CHAPTER V
FINDINGS, SUGGESTIONS AND CONCLUSIONS

INTRODUCTION

The findings obtained from the statistical test performed on the hypotheses, the structural equation mediated models BEM – ESW (NW), PROFIT- COST, TEM-AFC, PROFIT-ESW (NW), and ESW-INCOME (DEFLATOR) regression models are given. Based on the findings the overall performance picture are summarized for the investors, stakeholders, and executives for taking decision on investing and/or diversifying into a new business activity. Final will bring the scope for future research.

5.1 FINDINGS AND CONCLUSIONS OF THE STUDY

5.1.1 SOURCES OF FUNDS AND ITS USES IN ASSET FINANCE COMPANIES IN TAMIL NADU

5.1.1.1 NET OWNED FUNDS

The improvement in net owned funds is mainly due to substantial issue of the new shares and preferential shares. It attribute the reasons for decline in the trend are due to stock market scams affecting new issues, frequent closure of finance companies and increasing cost of public deposits due to competition from financial institutions and banks. However, the compounded annual growth is more than 8% and even surpassed the national industrial trend.
5.1.1.2 SHAREHOLDERS’ FUNDS
The skewness in trend is because of increase in cost of operations, which affected the profitability profile of the companies, particularly those operating in traditional areas of business like leasing and hire purchase activities. The financing cost can be brought down, if the banks and financial institutions raise the internal accruals through more retention of earnings. It is the cheapest source of finance, not costless given the opportunity cost. But the asset finance companies in Tamil Nadu are having a formidable compounded annual growth when compared with industry performance.

5.1.1.3 SHAREHOLDERS’ FUNDS
The enforcement of regulations on group exposure and capital market exposure norms, and shift to new tax regime have affected the internal funds position of the asset finance companies. However, the positive upward movement in recent years is due to moderation in tax liability provided scope of higher retention of earnings.

5.1.1.4 EXTERNAL FUNDS
With the issue of guidelines and restrictions on exposure to non-banking finance set by the banks, the term loan disbursements by the banks to finance companies have fallen more significantly in 2001. Further the closure of many finance companies and rampancy of mismanagement have forced the banks to desist from active lending except to high profile finance companies.
5.1.1.5 INTERNAL FUNDS

The enforcement of regulations on group exposure and capital market exposure norms, and shift to new tax regime have affected the internal funds position of the asset finance companies. However, the positive upward movement during 2003-04 is due to moderation in tax liability provided scope of higher retention of earnings.

5.1.1.6 UNSECURED FUNDS

The recent relaxation of norms on issue of commercial paper is helping the asset finance companies to have access to unsecured funds. The compounded annual growth reveals that the asset finance companies in the state have more access to these funds than the national players.

5.1.1.7 SECURED FUNDS

The stability of secured funds in the form of non-convertible debenture, banks’ working capital assistance, and cash credit accommodation is attributed to restrictions on access to public deposits, high cost of funds for unsecured loans, and availability of collateralized assets for availing cash credits.

5.1.1.8 CAPITAL ADEQUACY

In 19997 & 1998, many of the automobile manufacturers witnessed contraction of sales and economy was also on downward trend, which led to low off take and the poor credit recovery due to asset stripping. However, the economy is on positive track
since 1999 and riskiness of assets was diversified through higher volume in hire purchase activities than in leasing.

5.1.1.9 INVESTMENTS

The risk aversion attitude of management, stringent provisioning norms, and statutory maintenance of liquid assets force the linear positive distribution in investment. Further, this period witness increased diversification of business in the areas of insurance, asset management, and mutual fund through new subsidiaries by high profile companies.

5.1.1.10 HOLDINGS IN CURRENT ASSETS

On whole, the asset financing in the form of hired stock holdings, and leased assets is on the decline. The reason is that the finance companies are resorting to short term financing than long-term risky financing. he asset restructuring through sale of recoverable infuse funds into the companies is main reason for decline in short –term asset holdings.

5.1.1.11 HOLDINGS IN HIRED STOCK

Raising cost of operations, limited access to cheaper finance, stringent risk asset provisioning have taken toll on the asset finance companies. Diversification of risk through asset restructuring, sale of assets to asset managers and exploration into new business such as insurance, healthcare, travel management have reduced holdings in leased assets as seen from negative annual compound growth.
5.1.2 EARNINGS PROFILE OF ASSET FINANCE COMPANIES IN TAMIL NADU

5.1.2.1 FEE-BASED INCOME

The enforcement of strict norms on business activities, limited avenues for business development, high-risk involvement in asset financing, and reduction in exposure to capital market investments due to high incidence of manipulation in secondary market are the reasons for positive trend observed in the fee-based income generating activities. The stiff competition has forced the non-bank finance companies to change their business strategies like shift from traditional fund-based activities to fee-based activities and diversification into new businesses. The change in business strategies has, altogether, affected the earnings in core business sector (Ingres 2006).

5.1.2.2 FUNDS-BASED INCOME

The increased competition from commercial banks with low finance charges, declining market share, non-recoverability and asset stripping, mounting non-performing loans have forced the companies to reduce their funds-based activities. However, the low profile companies continue concentrate on funds-based activities in spite of increased competition due to their personalized customer care, good rapport with customers make it easy to enforce recovery, and their geographical proximity with customers.
5.1.2.3 LEASE EARNINGS

With the entry of multinationals and banks in asset financing, increasing cost of funds resulting higher finance charges, enhancement of risk profile of asset leasing have seriously affected the lease business profile of asset finance companies. The downtrend is more pronounced in last phase (2001-2004). The legal impediments in enforcing the leasing covenants through recovery mechanism is affecting the leasing business.

5.1.2.4 LEASE EARNINGS

With the competition is growing and entry of many new players, shift consumption behaviour, risk aversion of executives, uptrend in the hire purchase activities has been halted. With the hire purchase financing market is becoming more mature, high cost of operations affected the uptrend from 2000. It is observed, from early 2001, that the trend has been on steady downward movement.

5.1.2.4 NON-BUSINESS EARNINGS

With the prescription of group and capital market exposure norms on investments in subsidiaries, and net owned funds requirements, the companies sold substantial holdings in subsidiaries or in capital markets. Besides, the stock market manipulation in 2001 have seriously jeopardized the value of underlying securities. But with the economy back on track and relaxation of capital market exposure have paved way for increase in earnings from non-business activities.
5.1.3 EXPENSES PROFILE OF ASSET FINANCE COMPANIES IN TAMIL NADU

5.1.3.1 INTEREST COST – FIXED LOANS

The interest burden has been quite high till 1999. The reasons are higher interest paid for public deposits to attract them in the face of competition from banks, and to arrest the outflow in the wake of failure of quite a number of finance companies. The interest burden for asset finance companies has drastically increased in 1997-98 due to higher inflation coupled with heavy competition from banks.

5.1.3.2 STAFF COST

The reasons for increase in staff cost are increase in cost of living, higher economic growth; salary increases prevalent in the sector as well as across the industries. Recently, trend in the staff related expenditure is downtrend and the cost is coming down substantially through introduction of voluntary retirement scheme, redeployment of excess staff to new business activities.

5.1.3.3 PROVISIONING COST

The negative trend exhibited in this statutory requirement is mainly due to previous higher provision for bad loans and strengthened recovery mechanism resulting in higher collection of receivables and bad debts. However, the downtrend is perceptible due to strengthened recovery mechanism, lower disbursements, and sound credit appraisal and post sanction follow-up.
5.1.4 GENERATION OF RETURNS BY ASSET FINANCE COMPANIES IN TAMIL NADU

5.1.4.1 CORE OPERATING PROFIT

Low inflation coupled with higher utilization of infrastructure, easy access to cheap finance during 1997 & 1999, control of other expenditures are the major reasons for the fairly skewed distribution. However, strict vigil has to be maintained on the cost side as it can adversely affect the profitability of these companies.

5.1.4.2 CASH GENERATION FROM OPERATIONS

Core operations show positive skewness during this period. Lease disbursements are more pronounced in 1996-98 than in other period. Moreover, easier cash credit accommodation provided by the banks has aided increase in cash flow generation from operations.

5.1.4.3 RETURN ON EQUITY

The pronounced downtrend in 2000 is mainly due to high inflation, economic growth driving high cost of funds, reduced business from stiff competition from banks with huge funds on relaxation of liquidity requirements. Given this feature, an increase in the rate of inflation drives down the real rate of return not just on money, but also on assets in general. The implied reduction in real returns exacerbates credit market frictions (Boyd J 2000).
5.1.5 REGRESSION MODELS OF BEM – ESW (NW), PROFIT- COST, TEM-AFC, PROFIT-ESW (NW) AND ESW-INCOME (DEFLATOR)

5.1.5.1 REGRESSION MODEL FOR BEM-ESW (NW)

The standardized parameter estimates for mediated model explains the existing relationships between the mediating factor business income and shareholders’ wealth. For the mediating income $r = .20$ is accepted. The non – business income $r$ value $= .02$ is accepted for mediating factor. Non-Business expenses $r = -.55$ is significant to shareholder’s wealth. NBI and BE are not significant to shareholders’ wealth. NBE and BE is not significant to mediating factor.

5.1.5.2 REGRESSION MODEL FOR COST - PROFIT

The standardized parameter estimates for mediated model explains the existing relationships between the mediating factor Administrative Expenses and Profit. For the mediating Administrative Expenses $r = .50$ is accepted. Loan Interest $r = -.08$, Finance Charges $r = -.21$, Staff Salary $r = 0.48$, Provisions $r = -.08$ are significant for fee income as mediating factor. Loan Interest $r = .23$, Finance Charges $r = -.06$, Staff Salary $r = 0.13$, Provisions $r = -.30$ are significant for profit. Above stated factors established there exists linear relationship with profit and cost.

5.1.5.3 REGRESSION MODEL FOR TEM-AFC

The standardized parameter estimates for mediated model explains the existing relationships between the mediating factor Fee Income and Profit. For the mediating
fee income $r = .17$ is accepted. Interest income $r = - .17$, Dividend Income $r = .29$, Lease Rent $r = .04$ and HP Charges $r = .05$ are significant for fee income as mediating factor for profitability. Interest income $r = -.12$, Lease Rent $r = -.02$ and HP Charges $r = -.07$ are significant for profit. Dividend Income $r = -3.61$ for the profit is not accepted.

5.1.5.4 REGRESSION MODEL FOR OVERALL PERFORMANCE (SHAREHOLDERS’ WEALTH)

The standardized parameter estimates for mediated model explains the existing relationships between the mediating factor profit and other business dimensions. For the mediating the profit $r = .10$, income $r = -0.01$ is accepted. The cost and income is not significant in shareholders’ wealth. The cost and income dimension are accepted for mediating factor, profit.

5.1.5.5 REGRESSION MODEL FOR OVERALL PERFORMANCE (SHAREHOLDERS’ WEALTH) - DEFLATOR

The figure 4.38 standardized parameter estimates for mediated model explains the existing relationships between the mediating factor income and shareholders’ wealth. For the mediating income $r = .16$ is accepted. The profit and expenses are not significant in shareholders’ wealth. The profit and expenses dimension are not accepted for mediating factor, income.
The conceptual model empirically proved by AMOS graphic environment. Cost, Income and Profit are very essential for creating the shareholders' wealth in asset finance companies in India. Strategic cost control will influence the profitability in asset finance companies. If asset finance companies would follow above empirical model, which leads to sustainability of their business. If there is uncontrollable risk in
their business. New entrepreneur who like to start a business in asset finance sector, may follow above ESW (NW) –AFC mediated model. This model paves the way for strategic management in profitability of asset finance companies operating in non-banking financial sector in India.

**FIGURE 5.2: ESW –AFC MEDIATED MODEL - DEFLATOR**
The conceptual mediated model (deflator) is empirically examined through AMOS Graphic environment. This model will help the shareholders for investing their resources with diversification of business. The essence of deflator model reveals the real picture of monetary value in the macroeconomic environment. This model will help the promoters of asset finance companies through investigate the economic indicators, general price level and rate of interest for diversification of their business for creation of shareholders’ wealth. The above findings of the research will ensure normality of the business of the asset finance companies. It is a new approach for applying the strategic management for sustainability of asset finance companies in India. This research reveals another key findings to control the administrative expenses for creation of wealth and asset finance companies would concentrate more on fee-based activities for their sustainability. The researcher concludes that a strategic approach for diversification of business on fee-based activities to the protect the interests of the shareholders.

5.2 RECOMMENDATIONS TO THE ASSET FINANCE COMPANIES

Presently, the asset finance companies are facing competition from commercial banks and major players in financial services like ICICI, HDFC from the private sector and multinational financial services conglomerates like CITIBANK (CITIGROUP),
HSBC FINANCIAL SERVICES. Therefore, it is imperative that the asset finance companies should reorient their business strategies to withstand the competition, economic conditions, and to emerge successful leader.

The asset finance companies should not stay away completely from the leasing and hire purchase activities. As the Indian economy is growing at a faster pace, the shifts in consumption patterns are so dynamic. The attitude of common treating automobiles such as Motor Cars, Motorcycles as luxury is changing. The possession of these, are felt, as necessaries. Asset finance companies should focus more on consumer automobile financing than on truck financing, which is quite risky. There is a felt need for the asset finance companies to expand their geographical reach as the commercial banks are expanding their geographical spread.

The asset finance companies should realize the need for consolidating their businesses. These companies are promoted by the local wealthy people either as private limited or public limited company. Their continued desire to stick to individual corporate identity could endanger their very existence. They shall go in for mergers with group companies and function as a division within it or acquire the business of the promoter business. They should realize that mergers and acquisitions could alone make them strong, dynamic and vibrant. Any delay in consolidation could prove to be disastrous.

The asset finance companies, operating throughout the state, should enter into allied financial services like insurance, money transfer, micro-finance as agents or
facilitators to the commercial banks and insurance companies. They should explore the opportunities thrown open by deregulation of entry into insurance sector, as a consortium to start with. They should concentrate more on fee-based activities like money transfer agency, travel and tourism services, healthcare facilitator.

They can also explore the new funds-based business like travel financing, healthcare financing, education financing, and micro-finance. The funds-based activities carry, though, high risk are remunerative in terms of their personalized customer care, local reach. Funds-based financing for activities like infrastructure financing, festival financing are quite riskfree businesses. Asset finance companies, operating locally, shall form a consortium to finance big yet returns oriented projects.

The asset finance companies with high level of public deposits should not deploy their funds in bonds than required by law. It is observed that the reason for parking funds in such portfolios is mainly downtrend in automobile financing, leasing activities. They should realize that public deposits are high cost funds. Therefore, the need to deploy them in efficiently in asset financing is very demanding.

The advantages of asset finance companies are their personal rapport with their customers. They shall utilize this opportunity to promote fee-based services to them. Prior knowledge on borrowers is very much a requirement. They shall become users of credit information bureau. In the case of small companies, they shall jointly create a database on creditworthiness of customers.
The asset finance companies should concentrate on reducing the administrative expenditures through utilizing the available infrastructure efficiently than to have a desire to cut the staff size. It is recommended that small asset finance companies should concentrate more on their core business than to diversify their operations. In case of small companies, the profit per staff is lower than their high profile counterparts. Recovery mechanism should be strengthened to interact with the borrowers frequently than to resort to legal proceedings.

5.2 SCOPE FOR FUTURE RESEARCH

In terms of future research, business profile of the competitors like banks, large financial institutions can be analysed to identify the strength and weaknesses of the asset finance companies vis-à-vis its competitors. There is a scope for micro-level performance study of the asset finance companies. Such micro level study can bring the key strategies that are required for the development of non-banking financial sector. The customer satisfaction or service quality can be studied to identify the customer needs for services and the utility value of the services offered by the asset finance companies. A comparative study of financial services across the countries can throw more light on divergence in business strategies and suggest formulation of key business strategies in tune with the global conditions.