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AN EVALUATION OF FINANCIAL PERFORMANCE OF PUBLIC SECTOR BANKING COMPANIES AND NON-BANKING FINANCIAL COMPANIES IN INDIA

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In the year 2009 most of the industries were affected by recession. This could bring a slowdown in the financial performances of most of the banking companies and Non-banking financial companies. Similarly, the inflation in the country was increasing and there was a hike in the Repo rates by RBI around 13 times in 2010, who governs these two bodies. The degree to which these companies performed in these particular periods was unknown. Therefore, the study was conducted to analyze the financial performance of these selected groups during these periods. The basic purpose of the study is to understand and analyze the financial performance of the selected companies. The two selected groups of companies (i.e., NBFC's and banking companies) provide a variety of services at differential rates. Therefore, the study pertains to analyze the best performer among the selected companies and best group between the two groups within the particular period of 5 years (2007-2011.) From the study it was found that NBFC's are showing better position in the capital markets than the selected banking companies. This means, the NBFC's have good reputation in the capital market because of its principle activities. The companies differ significantly in terms of their financial performance indicators from one company to another. This may be for the different services they provide and the differential interest rates. There are no significant differences in the last five years in the management of financial performance of each of the companies, except marginal deviations in some cases. Earnings per share of the selected companies increased over the last five years, whereas the operating profit per share of all companies showed an increasing trend from the year 2007 to 2010 and depicted a slight dim in the year 2011. Overall, the NBFC's have performed well, as and when compared to the banking companies.

Keywords: Banking Companies, Non- Banking Financial Companies, RBI, Financial Performance

INTRODUCTION

A banking company in India has been defined in the Banking Companies Act, 1949 as one “which transacts the business of banking which means

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the accepting, for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdraw able by cheque, draft, order or otherwise." Most of the activities a Bank performs are derived from the above definition. In addition, Banks are allowed to perform certain activities which are ancillary to this business of accepting deposits and lending. A bank's relationship with the public, therefore, revolves around accepting deposits and lending money. Another activity which is assuming increasing importance is transfer of money—both domestic and foreign from one place to another. This activity is generally known as "remittance business" in banking parlance. The so called FOREX (foreign exchange) business is largely a part of remittance albeit it involves buying and selling of foreign currencies.

Functioning of a Bank is among the more complicated of corporate operations. Since Banking involves dealing directly with money, governments in most countries regulate this sector rather stringently. In India, the regulation traditionally has been very strict and in the opinion of certain quarters, responsible for the present condition of banks, where NPAs are of a very high order. The process of financial reforms, which started in 1991, has cleared the cobwebs somewhat but a lot remains to be done. The multiplicity of policy and regulations that a Bank has to work with makes its operations even more complicated, sometimes bordering on illogical. This section, which is also intended for banking professional, attempts to give an overview of the functions in as simple manner as possible. Banking Regulation Act of India, 1949 defines Banking as "accepting, for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdraw able by cheques, draft, and order or otherwise."

COMMERCIAL BANKS

About 92% of the country's banking segment is under State control while the balance comprises private sector and foreign banks. The public sector commercial banks are divided into three categories.

State bank group (eight banks): This consists of the State Bank of India (SBI) and Associate Banks of SBI. The Reserve Bank of India (RBI) owns the majority share of SBI and some Associate Banks of SBI. It has 13 head offices governed each by a board of directors under the supervision of a central board. The boards of directors and their committee should monthly meetings while the executive committee of each central board meets every week.

Nationalized banks (19 banks): In 1969, the Government arranged the nationalization of 14 scheduled commercial banks in order to expand the branch network, followed by six more in 1980. A merger reduced the number from 20 to 19. Nationalized banks are wholly owned by the Government, although some of them have made public issues. In contrast to the state bank group, nationalized banks are centrally governed, i.e., by their respective head offices. Thus, there is only one board for each nationalized bank and meetings are less frequent (generally, once a month). The state bank group and nationalized banks are together referred to as the public sector banks.

Regional Rural Banks (RRBs): In 1975, the state bank group and nationalized banks were required to sponsor and set up RRBs in partnership with individual states to provide low-cost financing and credit facilities to the rural masses.

NON-BANKING FINANCIAL INSTITUTION

Non-Banking Financial Companies (NBFCs) form an integral part of the Indian financial system. The history of the NBFC Industry in India is a story of under-regulation followed by over-regulation. Policy makers have swung from one extreme position to another in their attempt to set controls and then restrain them so that they do not curb the growth of the industry. NBFCs have seen considerable business model shift over last decade because of regulatory environment and market dynamics. More than 40,000 NBFCs exist, 10,000 of which had deposits totaling Rs. 1, 539 bn as of March 1996. After public frauds and failure of some NBFCs, RBI's supervisory power over these high-growth and high-risk companies was vastly strengthened in January 1997. RBI has imposed compulsory registration and maintenance of a specified percentage of liquid reserves on all NBFCs.

Majority of NBFCs were not able to face the pressure created on and were wiped out. However, since FY2001-2002, there has been significant improvement in the business model of existing NBFCs with improvement in overall business environment. NBFCs have been able to expand their resource profile by diversifying the funding avenues. Further a strict control on asset quality and overheads, coupled with use of innovative borrowing tools such as securitization has resulted in improved profitability of NBFCs.

LITERATURE REVIEW

Kantawala (2004), on the basis of his study, it was concluded that there exists a significant difference in the profitability ratios, leverage ratios and liquidity ratios of various categories of NBFCs. When two categories are examined against each other, then the more number of ratios are not statistically different from each other in majority of the cases except a few when compared with leasing. When all categories are taken together, null hypothesis is accepted for only three ratios, indicating thereby that there does not have a significant difference. From this it follows that the ratios for all categories of NBFCs are generally different from each other. The analysis of variance along with the details about average ratios may become a useful guide to companies to decide about diversification or continuation in the same line of business considering overall profitability within the regulatory framework. In brief, different categories of NBFCs behave differently and it is the entrepreneur's choice in the light of behavior of some the parameters which go along with the category of NBFC.

Vradi *et al.* (2006), in their study on Measurement of efficiency of banks in India concluded that in modern world performance of banking is more important to stable the economy. In order to see the efficiency of Indian banks they had seen the four indicators, i.e., profitability, productivity, assets quality and financial management for all banks including public sector, private sector banks in India for the period 1999-2000 to 2002-2003. For measuring efficiency of banks they had adopted development envelopment analysis and found that public sectors banks are more efficient than other banks in India.

Later, Pal and Malik (2007), in their empirical paper examined the difference in financial characteristics of public, private and foreign sector banks based on factors such as profitability, liquidity, risk and efficiency. Sample of 74 Indian commercial banks consisting of 24 public sector, 24 private sector and 23 foreign banks was taken for the period of 2000-2005. Multinomial regression analysis was used and results revealed that foreign banks proved to be high performer in generating business with a given level of resources and they are better equipped with managerial practices and in terms of skills and technology. Foreign banks were more consistent with market system as reflected in terms of net interest margin. The public banks emerged as the next best performer after foreign banks. There were giving a higher return on equity in comparison to foreign and private banks. It was high performer in economizing their expenses which was reflected from expense rate and efficiency ratio. The private sector banks emerged with a better utilize of resources as compared to PSB's.

Saho and Singh (2007), attempts to examine the performance trends of the Indian commercial banks for the period: 1997-98 to 2004-05. Their broad empirical findings are indicative in many ways. First, the increasing average annual trends in technical efficiency for all ownership groups indicate an affirmative gesture about the effect of the reform process on the performance of the Indian banking sector. Second, the higher cost efficiency accrual of private banks over nationalized banks indicate that nationalized banks, though old, do not reflect their learning experience in their cost minimizing behavior due to X-inefficiency factors arising from government ownership. This finding also highlights the possible stronger disciplining role played by the capital market indicating a strong link between market for corporate control and efficiency of private enterprise assumed by property right hypothesis. And, finally, concerning the scale elasticity behavior, the technology and market-based results differ significantly supporting the empirical distinction between returns to scale and economies of scale, often used interchangeably in their literature.

Further Vadde (2011), in his article analyzed the performance of non-government financial and investment companies (other than banking, insurance and chit-fund companies) during the year 2008-09. The study was fully based on the audited annual accounts of 1,215 companies, which closed their accounts during the period April 2008 to March 2009. The segment of financial and investment companies in the private corporate sector is highly skewed. The presence of a large sized company, viz., Housing Development Finance Corporation (HDFC) Limited in the study would exert considerable influence on the overall performance of the companies in this group in terms of various quantitative measures. In view of such marked skewness in the size structure, the analysis presented in the article excludes results of HDFC. Further, it was observed that the results of three other companies are in large variance with the remaining companies and accordingly these companies are also kept outside the scope of the study. Thus, their analysis confined to 1,211 companies. However, the data on all the select 1,215 companies including HDFC and other three outlier companies are separately presented. The study also presents comparable data for the preceding two years 2006-07 and 2007-08 for the same set of companies, based on the analysis of their accounts for the respective years.

Chaudhary and Sharma (2011), their paper mainly attempted to analyze how efficiently Public and Private sector banks have been managing

NPA. They used statistical tools for projection of trend. Finally concluded saying that right time to take suitable and stringent measures to get rid of NPA problem has become the ultimate aim of every bank. An efficient management information system should also be developed. The bank staff involved in sanctioning the advances should be trained about the proper documentation and charge of securities and motivated to take measures in preventing advances turning into NPA. Public banks must pay attention on their functioning to compete with private banks. Banks should be well versed in proper selection of borrower/project and in analyzing the financial statement.

Finally Dhanabhakyam and Kavitha (2012), in their article, an attempt was made to see the financial performance of the selected public sector banks with the different norms. They were grouped into, ratio analysis, correlation and regression. For their study six public sector banks were selected. Despite several difficult challenges, the selected public sector banks have performed well on the sources of growth rate and financial efficiency during the study period. At last they concluded that the banks have to re-orient their strategies in the light of their own strengths and the kind of market in which they are likely to operate on. In the perspective of the domestic and international development, the banking sector has to chart out a perfect path for the development in its own.

RESEARCH DESIGN

Purpose of the Study

The basic purpose of the study is to understand and analyze the financial performance of the selected companies. The two selected groups of companies (i.e., NBFC's and banking companies) provide a variety of services at differential rates. Therefore, the study pertains to analyze the best performer among the selected companies and best group between the two groups within the particular period of 5 years (2007-2011.)

A subjective measure of how well a firm can use assets from its primary mode of business and generate revenues is known as financial performance. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Therefore, the profiles of NBFC's and Banking companies selected for the analysis pertaining to the particular study are as follows:

NBFC's

1. Bajaj Auto Finance (BAFL)
2. Reliance Capital Ltd. (RCL)
3. LIC Housing Finance Ltd. (LICHFL)

Banking Companies

1. Bank of India (BOI)
2. Central Bank of India (CBI)
3. Indian Overseas Bank (IOB)

OBJECTIVES

- To analyze and test the financial performance of the selected NBFC's. (NBFC's – BAFL, RCL and LICHFL)
- To analyze and test the financial performance of the selected Banks. (Banks – BOI, CBI and IOB.)
- To assess, test and analyze the financial performance of the selected NBFC's over the period of five years (i.e., from 2006 – 2007 to

2010 – 2011.)

- To assess, test and analyze the financial performance of the selected Banks over the period of five years (i.e., from 2006 – 2007 to 2010 – 2011.)
- To analyze the best performer within the groups and the best group of selected companies (i.e., either NBFC's or Banking Companies.)

HYPOTHESIS

1st Set of Hypothesis

Null Hypothesis: Ho1: There is no significant difference among the financial performance of the selected companies. (NBFC's and Banking Companies).

i.e., FP (BAFL) = FP (RCL) = FP (LICHFL) = FP (BOI) = FP (CBI) = FP (IOB)

Alternative Hypothesis: HA1: There is significant difference among the financial performance of the selected companies. (NBFC's and Banking Companies).

i.e., FP (BAFL) ≠ FP (RCL) ≠ FP (LICHFL) ≠ FP (BOI) ≠ FP (CBI) ≠ FP (IOB)

2nd Set of Hypothesis

Null Hypothesis: Ho2: There is no significant difference among the years of financial performance.

i.e., FP (06-07) = FP (07-08) = FP (08-09) = FP (09-10) = FP (10-11)

Alternative Hypothesis: HA2: There is significant difference among the years of financial performance.

i.e., FP (06-07) ≠ FP (07-08) ≠ FP (08-09) ≠ FP (09-10) ≠ FP (10-11)

RESEARCH METHODOLOGY

The study is descriptive and diagnostic in nature. Which is highly supported by hypothesis- testing and hence increases reliability but inferences are drawn about causalities and the study is fully based on secondary data.

DATA COLLECTION

This study is extensively based on the secondary data sources. The data is gathered from the published annual reports of the selected companies and web sites results. The study has considered six companies, (three banking companies and three NBFC's) that which are incorporated in India and all of them have been listed on the BSE and / or on the NSE.

SOURCES OF DATA

The study concentrates on the financial performance of the selected NBFC's and selected banks which are secondary sources procured and extracted from the financial statements covering a period of five years 2006-2007 to 2010-2011. Data of last five years are considered to be sufficient to have an idea about the past financial performance of the selected companies.

TOOLS FOR ANALYSIS

Two kinds of tools (statistical tools and financial tools) have been used to test and analyze the hypothesis. The tests have been conducted at 5% level of significance. The critical value of F with 5 and 25 degrees of freedom is 2.62 and the critical value of F with 1 and 8 degrees of freedom is 5.31.

Statistical tools used in the study: Different statistical tools like Arithmetic Mean, Correlation and Analysis of Variance (one way analysis), ANOVA has been used extensively. Arithmetic

Mean (AM) is an ideal measure of central tendency, which is rigidly defined, easy to calculate, based on all observation and affected least by fluctuations of sampling has been applied in this study. Another tool, Correlation, has been used to measure the degree of relationship between every two selected companies as well as the relationship between two years for analyzing the financial performance of the companies during the covered years of the study.

Analysis of Variance (ANOVA) is another tool that has been used to examine whether the financial performance of the selected companies differ significantly from various angles. It has been applied to test the differences of two or more means of independent samples.

Financial tools used in the study: Various kinds of financial ratios have been used to analyze the financial performance of the selected companies. These ratios are as follows: Per Share Ratios indicate how the Equity shares of the company are assessed in the capital market since the Earnings per Share 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); and (ii) Operating Profit per Share (OPPS).

Profitability Ratios assess the adequacy of profit earned by the companies. 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 the use of debt finance and help in assessing the risk arising from the use of debt capital. The ratios are as follows: (i) Long Term Debt/Equity (LTD/E) and (ii) Fixed Asset Turnover Ratio (LATR).

Liquidity Ratios measures the liquidity of the companies and their ability to meet the short-term financial obligation. The ratios are as follows: (i) Current Ratio (CR); and (ii) Quick Ratio (QR). Payout Ratios indicate the growth of the owners' equity as a result of retention policy. The ratios are as follows: (i) Dividend Payout Ratio (DPR); and (ii) Earnings Retention Ratio (ERR).

LIMITATIONS

- Only limited companies are selected for the study (i.e., 3- NBFC's and 3- Public Sector Banks).
- The period covered for the study is very short were the overall performance of the financial institutions cannot be concluded (2006-2007 to 2010-2011).

ANALYSIS AND INTERPRETATION

The tools such as Arithmetic mean, ANOVA with significance 5% and Correction are used to test and bring out the relationship between the selected groups of companies. The tables are inserted below to give a clear understanding and analyze the relationship between these groups.

HYPOTHESIS TESTING

1st Set of Hypothesis

Null Hypothesis: Ho1: There is no significant difference among the financial performance of the selected companies. (NBFC's and Banking Companies)

i.e., FP (BAFL) = FP (RCL) = FP (LICHFL) = FP (BOI) = FP (CBI) = FP (IOB)

Alternative Hypothesis: HA1: There is significant difference among the financial performance of the *selected companies. (NBFC's and Banking Companies)*

i.e., FP (BAFL) ≠ FP (RCL) ≠ FP (LICHFL) ≠ FP (BOI) ≠ FP (CBI) ≠ FP (IOB)

The above hypothesis supports Table 1, 2 and 3 and it also supports Tables 9 and 10.

Interpretations

Table 1, Table 2 and Table 3 contains the results of one way analysis of variance between every two selected companies at a time and the result show that out of 195 F values, 100 F values (*indicates significant difference) are significantly different, i.e., 51% of the cases, significant differences have been observed. In case of per share ratios, the differences between LICHFL and CBI, LIC and IOB, BOI and CBI, and BOI and IOB are significant. And the others are not fully significant. In case of profitability ratios, the differences among Bajaj and Reliance and BOI and IOB are not significant but in the other cases they are significant. In case of leverages ratios, the differences between Reliance and CBI, Reliance and IOB, BOI and CBI, and CBI and IOB are significant and all other cases are not significantly different. In case of liquidity ratios, the differences between Bajaj and LICHFL, and Bajaj and IOB are significant and all other cases the differences between other groups are not significant. Finally in case of payout ratios, the differences between LIC and BOI, and LIC and CBI are significant and not in other cases.

Therefore, for the majority of the ratios, the one way analysis between the companies shows significant differences.

Table 1: One Way Analysis Of Variance Between Every Two Selected Companies at a Time (Data Of 5Years-2007 To 2011) And (Critical Value Of F=5.317655)

RATIOS/COMPANY	B & R	B & L	B & BOI	B & CBI	B & IOB
Earnings per share –	0.026543	2.351526	1.482199	0.213855	0.185969
Operating profit per share	0.506188	6.636813*	1.324467	4.054891	4.272871
Operating margin –	69.23359*	180.1812*	40.1545*	72.86202*	35.53567*
Gross profit margin –	67.59567*	7.893642*	21.75784*	41.64903*	20.7352*
Net profit margin –	5.063364	12.2236*	0.459069	1.497894	0.173611
Return on net worth –	0.689489	20.16703*	11.70879*	12.03628*	8.41021*
Return on long term funds	2.10149	21.41936*	837.8606**	152.475*	334.1306*
Long term debt/equity –	0.411508	533.6109**	9.005006*	4.886826	9.005006*
Fixed asset turnover ratio –	0.228375	0.016452	0.483279	0.602945	0.451834
Current ratio –	17.18276*	126.7943*	254.3051*	251.6748*	28.10864*
Quick ratio –	3.886227	9.391039*	4.927223	5.140289	4.154574
Dividend payout ratio –	0.947886	0.12493	4.50664	3.053036	0.04094
Earnings retention ratio –	0.380087	0.372771	7.751799*	5.918973*	0.547341

Table 2: One Way Analysis Of Variance Between Every Two Selected Companies At A Time (Data Of 5Years-2007 To 2011) And (Critical Value Of F=5.317655)

RATIOS/COMPANY	R & LIC	R & BOI	R & CBI	R & IOB	LIC & BOI
Earnings per share –	3.227047	2.33841	1.066417	1.075816	0.399654
Operating profit per share–	11.458*	0.928848	10.71399*	12.68784*	13.49771*
Operating margin –	21.53511*	412.279*	649.7282**	331.9262*	1668.409***
Gross profit margin –	7.56E-08*	404.6559*	649.6626**	334.9908*	19.53043*
Net profit margin –	2.34145	4.500754	6.59532*	4.672159	23.00927*
Return on net worth –	13.66319*	7.07164*	7.029196*	4.941863	0.336442
Return on long term funds	1.240733	786.1833**	155.9336*	335.9224*	954.1296**
Long term debt/equity –	511.8139*	15.76736*	10.02098*	15.76736*	2643.307***
Fixed asset turnover ratio –	0.139502	3.325478	6.353311*	2.534904	0.402062
Current ratio –	0.262923	20.6899*	20.66847*	19.34835*	157.5998*
Quick ratio –	0.245538	0.005854	0.017508	0.018529	0.606683
Dividend payout ratio –	0.824329	2.215138	2.00486	0.778914	8.164852*
Earnings retention ratio –	0.629234	2.055293	1.840475	0.76068	13.16648*

Table 3: One Way Analysis Of Variance Between Every Two Selected Companies At A Time (Data Of 5Years-2007 To 2011) And (Critical Value Of F=5.317655)

RATIOS/COMPANY	LIC & CBI	LIC & IOB	BOI & CBI	BOI & IOB	CBI & IOB
Earnings per share –	8.158585*	8.529055*	9.838334*	11.2235*	0.016868
Operating profit per share	17.77452*	18.06996*	6.503585*	8.336962*	0.038368
Operating margin	5470.598***	990.0012***	14.43942*	0.008501	7.053228*
Gross profit margin –	24.04884*	19.67437*	14.31106*	0.044712	6.717527*
Net profit margin –	265.3851*	15.25386*	11.95609*	0.072528	5.135106
Return on net worth –	1.351889	0.161753	0.101028	0.000281	0.068275
Return on long term funds	161.5033*	364.9985*	15.52111*	2.268811	8.392993*
Long term debt/equity –	2495.171***	2643.307***	492.747*	0	492.747*
Fixed asset turnover ratio	0.535363	0.367792	8.528*	0.348708	7.55462*
Current ratio –	157.4158*	143.9286*	2.909091	12.60328*	12.20625*
Quick ratio –	0.150605	0.08651	0.059751	0.052669	0.000383
Dividend payout ratio –	5.523838*	0.000292	0.070736	3.028712	2.23286
Earnings retention ratio	8.475104*	0.14433	0.095254	3.283646	0.548183

2nd Set of Hypothesis

Null Hypothesis: Ho2: There is no significant difference among the years of financial performance.

i.e., FP (06-07) = FP (07-08) = FP (08-09) = FP (09-10) = FP (10-11)

Alternative Hypothesis: HA2: There is significant difference among the years of financial performance.

i.e., FP (06-07) ≠ FP (07-08) ≠ FP (08-09) ≠ FP (09-10) ≠ FP (10-11)

The above hypothesis supports Table 4, 5 and 6, which is again, further extended and supports other table as well such as Table 7.

Interpretations

Table 4, 5 and 6 shows the results of calculations of correlation between every two selected companies at a time. This indicates some specific characteristics of financial performance of the selected companies over a period of five years. In case of per share ratios, the correlation among Bajaj and BOI, CBI and Reliance andLICHFL, BOI, IOB, and BOI and IOB are highly positive and negatively related in other few cases. In case of profitability ratios, the relationship between Bajaj and CBI, Reliance and BOI, IOB are highly positive and few other cases moderately positive and certain groups negatively related. Leverages ratio, the relationship between Bajaj and BOI, CBI, IOB and Reliance, and BOI and LICHFL and BOI, IOB, and BOI and IOB are highly positive but low and negative for all other groups. The long term debts to equity ratio relations are neutral in some cases as Bank of India and Indian Overseas Bank do not have long tern debts over this period of study. In case of liquidity ratios, the

Table 4: The Correlation Between Every Two Selected Companies At A Time (Data Of 5 Years-2007 To 2011)

Correlation of Ratios (companywise)	B&R	B&L	B&BOI	B&CBI	B&IOB
Earnings per share –	-0.82622	-0.5788	0.150313	0.880869	-0.46208
Operating profit per share –	-0.07552	-0.52259	0.50569	0.907867	-0.1816
Operating margin –	0.071436	-0.74371	-0.25986	0.578726	-0.1493
Gross profit margin –	-0.64714	0.52647	0.061822	0.506864	-0.61207
Net profit margin –	-0.33031	0.797939	-0.68718	0.723885	-0.38597
Return on net worth –	-0.87347	0.318554	-0.70605	0.654184	-0.71492
Return on long term funds –	-0.37108	0.078851	-0.35671	0.057555	-0.30619
Long term debt/equity –	0.74609	-0.48923	0	0.56151	0
Fixed asset turnover ratio –	-0.74887	1	0.483354	0.396809	0.211252
Current ratio –	-0.48436	0.452358	-0.80102	-0.085	-0.0873
Quick ratio –	-0.41062	-0.77645	0.829765	0.924536	0.952103
Dividend payout ratio –	-0.33627	0.728222	0.545989	-0.11142	-0.17595
Earnings retention ratio –	0.743272	-0.49265	-0.09798	-0.30537	0.586487

Table 5: The Correlation Between Every Two Selected Companies At A Time (Data Of 5 Years-2007 To 2011)

Correlation of Ratios (companywise)	R&L	R&BOI	R&CBI	R&IOB	L&BOI
Earnings per share –	0.291468	0.252449	-0.97132	0.860415	0.196749
Operating profit per share –	0.659571	0.71588	0.076052	0.574322	0.010993
Operating margin –	-0.32642	0.150226	-0.46654	0.924823	-0.04355
Gross profit margin –	-0.8562	0.107938	-0.56053	0.922462	0.36114
Net profit margin –	-0.80176	0.23588	-0.05815	0.957088	-0.4409
Return on net worth –	-0.04898	0.912345	-0.87966	0.900392	0.229125
Return on long term funds –	0.619106	0.906651	0.328286	0.680131	0.337725
Long term debt/equity –	0.374992	0	-0.12337	0	0
Fixed asset turnover ratio –	-0.74887	0.163897	0.296716	-0.61371	0.483354
Current ratio –	-0.30274	0.284915	0.137076	-0.50369	-0.83267
Quick ratio –	-0.09667	-0.59588	-0.63425	-0.5422	-0.44776
Dividend payout ratio –	-0.77599	0.600039	-0.85886	0.97928	-0.05488
Earnings retention ratio –	-0.59174	0.57642	-0.84322	0.963274	-0.13003

Table 6: The Correlation Between Every Two Selected Companies At A Time (Data Of 5 Years-2007 To 2011)

Correlation of Ratios (companywise)	R&L	R&BOI	R&CBI	R&IOB	L&BOI
Earnings per share –	-0.24759	-0.01881	-0.077	0.561747	-0.8028
Operating profit per share –	-0.15498	0.018908	0.43375	0.662039	-0.3752
Operating margin –	-0.00871	-0.26907	-0.77418	-0.29866	-0.76221
Gross profit margin –	0.059063	-0.59043	-0.71679	0.443902	-0.8298
Net profit margin –	0.390149	-0.67984	-0.95953	0.470072	-0.27079
Return on net worth –	-0.4284	-0.23653	-0.94305	0.851449	-0.6984
Return on long term funds –	0.887912	0.817414	-0.06136	0.568415	0.586431
Long term debt/equity –	-0.88355	0	0	0	0
Fixed asset turnover ratio –	0.396809	0.211252	0.976347	-0.59762	-0.61231
Current ratio –	-0.27807	-0.66142	0.408248	0.585364	0.242628
Quick ratio –	-0.54308	-0.67284	0.969894	0.949879	0.984496
Dividend payout ratio –	0.474531	-0.72183	-0.82604	0.716514	-0.90161
Earnings retention ratio –	0.587511	-0.05674	-0.81309	0.704518	-0.89561

groups such as BOI and CBI, IOB and CBI and IOB are positively related and not so in other cases. Finally the payout ratios, the coefficient of correlation between Reliance and BOI, IOB and LICHFL and CBI and BOI and IOB are highly positive and moderate to negatively relate in all other cases.

Therefore, in most of the cases they are positively correlated with each other selected group of pairs of companies and a few others no correlation is found over a period of years.

The calculated F values are lower than the critical Value of F, which clearly indicates that there is no significant difference among the years regarding the financial performance.

Interpretation

Table 7 demonstrates that the earnings per share increased over the last five years. In 2006-2007, it was Rs. 21.57 and in the year 2010-2011 it went upto Rs. 31.38 per share. Here the mean shows the average rate of growth and the result does not show much variations. Operating profits per share was Rs. 52.67 which also increased to Rs. 101.29 and had a decline in the year 2010-2011 to Rs. 79.42, where inflation could be one of the reasons for this decrease. However, this did not show much variation from the mean results. Operating margin showed a slight declination in these five years and vice versa is the case of gross profit margin. But the net profit margin declined steadily from 22.87% to 12.80%. The rates of return on net worth and return on long term funds were affected marginally. The debt equity compositions i.e., the leverages ratios during the period were maintained almost unchanged. Whatever the case may be the result does not show many variations from the average

Table 7: Average Between The Years (Data of 5 Years From 2007 To 2011) With Critical Value of F

Ratios/years	2011-2010	2010-2009	2009-2008	2008-2007	2007-2006	AM	F
Earnings per share -	31.38333	29.8333	34.22	27.50833	21.575	28.904	**0.3902**
Operating profit per share	79.42	101.29	101.33	70.555	52.67	81.053	**0.3195**
Operating margin -	43.01833	39.5033	43.0166	41.62333	45.13	42.4583	**0.0196**
Gross profit margin -	42.36333	38.8516	42.3666	40.88	29.641666	38.8206	**0.1402**
Net profit margin -	12.80166	10.9633	14.885	17.57833	22.878333	15.8213	**0.6200**
Return on net worth-	15.83333	13.3283	17.2666	17.27	17.258333	16.1913	**0.2943**
Return on long term funds	70.52666	76.54	86.755	78.455	68.24	76.1033	**0.0576**
Long term debt/equity -	20.48833	21.0633	23.2316	22.35333	22.67	21.9613	**0.0033**
Fixed asset turnover ratio	4.878333	4.39333	3.685	3.441666	29.361666	9.152	**2.4995**
Current ratio -	4.476666	3.87166	6.685	4.81	6.0333333	5.17533	**0.1289**
Quick ratio -	18.54166	17.4216	13.0933	10.825	11.613333	14.299	**1.5626**
Dividend payout ratio -	29.07	29.37	21.3133	18.95	21.608333	24.0623	**0.9718**
Earnings retention ratio	59.075	70.0466	78.195	78.31333	77.791666	72.6843	**1.7480**

results as calculated therefore managing to have a steady pace between years.

The liquidity position was strengthened in the years 2007 to 2009 but then in the year 2010 to 2011 this position showed variations because of inflation and interest rates fluctuations. However the quick ratio had an increasing trend but current ratio (including loans) dipped down to 3.87% and 4.47% in the year 2010 and 2011, respectively. This could the result of increase in Repo rates which had an effect in this ratio. The dividend payout ratio increased from 18.95% to 29.07% over the years and earnings retention ratio went down from 77.79% to 59.07%, in the year 2007 to 2011, respectively.

Finally, it could be concluded from the tests that there is no much significant difference over the years of performances of the companies. Hence second set of hypothesis is proved.

Interpretation

Table 8 shows the interpretations made on the bases of ratio analysis in comparison to all selected companies with the averages found. The table indicates that the earnings per share of the selected companies vary from one company to company and on an average its shows Rs 19 per share of the company; however it ranges from Rs. 18.54 to Rs. 46.26 per share. LICHFL is the topper in EPS followed by BOI, Reliance cap, Bajaj Finance Ltd., IOB and CBI. In the field of operating profit per share, LICHFL is the highest earner and the next followed by Bajaj Finance Ltd., Reliance cap, BOI, CBI and IOB. From this it could be concluded that LICHFL has performed well in per share ratios.

Operating margin and gross profit margin of LICHFL are the highest among all selected

Table 8: Average Of Various Ratios Of The Selected Companies (Data Of 5 Years 2007 To 2011)

RATIO/COMPANY	Bajaj. Finance. Ltd	Reliance Cap	LICHFL	BOI	CBI	IOB	AM
Earnings per share -	23.996	26.124	**46.266***	**39.45**	18.542	19.046	28.904
Operating profit per share -	86.25	64.386	**230.752***	**51.594**	27.21	26.126	81.053
Operating margin -	41.388	79.596	**93.002***	**15.794**	9.43	15.54	42.4583
Gross profit margin -	36.834	**78.816***	**78.812**	**15.204**	8.642	14.616	38.8206
Net profit margin -	9.952	**36.284***	18.758	**11.848**	6.87	11.234	15.8243
Return on net worth-	7.13	10.436	**21.182**	**19.74**	18.852	19.806	16.191
Return on long term funds -	**13.316**	10.748	8.998	119.98	**172.61***	130.99	76.109
Long term debt/equity -	1.088	1.414	**10.758***	0	0.286	0	2.25766
Fixed asset turnover ratio -	**17.12***	8.884	**14.262**	5.216	3.824	**5.606**	9.152
Current ratio -	1.39	**15.456***	**13.63**	0.026	0.034	**0.522**	5.17633
Quick ratio -	6.004	15.406	**17.226***	15.092	15.99	**16.08**	14.2996
Dividend payout ratio -	23.73	**35.122***	**24.586**	17.712	18.504	**24.524**	24.0296
Earnings retention ratio -	71.804	63.676	**73.868**	**82.242**	81.308	75.208	74.6843

companies i.e., 93% and 78.81% respectively. But the net profit margin of RCL is the highest among those of selected companies. RONW of LICHFL is the highest but ROLTF of CBI is the highest among the selected companies. RONW ratio range from 7.13% to 21.18%, whereas ROLTF ratios range from 8.99% to 172.61%. Therefore, considering the majority even in profitability ratios, LICHFL has performed well.

Long term debt/ equity are the highest for LICHFL, this shows more the risk more the amount of profit made. Fixed asset turnover ratio of Bajaj finance ltd is the highest, i.e., 17.12% among those of the selected companies followed by LICHFL and least for CBI, i.e., 3.82%. However even in leverages ratio, LICHFL can be ranked high on considering the combinations selected.

Current ratio is the highest for Reliance cap ltd, followed by LICHFL and least for BOI. But quick ratio is the highest for LICHFL and least for Bajaj finance. However these two ratios of Bajaj finance ltd are smaller in comparison to those of other companies. Therefore here also it can be concluded that LICHFL is the best in terms of liquidity also.

Dividend payout ratio of Reliance cap Ltd. is better than other companies, i.e., 35.12% which is followed by LICHFL. Earnings retention ratio of BOI (82.24%) is the highest among all and range from 63.67% to 82.24%, with Reliance cap Ltd. in the lowest category. Whatever the case may be LICHFL is leading among the selected NBFC's in retaining the earnings.

Interpretation

From the Table 9, 10 and 11 depicts that only a few ratios out of thirteen ratios, computed value of F is less than the critical value of F at 5% level of significance. That means, for most of the ratios, it is found that the computed value of F is higher than the critical value of F. This shows that out of 13 ratios the calculated F values of 8 ratios are higher than the critical value. Therefore, the majority of ratios, the calculated value of F are higher than the critical value. Hence considering the majority, the null hypothesis is rejected in the first set of hypothesis. This indicates that most of the selected ratios for the study differ significantly among the companies. But all the calculated value of F (in the Table 7, last column) 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 second set of hypothesis, which means the alternative hypothesis which states there is significant difference among the years of financial performance is rejected.

Finally, it could be concluded from the tests that there is significant difference on the financial performances of the companies. Hence first set of hypothesis is proved.

FINDINGS

LICHFL is better than the other selected companies in terms of its position in the capital market, which is then followed by BOI. However in the selected companies, the selected NBFC's are showing better position in the capital markets than the selected banking companies. This means, the NBFC's have good reputation in the capital market because of its principle activities, whereas BOI is an exception to this, which shows a bit higher in capital markets among banking companies.

The banking companies like BOI, CBI and IOB are not so much levered companies since they do not have much of long term debts to equities

Table 9: One Way Analysis Of Variance Between Selected Companies (Data of 5 Years- 2007 To 2011) And (Critical Value Of F=2.620654)

RATIOS	ANOVA						
Earnings per share -	Source of Variation	SS	df	MS	F	P-value	F crit
	Between Groups	3245.126	5	649.03	**2.5797**	0.05278	2.620654
	Within Groups	6038.142	24	251.59			
	Total	9283.269	29				
Operating profit per share	ANOVA						
	Source of Variation	SS	df	MS	F	P-value	F crit
	Between Groups	147492.3	5	29498	**10.557***	1.9E-05	2.620654
	Within Groups	67060.18	24	2794.2			
	Total	214552.5	29				
Operating margin -	ANOVA						
	Source of Variation	SS	df	MS	F	P-value	F crit
	Between Groups	32307.34	5	6461.5	**258.88***	4.7E-20	2.620654
	Within Groups	599.034	24	24.96			
	Total	32906.38	29				
Gross profit margin -	ANOVA						
	Source of Variation	SS	df	MS	F	P-value	F crit
	Between Groups	26286.23	5	5257.2	**26.446***	5E-09	2.620654
	Within Groups	4770.991	24	198.79			
	Total	31057.22	29				
Net profit margin -	ANOVA						
	Source of Variation	SS	df	MS	F	P-value	F crit
	Between Groups	2893.756	5	578.75	**4.8661***	0.00326	2.620654
	Within Groups	2854.466	24	118.94			
	Total	5748.222	29				
Return on net worth-	ANOVA						
	Source of Variation	SS	df	MS	F	P-value	F crit
	Between Groups	864.3819	5	172.88	**5.8665***	0.00112	2.620654
	Within Groups	707.2464	24	29.469			
	Total	1571.628	29				

Table 9 (Cont.)							
RATIOS	ANOVA						
Return on long term funds -	ANOVA						
	Source of Variation	SS	df	MS	F	P-value	F crit
	Between Groups	134846.9	5	26969	**145.53***	3.9E-17	2.620654
	Within Groups	4447.551	24	185.31			
	Total	139294.4	29				
Long term debt/equity -	ANOVA						
	Source of Variation	SS	df	MS	F	P-value	F crit
	Between Groups	442.0857	5	88.417	**351.08***	1.3E-21	2.620654
	Within Groups	6.0442	24	0.2518			
	Total	448.1299	29				

as compared to the NBFC's like LICHFL, Reliance cap ltd and Bajaj finance Ltd. This is because NBFC's provides a variety of services and ventures into risky projects. Hence the risk taken by the banks are much lower than the NBFC's.

The liquidity position of BAFL is not good enough in comparison to other companies. However the liquidity position of Reliance cap Ltd. and LICHFL is better than those of other companies, which could be assessed as a good sound company for investment, hence the returns or the demand for cash could be easily liquidated.

In terms of dividend distribution, Reliance cap ltd is in a better position in comparison to other companies, followed by LICHFL and IOB.

LICHFL can be placed at a better position on considering the overall calculated profitability ratios. (i.e., the operating margin, gross profit margin, net profit margin and return on net worth is high for LICHFL and only in the case of return on long term funds, it is high for CBI).

On considering the overall performance, LICHFL has outperformed among all the other companies and in term of groups, NBFC's are doing well better than Banks.

From the tests conducted, it could be concluded that out of first set of hypothesis, alternative hypothesis is accepted i.e., null hypothesis is rejected. In case of the second set of hypothesis, null hypothesis is accepted, i.e., alternative hypothesis is rejected.

The selected companies differ significantly in terms of their financial performance indicators from one company to another. This may be for the different services they provide and the differential interest rates. There are no significant differences in the last five years in the management of financial performance of each of the selected companies, except marginal deviations in some cases.

Earnings per share of the selected companies increased over the last five years, whereas the operating profit per share of all companies showed an increasing trend from the year 2007 to 2010

Table 10: One Way Analysis Of Variance Between Selected Companies (Data of 5 Years- 2007 To 2011) And (Critical Value Of F=2.620654)

Fixed asset turnover ratio -	ANOVA						
	Source of Variation	SS	df	MS	F	P-value	F crit
	Between Groups	730.6337	5	146.13	**0.35**	0.87714	2.620654
	Within Groups	10019.3	24	417.47			
	Total	10749.94	29				
Current ratio -	ANOVA						
	Source of Variation	SS	df	MS	F	P-value	F crit
	Between Groups	1330.523	5	266.1	**25.127***	8.3E-09	2.620654
	Within Groups	254.1678	24	10.59			
	Total	1584.691	29				
Quick ratio -	ANOVA						
	Source of Variation	SS	df	MS	F	P-value	F crit
	Between Groups	426.3005	5	85.26	**1.9896**	0.11664	2.620654
	Within Groups	1028.472	24	42.853			
	Total	1454.772	29				
Dividend payout ratio -	ANOVA						
	Source of Variation	SS	df	MS	F	P-value	F crit
	Between Groups	970.6472	5	194.13	**1.4658**	0.23773	2.620654
	Within Groups	3178.61	24	132.44			
	Total	4149.257	29				
Earnings retention ratio -	ANOVA						
	Source of Variation	SS	df	MS	F	P-value	F crit
	Between Groups	1157.058	5	231.41	**1.4211**	0.2525	2.620654
	Within Groups	3908.258	24	162.84			
	Total	5065.316	29				

and depicted a slight dim in the year 2011. But somehow they managed to maintain the averages. Overall, the selected NBFC's have performed well in the last five years, as and when compared to the banking companies.

It is observed that there is a steady trend of soundness of financial performance among the companies in their respected groups (covered in the study, i.e., Bajaj Finance Ltd., Reliance Cap Ltd., LICHFL, BOI, CBI and IOB) observed for over the last five years (covered from 2006-2007 to 2010-2011.)

CONCLUSION

The conclusions made from the study are that:

The null hypothesis is rejected in the first set of hypothesis; this indicates that most of the selected ratios for the study differ significantly among the companies. Hence the financial performances of the companies differ. This implies that there is significant difference among the financial performances of the companies. Therefore Alternate Hypothesis *HA1* is accepted.

The null hypothesis is accepted in the second set of hypothesis; which means the alternative hypothesis which states there is significant difference among the years of financial performance is rejected. Therefore within years there are no much fluctuations in the performances. The companies are trying to maintain the standards and stable trends. Finally, it could be concluded that there is no difference in the years of performance which is moving in a steady pace. Hence Null Hypothesis *Ho* is accepted.

From the performances of the companies in terms of Ratios LICHFL is found to be the best performer among the selected companies and NBFC's have outperformed than the Banking companies. Therefore the study has aimed to fulfill the objectives.

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