INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, IT & MANAGEMENT

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   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

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THE GOLDEN ROUTE TO LIQUIDITY: A PERFORMANCE ANALYSIS OF GOLD LOAN COMPANIES

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ABSTRACT

Gold is a highly liquid asset and it was not until recently that consumers leveraged it effectively to meet their liquidity needs through the avenue of gold loan. In India, there has been an upsurge in the volume of gold loan among organised sector players viz. banks and Non Banking Financial Companies (NBFCs). The stigma attached to pledging gold is slowly thinning among people as it an effective assistant at the time of financial need. Over the years, the percentage share of gold loan NBFCs have increased in comparison to other players in the market for which the Reserve Bank of India has issued directives to control their activities. Accordingly, this paper endeavours to evaluate the performance and organizational health of the financial institutions, more specifically gold NBFCs, which are backed by gold jewellery as the main collateral. For interpretation of financial performance, various financial parameters in the form of ratios have been computed over a time-series data. Furthermore, for determining the influential factors with regard to the overall financial performance the technique of multiple regression analysis has been utilised. The findings of the analysis point out that the companies have heavier debt in their capital structure, aggressive lending policy, lower liquidity, decreasing net NPA ratio and higher trend of capital adequacy ratio. There exists a significant scope for growth in the gold loan market and the NBFCs can reap the benefits keeping in mind the possibility of sudden volatility of the gold prices and adhering to the RBI directives towards long-term financial benefits.

JEL CODE
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KEYWORDS
Gold loan, loan-to-value ratio, performance analysis.

1. INTRODUCTION

In India, gold has long been a valued commodity where it is considered auspicious, and has been in use for centuries in the form of jewellery, coins and other assets. In recent times it is considered to be a part of diversified investment portfolio because the general trend is increase in its price in comparison to other modes of investment and a suitable avenue of financing in times of need. This resulted in the rise of gold loan i.e. a loan taken against gold as a security. It is a short-term loan and is an old concept as people used to take loan from money lenders by pawning the gold jewellery. Recently, the gold loan market has started to be driven heavily by the organised segment. This paper concentrates on the banking and financial institutions in India providing gold loans. Therefore, an attempt has been made to evaluate the performance of the gold loan companies. So, the remainder of the paper is organised as follows. *Section 2* narrates the acceptability and position of gold loan in India. *Section 3* lays down the literature review. *Section 4* specifies the objectives of the study. *Section 5* states the sample selection and research methodology. *Section 6* puts forth the analysis and findings. Finally, *Section 7* concludes the paper.

2. GOLD LOAN IN INDIA

In India, gold loan has become popular in recent times. This type of loan is gaining a strong foothold due to less complicated documentation, tailor-made loan arrangements and lower processing time. The organized gold loan market has grown at a compound annual growth rate (CAGR) of 40% from 2002 to 2010 *[Source: Cognizant Report 2012]*. NBFCs have been a major driving force behind this growth given their extensive network, faster turnaround time, and the ability to serve non-bankable customers. With such a rapid growth of the NBFCs, the Reserve Bank of India (RBI) has issued various directives to strictly control their activities. NBFCs had been traditionally disbursing gold loans through funds received from banks under priority lending for the agricultural sector but on several occasions such money lent by the banks were misused. Accordingly, on 2nd February, 2011, RBI issued a directive that loans sanctioned to NBFCs for lending against gold jewellery, are not eligible for classification under agriculture sector. *[Source: http://www.rbi.org.in]*. This increased the cost of borrowing for the NBFCs. RBI on March 21, 2012 directed that all NBFCs shall maintain Loan-to-Value (LTV) ratio (the percentage of the value of gold collateral given out as loan) not exceeding 60% and disclose in their balance sheet the percentage of such loans to their total assets. Moreover, gold NBFCs have to maintain a minimum Tier I capital (*comprises of share capital and disclosed reserves minus goodwill, if any, Reserve Bank of India-Glossary*) of 12% by April 01, 2014. They should not grant any advance against bullion / primary gold and gold coins. The guidelines of RBI, though restrictive in the beginning but is expected to improve the overall performance of the gold NBFCs.

3. LITERATURE REVIEW

BusinessWire—A Berkshire Hathaway Company (August 2011) conducted a research on gold loan market in India and concluded that gold loan by banks or NBFCs has gained acceptance in recent years thus pushing its demand. A report by ***Cognizant (January 2012)*** pointed out that gold loan market in India is still under-penetrated and the government should frame suitable policies favoring its growth. ***ICRA Management Consulting Services Limited (IMaCS) (January 2012)*** captured the Gold Loans Market in India during 2010-12 and concluded on the growth and operational capabilities of banks and NBFCs in the changed regulatory environment. ***RNCOS Industry Research Solutions (June 2012)*** conducted a primary research to study the consumer behavior in the market and it was revealed that the consumer outlook towards gold loan is changing. Moreover, ***Reserve Bank of India (January 2013)*** in its study observed that gold loans have a causal impact on gold imports substantiating the emergence of a liquidity motive for holding gold. Furthermore, increase in gold prices appears to be one factor that increases the gold loans outstanding.

The research conducted till date in India has focused on various characteristics of the gold loan market but none of the studies taken up so far focused on the performance analysis of these institutions. Hence, in view of this research gap the present study assumes significance in Indian context.

4. OBJECTIVES OF THE STUDY

The study aims at analyzing the performance parameters of the institutions providing gold loan. More specifically, the present study is designed to carry out the following objectives:

(i) To evaluate the financial performance in respect to various aspects encompassing profitability, asset quality, liquidity, capital adequacy and managerial efficiency of the institutions.
(ii) To determine the factors influencing their overall financial performance.

5. SAMPLE SELECTION AND RESEARCH METHODOLOGY

The present study attempts to ascertain and interpret the financial position and organizational health of the institutions lending against gold jewellery. As the NBFCs have witnessed a rapid development over a few years so the study concentrates on the conduct of these companies. An analysis of various articles and research reports indicated that out of the various gold NBFCs (hereinafter companies) in India whose major business comprised of lending on the basis of gold as the collateral only three are significant in respect to the total percentage of share in the gold loan market viz. *Muthoot Finance, Manappuram Finance Limited and Muthoot Fincorp*. So the sample of the study comprises of these 3 companies in the absence of names and details of other small players in the market. The study is based on secondary data collected from *CMIE Prowess* database, the annual reports of the NBFCs as provided in their websites and the RBI website. The duration of the study-period is 6 years ranging from March 2007 till March 2012. For the first objective, relating to evaluation of financial performance, various financial parameters in the form of ratios have been computed over a time-series data and various statistical tools such as arithmetic mean, standard deviation, and co-efficient of variation (CV) have been applied on that data. The financial ratios which are mentioned as per the CAMEL rating system (*popular method to analyze banking performance developed in the early 1970s in USA*) have been considered for the selected NBFCs (*on-site inspection CAMEL pattern is applicable to NBFCs in the supervisory framework of RBI -Source: http://www.rbi.org.in*). As per the CAMEL system the ratios are divided on the basis of the broad category of *capital adequacy (C), asset quality (A), management capacity (M), earnings ability (E) and liquidity (L).* The various ratios under the main five groups (*compiled from Chartered Financial Analyst 2005*) are—

TABLE-1 RATIOS UNDER CAMEL RATING SYSTEM

Aspects	***Ratios***	
Capital Adequacy	1.	Capital Adequacy Ratio (CAR)
	2.	Debt-Equity Ratio
	3.	Advances to Assets
	4.	G-Secs to Total Investments
Asset Quality	1.	Gross NPAs to Net Advances
	2.	Net NPAs to Net Advances
	3.	Total Investments to Total Assets
	4.	Percentage Change in Net NPAs
Management Capacity	1.	Profit Per Branch
	2.	Total Advances to Total Deposits
	3.	Business per Employee
	4.	Return on Net Worth
Earnings Quality	1.	Operating Profit by Average Working Funds
	2.	Percentage Growth in Net Profit
	3.	Spread
	4.	Net Profit to Average Assets
	5.	Interest Income to Total Income
	6.	Non-Interest Income to Total Income
Liquidity	1.	Liquid Assets to Total Assets
	2.	G-Secs to Total Assets
	3.	Approved Securities to Total Assets
	4.	Liquid Assets to Demand Deposits
	5.	Liquid Assets to Total Deposits

Under *capital adequacy*, CAR is a measure of an institution's capital and expressed as a percentage of its risk weighted assets and a higher trend is desirable. At present, the sample companies have to maintain a minimum CAR of 15%. *Debt-equity ratio* is a measure of a company's financial leverage and preferably it should be maintained at 2. For *advances to Assets* a higher ratio is preferred. *G-Secs to Total Investments* indicates the risk involved in an institution's investment and increasing ratio means safer investments.

Under *asset quality*, a lower *Gross NPA to Net Advances* ratio indicates better quality of advances. A diminishing trend is acceptable for *Net NPA to Net Advances*. *Total Investments to Total Assets* indicates assets locked up in investments and a lower trend is desirable as investments does not form part of the core income of the institutions. For *percentage change in Net NPAs* data on Net NPA at beginning and end of the year is required and due to absence of such data the parameter has not been considered.

In respect to *management Capacity*, *profit per branch* measures the efficiency of the employee at the branch level. The sample NBFCs do not take deposits and accordingly, the ratio of *Total Advances to Total Deposits* has been modified to *Total Advances to Total Borrowings* and a higher ratio in this respect is advisable. The data on *business per employee* was not available so not considered in the study. However, another ratio has been computed to find out the contribution of the employees which is *total income to compensation to employees*. So, a higher ratio will signify the efficiency of the staff in earning better returns. *Return on Net Worth* measures how much profit a company generates with the shareholders' money.

With regard to *earnings* quality, due to unavailability of data in the secondary sources *operating profit by average working funds*, has not been considered. The *percentage growth in net profit* measures the trend of net profit. *Spread* is difference between the interest income and interest expended as a percentage of Total Assets and a gradually increasing trend is preferred. For *Net profit to average assets* (average of total assets in the current year and previous year) an augmentation in the trend is acceptable. *Interest income to total income* should be increasing which indicates efficient lending operations. In respect to *non-interest Income to Total Income* as the primary objective of any financial institution is extending loans and advances so a higher trend of this ratio is not preferable.

For *liquidity*, a higher *liquid assets to total assets* ratio signifies enhancement in liquidity. *G-Secs by Total Assets* measures the risk involved in the assets and a higher ratio is desirable. Investments in approved securities are not mandatory for non-deposit taking NBFCs and hence *approved securities by total assets* has not been considered (*Source: http://www.rbi.org.in*). The ratios of *liquid assets to demand deposits* and *liquid assets to total deposits* have not been examined as the sample NBFCs have not taken deposits over the sample period.

Furthermore, for analyzing the impact of the financial parameters on the overall performance of the gold loan companies, linear multiple regression technique has been utilised where three regression equations have been framed with profit/return, net worth and return on assets (ROA) as dependent variables and the CAMEL financial parameters as the independent variables. Here, an endeavour has been made to determine the composite impact and extent of influence of the financial ratios over the profitability, capital structure and operational efficiency (*measured with profit, net worth and ROA respectively)* of the companies. The regression analysis has been performed using SPSS software package. While setting the regression equation, certain ratios have not been included. The CAR ratio has not been included to maintain parity in the time-series analysis as data for it is available only for 5 years. Out of the two parameters, Gross NPA and Net NPA ratio, only the Net NPA ratio has been considered to avoid duplicity in the data. Apart from these two, the profit or income based ratios have not been considered as the objective is to determine the impact of return parameter on financial ratios. Thus, the regression equations have been framed with eight financial parameters.

6. ANALYSIS AND FINDINGS

TABLE-2 FINANCIAL PERFORMANCE INDICATORS OF GOLD LOAN NBFCs

	Parameters	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*Mean*	*S.D.*	*CV (%)*
Capital Adequacy										
1.	CAR	--	16.48	19.85	21.9	21.28	19.45	19.79	2.11	10.65
2.	Debt-Equity	6.03	5.85	5.11	5.85	6.28	5.69	5.80	0.39	6.79
3.	Advances to Assets	0.75	0.73	0.69	0.77	0.84	0.85	0.77	0.06	8.28
4.	G-Secs to Total Investments	0.439	0.490	0.333	0.002	0.003	0	0.21	0.24	111.43
Asset Quality										
1.	Gross NPA to Net Advances (%)	9.32	4.09	2.68	2.77	2.05	2.85	3.96	2.71	68.39
2.	Net NPA to Net Advances (%)	5.82	3.11	2.31	1.79	1.04	0.50	2.43	1.90	78.19
3.	Total Investments to Total Assets	0.012	0.007	0.003	0.022	0.005	0.010	0.010	0.007	69.30
Management Capacity										
1.	Profit per Branch	0.58	0.77	0.87	1.31	1.44	1.94	1.15	0.51	44.06
2.	Total Advances to Total Borrowings	0.97	1.00	0.96	0.99	1.03	1.05	1.00	0.03	3.45
3.	Total Income to Compensation to Employees	12.02	9.98	8.87	9.30	9.47	10.38	10.00	1.12	11.20
4.	Return on Net Worth	35.97	41	28.4	43.03	42.07	36.43	37.82	5.47	14.46
Earnings Quality										
1.	Percentage Growth in Net Profit	144.63	77.13	39.07	222.43	115.30	78.53	112.85	64.69	57.32
2.	Spread	0.134	0.133	0.126	0.125	0.106	0.110	0.122	0.012	9.610
3.	Net Profit to Average Assets	0.18	0.12	0.08	0.08	0.07	0.13	0.11	0.04	37.78
4.	Interest Income to Total Income	0.95	0.97	0.97	0.98	0.99	0.99	0.98	0.01	1.39
5.	Non-Interest Income to Total Income	0.023	0.015	0.014	0.006	0.003	0.005	0.011	0.008	69.36
Liquidity										
1.	Liquid Assets to Total Assets	0.14	0.18	0.25	0.17	0.13	0.11	0.16	0.05	30.15
2.	G-Secs to Total Assets	0.00789	0.00446	0.00054	0.00008	0.00003	0	0.00217	0.00330	152.13

Table-2 lays down the overall ratio of the sample companies, their mean, standard deviation and co-efficient of variation (CV). CAR has been computed for the period 2008-2012 as the disclosure of CAR became mandatory for the NBFCs through a notification of RBI dated 1st August 2008 (*Source: http://www.rbi.org.in*). Thus, it has been possible to compile the information only from 2008 onwards. The CAR has gradually increased depicting greater safety levels for the companies, the mean for which is 19.79 and CV 10.65%. CV denotes consistency of the particular ratio over the study period. *Debt-Equity ratio* has remained quite higher for the entire sample period, the mean being 5.80 with a CV of 6.79%. The ratio remained consistently on the higher level which has been indicated through the lesser CV. The high debt-equity ratio indicates that the companies have been aggressive in financing its growth with debt. A high use of debt can generate more earnings but is also associated with high risk as the cost of this debt financing may outweigh the return that the company generates. Thus, the companies have to strike a balance between the equity and debt usage. The sample companies have shown a higher trend to the *advances to assets ratio*. The average of the ratio is 0.77 with a low CV of 8.28%. The *G-Secs to total investments* ratio has revealed uneven movements over the sample period with 0.49 in 2008 to zero in 2012, with a mean of 0.21. CV of 111.43% indicates a high level of inconsistency in the investment pattern which, in turn has enhanced the riskiness of the investment portfolio of the sample companies.

Gross NPA to Net Advances (%) shows a gradually diminishing ratio with an average of 3.96%. The diminishing pattern of the gross NPA however, did not follow a steady and gradual movement as depicted by CV of 68.39%. After decreasing to the level of 2.05% in 2011 the ratio increased to 2.85% in 2012. This slight increase is attributed to the volatile nature of the gold price. RBI capped the LTV to 60% on March 21, 2012. Thus, the loans issued, before the directive, were with high LTV ratio (75%-90%) and were, in turn, the most vulnerable to default in case of even a small change in the price of gold. Such loans become vulnerable when the principal plus accrued interest surpasses the value of the collateral. Thus, the gross NPA ratio has enhanced to some extent in 2012 due to the sharp increase in the loans and advances coupled with high LTV ratio and volatility in the gold market. *Net NPA to Net Advances (%)* ratio has witnessed a decline over the sample period with a mean of 2.43 and a CV of 78.19%. The high CV signifies the non-uniformity in the downward movement of the ratio. However, the downward trend is a good sign for the sample companies and their loan portfolio. *Total investments to total assets* has gradually decreased over the years indicating that the sample companies have aggressively utilised the funds for the more profitable loans and advances. This amounts to higher return, better asset quality but is also conjoined with higher risk. The companies should focus the majority of their funds towards loans and advances but should also invest to keep a proper balance in the composition of their assets. The mean of the ratio is 0.010 and the CV is 69.30%. The magnitude of CV exhibits inconsistency in the level of investment.

Profit per branch has increased over the years having an average of 1.15. The growth in the ratio was not uniform in all the years and accordingly, the CV witnessed a high margin of 44.06%. Inspite of the variability in the trend the enhancement in the ratio denotes overall effectiveness of the management in controlling the affairs of the sample companies. *Total advances to total borrowings* has shown a consistent movement with a CV of only 3.45%. The ratio remained more or less balanced over the entire sample period with a mean of 1.00. In the years 2011 and 2012, the ratio has been 1.03 and 1.05 which indicates extensive lending out policy. This is a risky mechanism as it leads to concentration of majority of the funds to loans and advances and in case of default it will bestow heavy risk on the part of all the stakeholders. Moreover, it also puts a burden on the CAR of the companies as can be witnessed from the reduced CAR in the respective years. Thus, the sample companies should be more prudent in utilizing the available funds in a more balanced way. *Total income to compensation to employees* after decreasing in the first three years gradually witnessed an augmentation in the following years. The mean of the ratio is 10.00 and the CV of 11.20% exhibits more or less congruency in the movement of the ratio. The diminution in the ratio in the earlier years suggests the inability of the management and its staff to cope up with the increasing competition and balancing the regulatory hurdles. However, the ascent in the ratio thereafter, indicates the capability of the employees to not only restore the profit position but also lead to its augmentation. *Return on net worth* has an average of 37.82 and a CV of 14.46%. Lesser co-efficient of variation signifies greater consistency over the study period. The return has been as high as 43% in 2010 to 28% in 2009. The ratio decreased heavily in 2009 as the sample companies witnessed a gradual decline in their profit. This fall can be attributed to the RBI directive on 1st August, 2008 which mandated maintenance and disclosure of CAR in the balance sheet which had put the NBFCs to a safer zone but in the preliminary stages squeezed their profits. However, in the later years the sample companies managed to put up their return on net worth at a higher level.

Percentage growth in net profit has an average of 112.85 with a CV of 57.32%. The escalated co-efficient of variation indicates that there is incongruity in the data over the years. The net profit growth decreased heavily in the year 2009 and also once again in the year 2012. The reason for the abrupt plunge in the growth of return is the directives issued by RBI. First of all, RBI issued a notification in 2008 as a result of which the profits tumbled and accordingly the growth ratio and even the return on net worth. Thereafter, RBI issued another regulation in 2012 by way of which most importantly, the LTV has been restricted to 60%. So such stringent guidelines made the profit to plummet down and depict an inconsistency in the growth ratio. However, in the long run the stricter norms would enable the sample companies to keep up a better return while at the same time reducing the concomitant risk for the stakeholders and ultimately improving the overall financial position of the institution. The *spread* have a mean of 0.122 and a CV of 9.610%. The co-efficient of variation signifies that there has been a more or less steady movement in the ratio. In the years 2011 and 2012, the fund-based expenses increased heavily on account of the accession in borrowings made by the sample companies which ultimately reduced the difference between the income earnings and the income expenditure. Thus, the companies with low spread and high advances to borrowings ratio should resist from opting hawkish financing technique which will in turn put a pressure on its

ultimate return. *Net profit to average assets* ratio shows an irregular trend and portrays high variation as indicated by the CV of 37.78%. The ratio has shown comparatively similar movements with that of the net profit growth percentage. The *interest income to total income* ratio has displayed a uniform movement over the various years with a minimum CV of 1.39% and a mean of 0.98. There has been a downfall in the *non-interest income to total income* ratio which is a preferable trend. The average of the ratio is 0.011 with a high CV of 69.36% which indicates inconsistency in the movement of the data.

Liquid assets to total assets ratio experienced a decline from 2010 onwards. The average is 0.16 while the CV is 30.15%. The high CV indicates inconsistency in the data over the sample period. Not only there is incongruity but also the ratio has indicated diminution in the liquidity level which is not a prospective sign. In respect to *G-Secs to Total Assets*, mean is low of 0.00217 associated with very high CV of 152.13%. The sample companies have invested very meagre amounts in G-Secs, considered to be the safest investment avenue. The investment pattern is highly irregular and not a prospective sign for liquidity. In order to maintain a steady level of performance the companies also have to strengthen their liquidity position and set right the balance of the composition of their assets which can ultimately prove to be a boon for their financial well-being.

The findings of the regression analysis have been exhibited in *table-3*.

TABLE-3: REGRESSION RESULTS (DEPENDENT VARIABLE: PROFIT)

Dependent Variable: Natural Log of Profit After Tax (Rs. in Million)		
Independent Variables	***Standardized Coefficients Beta***	***t values***
Debt-Equity Ratio	-.209	-.963
Advances to Assets	1.672	1.883
G-Secs to Total Investments	-.092	-1.308
Net NPA (%)	-.132	-1.729
Total Investments/Total Assets	-.018	-.321
Total Advances to Total Borrowings	-.629	-.787
Liquid Assets to Total Assets	.273	1.897
G-Secs to Total Assets	.081	.852
R Square	0.99	
Adjusted R Square	0.98	
Durbin-Watson	1.026	

The overall explanatory power of the variables is 98% (Adjusted R Square) which is quite high in measuring the goodness of fit. Out of the 8 variables in the regression analysis, *advances to assets, liquid assets to total assets and G-Secs to Total Assets* have a significant positive relation with profitability. This indicates that increasing loans and advances and better liquidity would increase profits. Furthermore, G-Secs to Total Assets also has a positive relation with the dependent variable. On the other hand, *G-Secs to Total Investments* have a negative relation with profit. This means that the companies should aim at increasing the G-Secs investments coupled with increase in other avenues of investments which will enhance both liquidity and profitability. A negative relation has been witnessed in respect to *Net NPA ratio, Debt-Equity ratio, Total Investments to Total Assets and Total Advances to Total Borrowings*. The debt-equity ratio of the sample companies were very highly leveraged which led to deterioration in the profit. Total Investments to Total Assets is negatively related to profitability which indicates that higher loans and advances increase the profit. In respect to Total Advances to Total Borrowings, a higher trend in the ratio is preferable but a ratio of more than 1.00 signifies heavy risk and declination in profit. Accordingly, a negative co-efficient provides a forewarning to take necessary steps for restricting the proportion of advances over borrowings to a profitable limit.

TABLE-4: REGRESSION RESULTS (DEPENDENT VARIABLE: NET WORTH)

Dependent Variable: Natural Log of Net Worth (Rs. in Million)		
Independent Variables	***Standardized Coefficients Beta***	***t values***
Debt-Equity Ratio	-.280	-2.038
Advances to Assets	1.707	3.042
G-Secs to Total Investments	-.073	-1.654
Net NPA (%)	-.128	-2.660
Total Investments/Total Assets	-.021	-.616
Total Advances to Total Borrowings	-.592	-1.173
Liquid Assets to Total Assets	.269	2.958
G-Secs to Total Assets	.066	1.091
R Square	0.996	
Adjusted R Square	0.992	
Durbin-Watson	0.988	

The overall explanatory power of the variables is 99.2% (Adjusted R Square). In respect to this model also the ratios of *advances to assets, liquid assets to total assets* and *G-Secs to total assets* have a positive relation with the net worth. Thus, this analysis reiterates the point that the sample companies should enhance their loans and advances, improve the liquidity position of their balance sheet and increase their investments in G-Secs. However, the investment in G-Secs should also be accompanied with increase in the investment in other avenues as the dependent variable has exhibited a negative relation with *G-Secs to Total Investments*. *Debt-Equity ratio, G-Secs to Total Investments, Net NPA, Total Investments to Total Assets* and *Total Advances to Total Borrowings* have showed a negative relation. Thus, the companies should check these ratios to achieve better overall performance.

TABLE-5: REGRESSION RESULTS (DEPENDENT VARIABLE: ROA)

Dependent Variable: Return on Assets (ROA)		
Independent Variables	***Standardized Coefficients Beta***	***t values***
Debt-Equity Ratio	-.350	-.905
Advances to Assets	1.340	.847
G-Secs to Total Investments	-.056	-.419
Net NPA (%)	.109	.837
Total Investments/Total Assets	.065	.624
Total Advances to Total Borrowings	-.609	-.424
Liquid Assets to Total Assets	.435	1.754
G-Secs to Total Assets	.163	1.000
R Square	0.963	
Adjusted R Square	0.933	
Durbin-Watson	1.685	

The overall explanatory power is 93.3% (Adjusted R Square). The ratios which indicate a negative relation with the dependent variable are *Debt-Equity ratio, G-Secs to Total Investments and Total Advances to Total Borrowings*. As the increasing trend of these ratios tends to reduce the profitability of the companies so they also bear a negative impact on the ROA parameter. *Advances to Assets* and *G-Secs to Total Assets* have a significant positive relation with the dependent variable. *Total Investments to Total Assets* has exhibited a positive relation with the dependent variable as though increase in the ratio decreases the profit slightly but a corresponding increase in advances increases the overall ROA. *Net NPA ratio* has depicted a meagre positive relation as though NPA ratio has increased but the overall return on assets has also increased due to the growth in other components of assets which ultimately have led to the augmentation in the dependent variable.

7. CONCLUSION

FINDINGS OF THE ANALYSIS

- As is apparent from the study the sample companies have been able to maintain the CRR at a higher level. However, with the stricter provisions imposed by RBI, the companies have to maintain a minimum Tier 1 capital of 12% by April 1, 2014. Accordingly, the companies have to improve their paid-up capital base not only to comply with the norms but also to provide support and assurance to the lenders.
- The companies have resorted to financing through heavier debt in its capital structure. Such a high ratio makes the business risky because it has to meet heavier amount of principal and interest. Thus, the companies should endeavour to make a balance between debt and equity.
- The companies have extensively increased their loans and advances over the years as evident from *advances to borrowings* and *advances to assets* ratio. Though increment in advances increases the return but the companies should also improve its liquidity position and investment structure.
- The gross NPA and net NPA ratio have depicted a decreasing trend over the sample period and hence has its impact on the overall financial performance of the companies.
- In some years the companies have lent out more than its borrowings thereby increasing the pressure on its capital base. Thus, the companies should curtail on its extensive lending policy to ameliorate the high risk attributed as a result of it.
- The sample companies have not exhibited an impressive trend of the *liquid assets to total assets* ratio. Thus, in order to make the company more financially secure in the short-term the proportion of liquid assets should be increased along with advances.
- According to RBI, gold NBFCs has to maintain LTV not exceeding 60%. In order to cope with it NBFCs resorted to a liberal valuation of collateral to include making charges and also tax. For e.g. if the gold is valued at Rs 100, a loan of Rs 70 was possible. Now, the loan is given on the replacement cost (e.g. Rs. 123) and 60% of Rs 123 is greater than 70% of Rs 100 *[Source: The Economic Times, September 22, 2012]*. But the companies should deter themselves from this activity as these guidelines might moderate the growth and impact the profitability in short term but in the long term they are expected to improve the sector's performance. Thus, along with LTV, a proper interpretation of the valuation of the collateral is necessary.

Over the years the gold loan market has surged tremendously especially among the gold loan NBFCs. Their performance has also shown considerably better results but the reducing liquidity, extensive debt financing, high LTV ratio prior to RBI norms and aggressive lending policy has kept the companies to the edge on account of high risk involved. Thus, the gold companies should not operate on the belief that gold prices do not collapse, as evidenced from the fall in gold prices since April 2013, and accordingly, should improve its lending policies, enhance its liquidity, try to achieve a balanced capital structure so that any volatility in the market will not impact the overall performance and can serve as an assurance to the stakeholders.

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