

Research Paper



PERFORMANCE EVALUATION OF INVESTMENT COMPANIES IN INDIA

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ABSTRACT

Investments are an important factor in the profitability of the investment firms. The investment performance of the fund assets is the most important factor in determining whether the fund will be able to deliver on the retirement benefits or whether there will be a sufficient amount accumulated for an adequate replacement of income. Portfolio refers to the approaches that are applied to the efficient portfolio management in order to generate the highest possible returns at lowest possible risks. This term is also used as a general measure of a firm's overall growth 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. The aim of this study was to establish the performance evaluation of investment companies in India. It is being measured by the macro-economic variables like Return on Assets, Return on Equity, Return on Capital Employed, Earnings per Share, Size of the Company and Return on Net worth. The investment companies namely Muthoot Finance, L & T Finance, Bajaj Holdings, Bajaj Financial Services, and Max financial are being used in this study. The secondary data was collected from the financial statements of Companies using the annual data from 2007-2008 to 2016-2017. Data were analysed by using statistical tools. In this study the performance of Bajaj holdings and Bajaj financial services serves to be high in return on investment. It is found that return on asset has a positive relationship with other independent variables (Return on Equity, Return on Capital employed, Earnings per Share, Size of the company, and Return on net worth).

KEYWORDS: Muthoot Finance, Return on Assets, Return on Equity, Return on Capital

INTRODUCTION

An investment strategy is a set of rules, behaviours or procedures, designed to guide an investor's selection of an investment portfolio. Individuals have different profit objectives, and their individual skills make different tactics and strategies appropriate. The objectives of this service are to help the unknown investors with the expertise of professionals in investment Portfolio Management. Some choices involve a trade-off between risk and return. It explains how portfolio hedges risk in investment and gives optimum return to a given amount of risk. It also deals with the different investment decisions made by different people and focuses on element of risk in detail while investing in securities. It also gives an in depth analysis of portfolio creation, selection, revision and evaluation. Holding a portfolio is part of an investment and risk-limiting strategy called diversification. By owning several assets, certain types of risk (in particular specific risk) can be reduced. Selection involves deciding what assets to purchase, how many to purchase, when to purchase

them, and what assets to divest. These decisions always involve some sort of performance measurement, most typically expected return on the portfolio, and the risk associated with this return (i.e. the standard deviation of the return). Typically the expected returns from portfolios, comprised of different asset bundles are compared. The growth and development of the company is the Subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall growth 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.

REVIEW OF LITERATURE

Chashmi NA and Fadaee M based on his study "Impact of Financial Performance and Growth Opportunities on Success or Failure of Companies: Evidence from Tehran Stock Exchange" examined that the impact of the financial performance and growth opportunities on success or failure



of listed companies in The Tehran Stock Exchange. It measures the financial performance (including earnings per share, return on equity rate, and return on assets rate), and the growth are considered. The main idea to formulate the hypothesis is that there is a significant relationship between the measures of discussed financial performance and growth opportunities and success or failure. Studied sample includes 115 listed companies in The Tehran Stock Exchange during the 7-years period (2006-2012). In order to analyze the data, were used Pearson correlation coefficient and multiple regressions. The results showed that there is significant relationship between earnings per share (EPS) and the rate of return on assets (ROA) with success or failure, but there is no significant relationship between rate of return on equity (ROE) and success or failure, and there is no significant relationship between growth opportunities and success or failure.

Dr.Kuberudu Burlakanti based on his study “Performance Evaluation of Select Equity Funds in India” examines that there are several mutual fund schemes in each segment like equity, debt, gilt and liquid funds, out of which equity segment is flourished and most of the investors are attracted towards equity mutual fund schemes. Hence Present study is an attempt of identifying risk and returns of equity funds and comparing the same with bench mark returns and peers to help mutual fund investors in choosing better funds as investment avenues. Secondary data were obtained from published reports and websites like amfiindia and money control. The Tools used for analysis are statistical and evaluation techniques were used for analysing the data. Some of the tools were Average Growth Rate (AGR), Compounded Annual Growth Rate (CAGR), Standard Deviation, Beta, Sharpe Index model, Treynor model etc. The Period of the Study is from Dec, 2007 to Dec, 2012.

Husain Ashraf S and Nikita Kumari based on their study “An Evaluation of Investment Performance of Private Life Insurance Industry in India” examines that the study utilizes two inputs (shareholders’ investments and policyholders’ investments) and two outputs (net returns on investments to the shareholders and net returns on investments to the policyholders). This study focuses upon 20 private life insurance companies operating in India over a period of 4 years from 2010-11 to 2013-14. Data Envelopment Analysis

(DEA) model is used to provide valuable information on investment efficiency of private life insurance industry in India. Since this study attempts to maximize output, an output oriented DEA model is used. The study finds that investment efficiency of private life insurance industry has improved on Banker, Charnes and Cooper (BCC) model and Charnes, Cooper and Rhodes (CCR) model.

STATEMENT OF THE PROBLEM

The investment performance of the fund assets is the most important factor in determining whether the fund will be able to deliver on the retirement benefits or whether there will be a sufficient amount accumulated for an adequate replacement of income. Portfolio management involves deciding what assets to include in the portfolio, given the goals of the portfolio owner and changing economic conditions. Selection involves deciding what assets to purchase, how many to purchase, when to purchase them, and what assets to divest. Some Investors are more risk averse than others. Based on the above setting the researcher has attempted to find out the answers for the following research questions

- How far the select firm specific variables influence the performance of Investment Companies?

OBJECTIVES OF THE STUDY

- To analyze the performance of investment companies
- To determine the effects of firm specific variables on performance of investment companies.

METHODOLOGY

The study is empirical in nature. The data is secondary and sourced from moneycontrol.com. For the purpose of this study, the firm specific variable namely Return on Assets, Return on Equity, Return on Capital employed, Earnings per Share, Size of the company, and Return on net worth has been selected from the period 2007-2008 to 2016 - 2017. This paper investigates the performance evaluation of investment companies. Descriptive statistics and Panel data regression analysis is used in the study. Panel data analysis is a statistical method, widely used in econometrics to analyze two dimensional typically cross sectional and longitudinal panel data. The data are usually collected over time and over the same individuals and then a regression is run over these two dimensions.

ANALYSIS AND DISCUSSION

Table 1 Annual Growth Rate of Muthoot finance from 2007-2008 to 2016-2017

| | ROA | ROE | ROCE | EPS | SIZE | RON |
|-------------|------|-------|-------|-------|------|-------|
| Mean | 3.21 | 19.75 | 15.22 | 22.93 | 4.06 | 18.17 |
| Median | 2.97 | 19.52 | 14.81 | 20.99 | 4.06 | 18.1 |
| Std. Dev. | 0.63 | 6.28 | 1.65 | 5.19 | 0.02 | 5.35 |
| Skewness | 0.29 | 0.98 | -0.05 | 0.20 | 0.02 | 0.87 |
| Kurtosis | 1.41 | 2.59 | 1.86 | 1.54 | 2.37 | 2.48 |
| Jarque-Bera | 0.59 | 0.84 | 0.26 | 0.47 | 0.08 | 0.69 |
| Probability | 0.74 | 0.65 | 0.87 | 0.78 | 0.95 | 0.70 |

Source: compiled and calculated from moneycontrol.com

Table 1 reveals the performance of muthoot finance from 2007-2008 to 2016-2017. The mean value of Earnings per share shows the highest of 22.93 and lowest mean value of 3.21 on Return on assets and the standard deviation of 6.28

on Return on equity respectively. All the variables are positively skewed except ROCE. The growth of all the variables exhibits platykurtic kurtosis. The Jarque-Bera shows the positive normal distribution of elements during the study period.



Table 2 Annual Growth Rate of L & T from 2007-2008 to 2016-2017

| | ROA | ROE | ROCE | EPS | SIZE | RON |
|-------------|-------|------|--------|------|------|------|
| Mean | 21.28 | 7.72 | 5.00 | 1.08 | 1.96 | 5.13 |
| Median | 20.61 | 7.41 | 5.07 | 0.88 | 1.86 | 4.27 |
| Std. Dev. | 1.02 | 1.91 | 1.31 | 0.44 | 0.24 | 2.20 |
| Skewness | 0.60 | 0.22 | -0.012 | 0.89 | 0.94 | 1.01 |
| Kurtosis | 1.59 | 1.56 | 2.32 | 2.30 | 2.38 | 2.50 |
| Jarque-Bera | 0.71 | 0.46 | 0.09 | 0.76 | 0.82 | 0.91 |
| Probability | 0.69 | 0.79 | 0.95 | 0.68 | 0.66 | 0.63 |

Source: compiled and calculated from moneycontrol.com

Table 2 depicts the performance of L & T from 2007-2008 to 2016-2017. The mean value of Return on assets shows the highest of 21.28 and lowest mean value of 1.088 on earnings per share and the standard deviation of 2.20 on Return on net

worth respectively. All the variables are positively skewed except Return on capital employed. The growth of all the variables exhibits platykurtic kurtosis. The Jarque-Bera shows the positive normal distribution of elements during the study period.

Table 3 Annual Growth Rate of Bajaj Holdings from 2007-2008 to 2016-2017

| | ROA | ROE | ROCE | EPS | SIZE | RON |
|-------------|-------|-------|-------|-------|-------|-------|
| Mean | 13.04 | 13.90 | 15.46 | 73.19 | 2.56 | 13.30 |
| Median | 12.67 | 13.69 | 15.19 | 65.9 | 2.80 | 13.26 |
| Std. Dev. | 4.09 | 4.40 | 4.23 | 25.27 | 0.81 | 4.07 |
| Skewness | 0.13 | -0.10 | -0.04 | 0.87 | -0.88 | -0.23 |
| Kurtosis | 2.38 | 2.38 | 2.32 | 2.47 | 2.36 | 2.38 |
| Jarque-Bera | 0.094 | 0.08 | 0.09 | 0.69 | 0.73 | 0.12 |
| Probability | 0.95 | 0.95 | 0.95 | 0.70 | 0.69 | 0.94 |

Source: compiled and calculated from moneycontrol.com

Table 3 displays the performance of Bajaj holdings from 2007-2008 to 2016-2017. The mean value of Earnings per share shows the highest of 73.19 and lowest mean value of 2.56 on size and the standard deviation of 25.22 on earnings per share respectively. All the variables are positively skewed except

Return on equity, return on capital employed, size, return on net worth. The growth of all the variables exhibits platykurtic kurtosis. The Jarque-Bera shows the positive normal distribution of elements during the study period.

Table 4 Annual Growth Rate of Max Financial from 2007-2008 to 2016-2017

| | ROA | ROE | ROCE | EPS | SIZE | RON |
|-------------|------|-------|-------|-------|-------|-------|
| Mean | 9.02 | 10.02 | 10.90 | 10.57 | 2.28 | 10.12 |
| Median | 7.6 | 8.85 | 8.82 | 6.95 | 2.34 | 8.42 |
| Std. Dev. | 5.31 | 5.74 | 6.83 | 7.14 | 0.54 | 4.96 |
| Skewness | 0.76 | 0.72 | 0.69 | 0.65 | -1.05 | 0.93 |
| Kurtosis | 2.21 | 2.20 | 2.06 | 1.80 | 2.69 | 2.42 |
| Jarque-Bera | 0.61 | 0.56 | 0.58 | 0.65 | 0.95 | 0.79 |
| Probability | 0.73 | 0.75 | 0.74 | 0.72 | 0.62 | 0.67 |

Source: compiled and calculated from moneycontrol.com

Table 4 shows the performance of Max financial from 2007-2008 to 2016-2017. The mean value of Earnings per share shows the highest of 10.57 and lowest mean value of 2.28 on size and the standard deviation of 7.14 on earnings per share

respectively. All the variables are positively skewed except size. The growth of all the variables exhibits platykurtic kurtosis. The Jarque-Bera shows the positive normal distribution of elements during the study period.

Table 5 Annual Growth Rate of Bajaj Fin services from 2007-2008 to 2016-2017

| | ROA | ROE | ROCE | EPS | SIZE | RON |
|-------------|------|-------|-------|--------|-------|------|
| Mean | 3.27 | 20.97 | 13.38 | 143.15 | 3.41 | 4.02 |
| Median | 3.16 | 21.09 | 13.16 | 144.54 | 3.65 | 3.38 |
| Std. Dev. | 0.35 | 0.99 | 0.67 | 75.89 | 0.60 | 1.42 |
| Skewness | 1.09 | -0.34 | 1.27 | -0.26 | -0.51 | 0.47 |
| Kurtosis | 2.68 | 1.76 | 2.94 | 2.16 | 1.66 | 1.73 |
| Jarque-Bera | 1.02 | 0.41 | 1.36 | 0.20 | 0.59 | 0.52 |
| Probability | 0.59 | 0.81 | 0.50 | 0.90 | 0.74 | 0.76 |

Source: compiled and calculated from moneycontrol.com

Table 5 reveals the performance of Bajaj financial services from 2007-2008 to 2016-2017. The mean value of Earnings per share shows the highest of 143.15 and lowest mean value of 3.27 on return on asset and the standard deviation of 75.89 on earnings per share respectively. All the variables are

positively skewed except return on equity, earnings per share and size. The growth of all the variables exhibits platykurtic kurtosis. The Jarque-Bera shows the positive normal distribution of elements during the study period.

Table 6 Panel Data Regression Analysis from 2007-2008 to 2016-2017

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---------------------------------------|-------------|-----------------------|-------------|--------|
| ROCE | 0.896666 | 0.100051 | 8.962128 | 0.0000 |
| ROE | -0.297439 | 0.224344 | -1.325816 | 0.2118 |
| RON | 0.251665 | 0.243800 | 1.032259 | 0.3241 |
| SIZE | 0.016988 | 0.405540 | 0.041890 | 0.9673 |
| EPS | -0.002349 | 0.008641 | -0.271801 | 0.7908 |
| C | 1.031323 | 1.591501 | 0.648019 | 0.5303 |
| Effects Specification | | | | |
| Cross-section fixed (dummy variables) | | | | |
| Period fixed (dummy variables) | | | | |
| R-squared | 0.993622 | Mean dependent var | 9.969200 | |
| Adjusted R-squared | 0.986084 | S.D. dependent var | 7.446680 | |
| S.E. of regression | 0.878459 | Akaike info criterion | 2.877725 | |
| Sum squared resid | 8.488594 | Schwarz criterion | 3.560295 | |
| Log likelihood | -21.97156 | Hannan-Quinn criter. | 3.067041 | |
| F-statistic | 131.8170 | Durbin-Watson stat | 2.355633 | |
| Prob(F-statistic) | 0.000000 | | | |

Table 6 presents the result of fixed effect model that considers the cross section effect. It is found that there is a negative relationship between Return on Asset and Return on Equity and also with Earnings Per share. It is also found that Return on Asset has positive relationship with other independent variables. It can be inferred from the table that R-square value is 0.99. This indicates that 99 percent of the variations in the value of Return on Asset are explained by Return on Equity, Return on Capital employed, Earnings per share, Size, Return on net worth. The computed value of Durbin Watson statistic in the fixed effect model is 2.35, which indicates absence of auto correlation.

CONCLUSION

The study suggest that investors during making decisions study financial statements and reporting of companies and also consider factors such as firm size, financial leverage, earnings per share and industry type. In this research has also shown that the size of listed companies. The performance of the fund assets is the most important factor

in determining whether the fund will be able to deliver on the retirement benefits or whether there will be a sufficient amount accumulated for an adequate replacement of income. It will enable the management to identify the key factors to consider in the use of management information in achieving optimum profitability and also guide them in the wise utilization of Investment advice and so the risk can be minimized. This study comprises using the annual data from 2007-2008 to 2016-2017. In this study the performance of Bajaj holdings and Bajaj financial services serves to be high in return on investment. It is found that return on asset has a positive relationship with other independent variables (Return on Equity, Return on Capital employed, Earnings per Share, Size of the company, and Return on net worth). Hence the Financial Performance is the Subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. 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

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