*
	Within Groups	1115.0549	20	55.752744	
20. Cash Flow Time Total Debt	Between Groups	7908.191	4	1977.0477	7.372141*
	Within Groups	5363.5647	20	268.17823	
21. Financial Charges Coverage Ratio	Between Groups	165.86862	4	41.467154	3.5811959*
	Within Groups	231.58272	20	11.579136	
22. Fin. Charges Cov.Ratio (Post Tax)	Between Groups	141.6529	4	35.413226	3.6598165*
	Within Groups	193.5246	20	9.67623	
23.Selling Cost Component	Between Groups	900.47006	4	225.11751	53.652984*
	Within Groups	83.91612	20	4.195806	
24. Long term assets / Total Assets	Between Groups	0.913496	4	0.228374	13.259057*
	Within Groups	0.34448	20	0.017224	
*Indicates Significant Difference					

From the Table 8, it follows that not a single ratio out of twenty-four ratios, computed value of F is less than the critical value of F at 5% level of significance. That means, for all the ratios, it is found that the computed value of F is higher than the critical value of F. Hence, the null hypothesis is rejected in the 1st set of hypotheses. This indicates that all of the selected ratios for this study differ significantly among the NBFCs. But all the calculated values of F **(See Column: 9 in Table: 6)** are lower than the critical value of F, which clearly indicates that there is no significant difference among the years regarding the financial performance. Hence, null hypothesis is accepted in the 2nd set of hypotheses.

MAIN FINDINGS AND CONCLUSION

HDFCL is better than the other selected NBFCs in terms of its position in the capital market, whereas, RCL can be placed at a better position in terms of its profitability. RCL has grown in terms of net profit and total fund at a very high rate in comparison to other companies during the last five years, though its growth rate of sales is not attractive. RCL and BAFL are not so much levered companies as compared to other companies like, HDFCL, LICHFL and IDFCL. Liquidity position of BAFL is not good enough in comparison to other companies. The liquidity position of IDFCL is better than those of other companies. In terms of dividend distribution, HDFCL is in a better position in comparison to other companies. The long term debt and total debt of LICHFL and HDFCL are comparatively higher than those of the other companies. Solvency position and liquidity position of RCL are very sound to be assessed as a good company for investment. Management of sales is a matter of concern for BAFL. IDFCL has been managing its sales very prudently. Stability position of HDFCL and RCL as well as that of LICHFL are very strong because of their higher long term assets base. It can be concluded by saying that out of first set of hypotheses, alternative hypothesis is accepted i.e., null hypothesis is rejected. In case of the second set of hypotheses, null hypothesis is accepted i.e., alternative hypothesis is rejected. The selected companies differ significantly in terms of their financial performance indicators from one to another, may be for the different services they provide. There are no significant differences in the last five years in the management of financial performance of each of the selected NBFCs, except marginal deviation in some cases in the year 2006-07 may be for the effect of general recession in that period.

(Contd. On Page 42)

qualitative factors, monitoring frequency, rotation policy, quantification and modeling of operational risk must be encouraged to even out anomalies amongst banks.

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Earnings per share increased over the last five years. The trend of distributing dividend to the shareholders is also positive. Operating profit of all the companies went up from the year 2004-05 to 2008-09.Overall, the companies have performed well in the last five years and there is a steady trend of soundness of financial performance in all the NBFCs (covered in this study) observed over the last five years .

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