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DETERMINANTS OF FINANCIAL PERFORMANCE - A STUDY OF NBFC

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ABSTRACT
The study aims to find out the determinants significantly affecting the firm's financial performance in NBFC (NSIC), for the period of 2011 -2012 to 2015-2016. The researchers used regression results. The dependent variable was Return on Investment (ROI) as a measure of firm's financial performance while the independent variables were leverage, growth, firm's size, risk, tax, tangibility, liquidity and non-debt tax shield. The firm's performance in non-banking financial sector is significantly affected by short-term leverage, size, risk, tax and non-debt tax shield while taking long term leverage as first independent variable, the leverage becomes significant along with tax factor. The financial sector should consider the above said factors because these factors significantly increasing or decreasing firm's financial performance. The findings of the current research are limited and applicable to only NBFC-National Small Industries Corporations Ltd. In addition, the researcher used ROI as measure of firm's financial performance while the future research can have ROA, ROE, EPS etc. as firm's financial performance.

KEYWORDS
NDTS, leverage, return on investment, liquidity, tax.

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INTRODUCTION
Financial performance refers to the act of performing financial activity. It refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

LITERATURE REVIEW
Halpern P, Weston F & Brigham E. (1998) refers to a company's growth measured by growth rates that are designed to indicate the firm's ability to maintain its market share when the economy and industry are in a period of expansion. Most representative indicators that reflect a company's growth would be, in the authors' view the following: turnover, net profit, earnings per share and dividend yield.

Colasse B (2009:54) defines the state of "company's growth" as "the company's capability to increase its size; it can be measured by using several criteria such as: turnover, production, value added, fixed assets, total assets'.

Yoon, Eunju et al., [2] research association between return on equity (ROE), financial leverage and size of firms in the restaurant industry for the period 1998 to 2003. First, it was assumed that vastly leveraged restaurant firms have lower profitability, but the researcher failed to hold the outcomes. On the basis of market and accounting it was accomplished that high financial leverage firm were fewer amount of risk. The investigator has used financial leverage as autonomous and firm volume is reliant variable.

According to Chandra (2001), normally a high liquidity is considered to be a sign of financial strength, however according to aNeto (2003), a high liquidity can be as undesirable as a low. This would be a consequence of the fact that current assets are usually the less profitable then the fixed assets. It means that the money invested in current assets generates less returns then fixed assets, representing thus an opportunity cost.

OBJECTIVE
To study the financial performance of NBFC.

HYPOTHESES
The hypotheses developed and tested are as follows:

On the basis of above table the relationships between dependent and independent variables have been developed in the following hypothesis:

H1: Leverage (short & long term) should have a negative impact on firm's performance.
H2: Growth should have a positive impact on firm's performance.
H3: There should be a positive relationship between risk and firm's performance.
H4: There should be a positive relationship between tax and firm's performance
H5: Tangibility should have a positive relationship with firm's performance.
H6: Liquidity should have a positive relationship with firm's performance.
H7: There is a positive relationship between Non-debt tax shield and firm's performance

RESEARCH METHODOLOGY
The study covers data provided by Annual reports of NSIC. The data used for the present study includes secondary data, which was collected from official websites of NSIC. The other dimension of financial performance was by use of Simple Regression

DATA COLLECTION
Data has been collected from annual reports of all the National Small Industries Corporation.

ANALYSIS

TABLE 1: SUMMARY REPORT OF VARIABLES

YEARS	ROI	TOTAL DEBTS	GROWTH	RISK	TANGIBILITY	LIQUIDITY	NON DEBT TAX SHEETS	TAX
2011-2012	0.0357	117742.23	0.3028	1.460	0.085	1.241	0.0671	0.315
2012-2013	0.0453	146421.21	0.2071	1.494	0.0437	1.272	0.0463	0.324
2013-2014	0.0454	182624.55	0.1829	1.513	0.0417	1.290	0.0463	0.337
2014-2015	0.0426	224513.04	0.1851	1.4966	0.0391	1.251	0.0442	0.331
2015-2016	0.0467	241275.13	0.0854	1.550	0.0510	1.234	0.048	0.353

Source: Annual Reports of NSIC (www.nsic.co.in)

TABLE 2: REGRESSION RESULTS

Model	Unstandardized coefficients		Standardized coefficients	T	sig
GROWTH	.000	.000	-.937	-4.661	.019
NDTS	-.414	.126	-.884	-3.278	.047
LIQUIDITY	-.002	.005	-.260	-.467	.672
TANGIBILITY	-.198	.072	-.847	-2.765	.070
TAX	.239	.113	.774	2.116	.125
RISK	.115	.041	.854	2.844	.065
LEVERAGE	-.017	.003	-.944	-4.945	.016

a. Dependent Variable: ROI

RESULT

TABLE 3

DEPENDENT VARIABLE		
ROI	EBIT/TOTAL ASSETS	
INDEPENDENT VARIABLES		
variables	Description	Expected signs
Leverage	Total debt/total assets	Positive& significant
Growth	Change in assets/initial year assets	Negative& significant
Risk	EBIT/earnings after interest and tax	Positive& significant
Tax	Current year tax/earnings before tax	Positive& non-significant
Tangibility	Fixed assets/total assets	Negative& significant
Liquidity	Current assets/current liabilities	Positive& non-significant
NDTS	EBIT+depreciation/total assets	Negative& significant

Hypothesis: 1 ROI and Leverage

Leverage is significant at 5% level of significance and showing positive relationship which rejects the 1st hypothesis.

Hypothesis: 2 ROI and Growth

Growth is not significant at 5% level and showing negative relationship, which rejects the 2nd hypothesis. However, the negative relationship between growth and firm's performance is consistent with the similar findings of previous researchers Zeitun and Tian (2007) while the other researchers like Krishnan and Moyer (1997), Onaolapo and Kajola (2010), Memon, Bhutto and Abbas (2010) found positive relationship between firm's performance and growth.

Hypothesis: 3 ROI and Risk

This positive relationship between risk and firm's performance is also consistent with the previous researchers who found the same relationship like Memon, Bhutto and Abbas (2010) and Krishnan and Moyer (1997).

Hypothesis: 4 ROI and tax

Tax is significant at 5% level in sector and accepts 5th hypothesis it is also consistent with the similar findings by Krishnan and Moyer (1997), Memon, Bhutto and Abbas (2010) and Zeitun and Tian (2007).

Hypothesis: 5 ROI and tangibility

Tangibility is significant at 5% level of confidence. It means that tangibility play a significant role for firm's performance in sector.

Hypothesis: 6 ROI and Liquidity

Liquidity is not significant at 5% level significance in sector. It has positive relationship with firm's performance in sector that accepts the 7th hypothesis.

Hypothesis: 7 ROI and NDTS

The non-debt-tax shield (depreciation) is significant at 5% level with negative relationship and rejects 8th hypothesis. It means that non-debt tax shield plays an important and significant role for increasing firm's performance in sector.

CONCLUSIONS

The current research findings empirically implies that the companies in financial sector has to make their policies by considering growth, firm's size, tangibility, and non-debt tax shield (depreciation) in order to strengthen their performance. Short term leverage decreases performance significantly so the firms should avoid short term leverage while all other factors increases firm's performance in financial sector.

LIMITATIONS AND SUGGESTIONS

The current study is limited and applicable to non-banking financial corporation-NSIC only. The researcher used book value measure for dependent and independent variables. The future research on firm's performance may be made through market value measures like Tobin's Q etc. The future research may also be conducted on financial sector using the same models and variables.

SCOPE FOR FURTHER RESEARCH

The researcher used ROI as measure of firm's financial performance while the future research can have ROA, ROE, EPS etc as firm's financial performance.

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