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ORIGINAL ARTICLE

Assessment of Performance of some Selected Asset Finance Companies in India

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ABSTRACT

Non-Banking Financial Companies (NBFCs) registered under Companies Act 1956 (now 2013) and engaged in activities similar to banks but do not hold a banking licence. NBFCs provide financial services to unbanked population and have gained significant importance in Indian economic growth. The present study attempts to examine the variation in performance of selected NBFCs mainly emphasizing on Asset Finance Companies (AFCs), in respect of liquidity, profitability and efficiency over the period of 2006-2022. The study employs One-way ANOVA test followed by a post hoc test. The study concludes that there was no difference in liquidity performances among the selected AFCs; however there was significant differences in profitability and efficiency among the selected companies.

KEYWORDS

• NBFC • AFC • ANOVE • ROA • ROE • ALR • WCTR

INTRODUCTION

NBFCs play a significant role in Indian financial ecosystems, especially in providing financial services to unbanked population areas like rural, semi-urban and low-income group, small business owners etc. Asset Finance Companies are companies engaged in financing of physical assets that support economic activities such as automobiles, tractors, generator sets, earth moving and material handling equipments, moving on own power and general-purpose industrial machines.

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LITERATURE REVIEW

A few literatures on financial performance of non-banking financial companies were studied as follows:

1. Paul (2011) in his study "Financial performance Evaluation: A Comparative Study of Some Selected NBFCs" made an attempt to assess, examine and compare the financial performance of five non-banking financial companies among the selected companies and among the years of study the study is based on secondary data collected over a period of five years from 2004-05 to 2008-09. The study employs statistical tools such as correlation, mean, standard deviation, ANOVA. A total of twenty-four ratios were selected for the study under seven categories namely- per share ratios, profitability ratios, leverage ratios, liquidity ratios, pay-out ratios, coverage ratios, Component ratios, it was found that there was significant difference in all the selected ratios among the NBFCs but there was no significant difference in financial performance among the years.

2. Rahman and Farah (2014) in their article on "A Comparative Study of bank and Non-bank Financial institutions: A study of Profitability Indicators" had mentioned the major profitability indicator variables and its influence over Net Profit of NBFC and Bank of Bangladesh for a period of 3 years. Five financial performance indicators namely current assets, long term liabilities, financial expenses, interest income, operating revenue were taken under consideration. Simple regression and multiple regression model were executed for analysis taking net profit as dependent variable selected five financial indicators as independent variable to observe the influence on net profit. In simple regression analysis it was found that current asset and operating revenue had major impact on net profit and financial expenses the least impact for NBFCs whereas for banks financial expenses and long-term liability were statistically insignificant i.e., less impact on net profit. In multiple regression analysis both NBFCs and Banks show similar patterns. Both have high co-efficient of multiple determination (r^2) indicating high influence of financial indicators on net profit. The r^2 of NBFC is slightly higher than banks. Furthermore, it was observed that interest income which is the main source of income for both financial institutions had less impact on Net profit.

3. Sowndharya and Shanmugham (2014) in the study entitled "Analysis of Financial Performance of Non-Banking Financial Companies in India" focused on assessment of financial performance of ten auto financing NBFCs across the period of six years starting from 2007 to 2012. The study is fully secondary based. the study considered a total of nineteen ratios which were clubbed under four groups of namely, liquidity ratios, profitability ratios, leverage ratios, and indicator ratios. One way ANOVA was applied to examine the variation in financialperformance of selected NBFCs across the study period the study found that there was significant difference in financial performance of the selected NBFCs in terms of profitability ratios, leverage ratios and risk indicator ratios. The null hypothesis is accepted for current ratio and price earnings ratio when all companies are taken together.

4. Basu (2019) in his study "Financial performance of NBFC-An empirical study on selected assets finance companies" made an attempt to evaluate the financial performance of selected thirteen listed Asset Finance NBFCs operating in India for the period starting from 2006-2007 to 2014-15. The performance indicators selected for the study were ROA, ROE D/E ratio, Net Current ratio, Return on Capital employed. The study is based on secondary data obtained from RBI website, published annual reports and unpublished annual reports of some companies. The study employed statistical tools suchas semi log regression, chi square test and Principal Component analysis for analysing the collected data. The results of trend growth rate analysis demonstrated that all performance indicators showed positive growth rate except for ROA and ROCE. The growth rate of ROA, ROE and NPRs were statistically insignificant as compared to statistically significant growth rates of ROCE, D/E ratio, current ratio hence it was concluded that the financial indicators were not satisfactory. From the results of Chi Square test it was further observed that all the selected financial indicators were insignificant at 5% level of significance i.e., there was no difference found between actual and expected performance which implied that AFCs were in sound situation. Factor analysis could not be applied in the study as the value of of KMO measure of sampling adequacy was less than 60%. The study recommended the management to focus on the enhancement of financial performance of selected AFCs for bolstering the overall success of NBFCs.

5. Basu (2019) in his paper "Financial Performance of NBFCs – A Comparative Study on Selected Investment and Assets Finance Companies" did a comparative analysis financial performance of two categories of NBFCs, those were asset finance companies and investment companies for a period of five years from 2005-06 to 2014-15. The study employed Kruskal-Wallis's test (H test) on the selected financial parameters to compare the financial performance of selected investment and asset finance companies. Thestudy found no difference between the financial performance of each category of NBFCs apart from their nature of activities under their respective categories.

6. Ray *et al.* (2020) "An empirical study to analyse the performance variation among top five Indian NBFCs regarding several operational parameters" had done an empirical study to find the variation in the performance of top five Indian NBFCs regarding financial parameters PBDIT, secured and unsecured loans advances for the study period 2015-2019 by applying single factor ANOVA. it was found that during the study period the mean PBDIT and unsecured loans varied significantly among selected NBFCs. however, the mean of secured loans was significantly equal among the five NBFCs.

Research gap:

From extensive literature review it is found that there is no study to measure the variation in performances of the Asset Finance Companies in India.

Objectives of the study:

On the basis of extensive literature review the objective set is to examine whether there is any variation in mean liquidity, profitability and efficiency among the selected asset finance companies.

Hypothesis:

H_{01}: There is no significant difference in the financial performances among the selected AFCs.

H_{0A}: H_{01} is not true

RESEARCH METHODOLOGY

Sample size: In this study we have selected fifteen BSE listed Asset Finance Companies (AFCs). All the companies are registered with RBI. The sample size was based on the availability of data for the specified time period.

Study period: The study period of our study is from the financial year 2006-2007 to 2021-2022.

Data Source: The study is fully based on secondary data of different performance parameters obtained from ACE-EQUITY data base.

Tools and technique

In order to examine the performance variation among the selected AFCs in terms of mean profitability, solvency, liquidity and efficiency we have employed One-way ANOVA and post hoc test namely Tukey-HSD test.

ANOVA is a statistical technique which analysis the difference between the means of more than two groups.

Tukey Honesty Significant Difference (HSD) test is a post hoc test conducted after ANOVA to find which specific group differ from one another. Hence, this study applies Tukey HSD test to identify which company significantly differsfromits peer as well the overall AFC category in terms of mean liquidity, profitability, and efficiency. the significance level for the test was 10%

Financial parameters of the study

In this study we have selected three categories of ratios-liquidity, profitability and efficiency ratios. Current ratio (CR), quick ratio (QR) and absolute liquidity ratio (ALR) are selected as liquidity ratio; Return on Asset (ROA), Return on Capital employed (ROCE) and Return on Equity (ROE) have been selected as profitability ratios, Fixed Capital to Sales Ratio (FCTS), Working Capital Turnover ratio (WCTR) and Cost To Income Ratio (CTIN) have been selected as efficiency ratio.

For the present study we have computed the composite value of each ratio. Composite value of Current ratio, Quick ratio and Absolute Liquidity ratio are used to measure the composite Liquid ratio; composite value of Return on Asset, Return on Capital Employed and Return On Equity have been considered to measure composite profitability ratio and finally Fixed Capital to Sales Ratio, Working Capital turnover ratio and Cost to Income ratio have been considered to measure composite efficiency ratio. We have used the following formula to compute the composite value of each ratio for all the selected categories of NBFCs over the study period 2006-2022.

Actual ratio - Minimum ratio in category) / (Maximum ratio in category - Minimum ratio in category.

After calculating the composite value of each ratio, we compute the average liquidity, profitability, solvency and efficiency for individual companies as well as overall AFC category for each year. Our aim is to examine whether there is any variation in financial performance in terms of mean liquidity, profitability and efficiency ratios among the selected asset finance companies as well as with the overall category and identify which companyperforms better in terms of liquidity, profitability and efficiency.

Data presentation and Analysis

Table 1: ANOVA result of Liquidity of Selected AFCs

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.072	18	.004	1.291	.191
Within Groups	.942	304	.003		
Total	1.014	322			

Table 1 displays the result of on way ANOVA on mean liquidity of selected eighteen Asset finance companies and the AFC category across the period of seventeen years we observe that sum of square between groups is .072 and within groups is .942. the value of F statistics is 1.291 with p value .191. hence, we fail to reject null hypothesis and conclude that there is no significant difference between means of liquidity ratio between the companies and with the overall category.

Profitability Analysis

Profitability Analysis of Asset Finance Companies

Table 2: ANOVA result of Profitability of AFCs

	Sum of Squares	df	Mean Square	F	Sig
Between Groups	.159	18	.009	2.994	<.001
Within Groups	.899	304	.003		
Total	1.058	322			

Table 2 demonstrates the ANOVA result performed on mean profitability of selected asset finance companies for the study period 2006-07 to 2021-2022. We observe that F statistic of the ANOVA test is 2.994 is significant with p value <.001 hence we reject our null hypothesis that there is no difference in mean profitability among the selected asset finance Companies and with the AFC category. Hence, it is concluded that profitability ratio of asset finance companies significantly differs among them and is not similar across category. Therefore, we conduct a post hoc test to identify the difference in profitability ratio between specific group of companies. we have only displayed those AFCs which had significant difference with its peers and overall AFC category.

Table 3: Multiple comparison of profitability using tukey test for asset finance companies

Company	Mean Profitability	Mean Difference with AFC Category	Company	Mean Difference with Company
Arman Financial Services Ltd.	.851861	.0155598	SREI Infrastructure Finance	.0693834**
Ceejay Finance	.837581	.0205043	SREI Infrastructure Finance	.0742902**
Cholamandalam Investment and finance	.845276	.0090128	SREI Infrastructure Finance	.0627986*
Mahindra and Mahindra Financial Services Ltd.	.849128	.0128648	SREI Infrastructure Finance	.0666507**
Muthoot Capital Services Ltd.	.866297	.0300336	SREI Infrastructure Finance	.0838195***
			Banas finance Ltd.	.0630622*
Shriram Finance Ltd.	.860426	.0241630	SREI Infrastructure Finance	.0779489**
SREI Infrastructure Finance	.782477	-.0537859	Arman Financial Services Ltd.	-.0693834**
			Ceejay Finance	-.0742902**
			Cholamandalam Investment and finance	-.0627986*
			Mahindra and Mahindra Financial Services Ltd.	-.0666507**
			Muthoot Capital Services Ltd	-.838195***
			Shriram Finance Ltd.	-.0779489**
			Sundaram Finance Ltd.	-.0700470**
			ShaliBhadra Finance Ltd.	-.0846057***
			Nalin Lease Finance Ltd.	-.0637639*

Sundaram Finance Ltd.	.852524	.0162611	SREI Infrastructure Finance	.0700470**
Shalibhadra Finance Ltd.	.867083	.0308198	SREI Infrastructure Finance	.0846057***
			Banas Finance	.0638484*
Banas Finance	.803235	-.0330285	Muthoot Capital Services Ltd.	-.0630622*
			Shalibhadra Finance Ltd	-.0638484*
Nalin Lease Finance Ltd	.846241	.0099780	SREI Infrastructure Finance	.0637639*
AFC Category	.836263	-	-	-

Note: *, ** & *** represents 10%, 5% and 1% level of Significance

Table 3 displays the post hoc Tukey HSD test result for profitability ratios of Asset Finance Companies. it is found that there is no significant mean difference between and the selected Asset Finance companies and overall AFC category. However, when compared with peer companies we find significant differences. Companies that show negative mean difference with their peer imply that their profitability is distinctively lower compared to that specific peer. From the table 3 we find that Arman Financial Services Ltd., Ceejay Finance, Cholamandalam Investment and finance Ltd., Mahindra and Mahindra Financial Services Ltd., Shriram Finance Ltd., Sundaram Finance Ltd., Shali Bhadra Finance Ltd., and Nalin Lease Finance Ltd have positive mean difference with SREI Infrastructure, suggesting that these companies have better profitability performance than SREI Infrastructure. Similarly, we observe that Muthoot Capital services Ltd. and Shalibhadra Finance Ltd. have positive mean difference with Banas finance suggests that Muthoot Capital Services Ltd. and Shalibhadra Finance Ltd. have better profitability as compared to Banas finance Ltd. As no company show significant difference with AFC category so we rank the company on the basis of mean profitability. We find that the mean profitability ratio for Shalibhadra Finance is highest (.867083) followed by Muthoot Capital Services Ltd., Shriram Finance Ltd. (.860426), Ceejay Finance Ltd. (.856767), Sundaram Finance Ltd. (.852524), Arman Financial Services Ltd. (.851861), Mahindra and Mahindra Financial Services Ltd. (.849128), Nalin Lease Finance Ltd. (.846241), Cholamandalam Investment and finance Ltd. (.845276).

Efficiency Analysis

Table 4: Anova result of efficiency of asset finance companies

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.493	18	.027	14.298	<.001
Within Groups	.583	304	.002		
Total	1.076	322			

Table 5: Multiple comparison of efficiency using tukey test for asset finance companies

Company	Mean Profitability	Mean difference with overall Category	Peer Company	Mean difference with peer company
Arman Financial Services Ltd.	.2989	-.03880	Baid Finserv Ltd.	-.10233***
			Cholamandalam Investment and Finance Company Ltd.	-.07442***
			KJMC Financial Services Ltd.	-.07165***
			Paragon Finance Ltd.	-.14693***
			Banas Finance Ltd.	-.05477**
			ISF Ltd.	-.07156***
Baid Finserv Ltd..	.4013	.06353***	Arman Financial Services Ltd.	.10233***
			Ceejay Finance Ltd.	.07249***
			Mahindra & Mahindra Financial Services Ltd.	.07241***
			Muthoot Capital Services Ltd.	.08462***
			Shriram Finance Ltd.	.09296***
			SREI Infrastructure Finance Ltd.	.11281***
			Sundaram Finance Ltd.	.10062***
			Sakthi Finance Ltd.	.07879***
			Shalibhadra Finance Ltd.	.10375***
			Intec Capital Ltd	.06562***
			NPR Finance Ltd.	.09473***
			Nalin lease finance ltd.	.06471***

Company	Mean Profitability	Mean difference with overall Category	Peer Company	Mean difference with peer company
Cholamandalam Investment and Finance Company Ltd.	.3734	.03563	Arman Financial Services Ltd.	.07442***
			Muthoot Capital Services Ltd.	.05671**
			Shriram Finance Ltd.	.06506***
			SREI Infrastructure Finance Ltd.	.06506***
			Sundaram Finance Ltd.	.08490***
			Sakthi Finance Ltd.	.07271***
			Shalibhadra Finance Ltd.	.07584***
			Paragon Finance Ltd.	-.07584***
			NPR Finance Ltd.	.06683***
KJMC Financial Services Ltd.	.3076	.03285	Arman Financial Services Ltd.	.07165***
			Muthoot Capital Services Ltd.	.05394**
			Shriram Finance Ltd.	.06228**
			SREI Infrastructure Finance Ltd.	.08213***
			Sundaram Finance Ltd.	.06994***
			Shalibhadra Finance Ltd.	.07306***
			Paragon Finance Ltd.	-.07529***
			NPR Finance Ltd.	.06405***
Paragon Finance Ltd.	.4459	.10814***	Arman Financial Services Ltd.	.14693***
			Ceejay Finance Ltd.	.11709***
			Cholamandalam Investment and Finance Company Ltd.	.07251***
			KJMC Financial Services Ltd	.07529***
			Mahindra & Mahindra Financial Services Ltd.	.11702***
			Muthoot Capital Services Ltd.	.12923***
			Shriram Finance Ltd.	.13757***
			SREI Infrastructure Finance Ltd.	.15741***
			Sundaram Finance Ltd.	.14522***
			Sakthi Finance Ltd.	.12340***
			Shalibhadra Finance Ltd.	.14835***
			Intec Capital Ltd.	.11023***
			Banas Finance Ltd.	.09217***
			ISF Ltd.	.07537***
			NPR Finance Ltd.	.13934***
			Nalin lease finance ltd.	.10931***
Banas Finance Ltd.	.3537	.01597	Arman Financial Services Ltd.	.05477**
			SREI Infrastructure Finance Ltd.	.06525***
			Sundaram Finance Ltd.	.05306*
			Shalibhadra Finance Ltd.	.05619**
			Paragon Finance Ltd.	-.09217***

Company	Mean Profitability	Mean difference with overall Category	Peer Company	Mean difference with peer company
ISF Ltd.	.3705	.03277	Arman Financial Services Ltd.	.07156***
			Muthoot Capital Services Ltd.	.05386**
			Shriram Finance Ltd.	.06220**
			SREI Infrastructure Finance Ltd.	.08204***
			Sundaram Finance Ltd.	.06985***
			Shalibhadra Finance Ltd.	.07298***
			Paragon Finance Ltd.	-.07537***
			NPR Finance Ltd.	.06397***
AFC category	.3380	-	Baid Finserv	-.06353***
			Paragon Finance	-.10814***

Note: *,** & *** represents 10%, 5% and 1% level of Significance

On the basis of results displayed in Table 5 we found that only Baid Finserv and Paragon Finance has positive significant mean difference with overall AFC category indicating they outperform the AFC Category average regarding efficiency. Baid Finserv also has significant positive mean difference with its peer companies Arman Financial Services Ltd., Ceejay Finance Ltd., Mahindra & Mahindra Financial Services Ltd., Muthoot Capital Services Ltd. Shriram Finance Ltd., SREI Infrastructure Finance Ltd., Sundaram Finance Ltd., Sakthi Finance Ltd., Shalibhadra Finance Ltd., Intec Capital Ltd., NPR Finance Ltd., Nalin lease finance ltd. implying that the efficiency of Baid FinServ is higher than those companies. Again we find the mean difference between Paragon Finance and Arman Financial Services Ltd., Ceejay Finance Ltd., Cholamandalam Investment and Finance Company Ltd., KJMC Financial Services Ltd., Mahindra & Mahindra Financial Services Ltd., Muthoot Capital Services Ltd., Shriram Finance Ltd., SREI Infrastructure Finance Ltd., Sundaram Finance Ltd., Sakthi Finance Ltd., Intec Capital Ltd., Banas Finance Ltd., NPR Finance Ltd., Nalin lease finance ltd. is significantly positive indicating that Paragon finance outperforms its peer companies in terms of efficiency. Companies like Cholamandalam Investment and Finance Company Ltd., KJMC Financial Services Ltd., Banas Finance Ltd., ISF Ltd. have positive mean difference with the overall category but the difference is insignificant whereas it is observed that these companies have significant positive mean difference with their peers indicating their superiority over those peers. Hence, the efficiency of Baid Finserv and Paragon Finance Ltd. is better in the AFC Category being the only two companies with positive mean difference with the Overall Category. In order to rank the two companies, we consider mean efficiency of these companies, we find that the mean efficiency of Paragon Finance ltd. is highest (.4459) followed by Baid Finserv Ltd. (.4013)

CONCLUSION

The present study aimed to assess the variation in financial performance of selected Asset finance Companies. From the results, we found that there was significant variation in financial performance of selected NBFCs in terms of profitability and efficiency; however, no significant difference in mean liquidity was found among the selected AFCs. there was no significant difference in mean liquidity of the selected AFCs. By conducting post-hoc Tukey HSD test we found that none of the companies had significant mean difference in terms profitability with AFC category, however some companies showed significant difference with their peers. On the basis of mean profitability, Shalibhadra Finance Ltd. was in a better position than other selected AFCs. Two companies namely, Baid FinServ Ltd. and Paragon finance Ltd. had significant mean difference with AFC category indicating they outperformed its peers as well as the AFC category in terms of efficiency. Furthermore, It is concluded that there is variation in financial performances of selected AFCs except for liquidity.

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