

# A study on Corporate Valuation with Special Reference to Select Nbfcs Listed in Nse.

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**Abstract:** *The study of valuation of Non-banking Finance companies is to find out the performance of the companies on a sustainable basis as some of the investor fraternity have aversion towards investing in NBFC companies due to the fear of the quality of lending book. The primary objective of this study is to do an analysis of selected NBFCs listed in NSE. DuPont Analysis is used to identify the factor contributing to the maximum growth of the Return on Equity. The ranking is done based on the average of return on equity.*

**Keywords:** *performance of Ratios, NBFC, NSE and Enterprise Value*

## I.INTRODUCTION

Corporate Valuation is measuring the value of a business entity in monetary terms. There are various methods of valuing the business organizations. Valuation metrics like intrinsic value, PEG ratio, Future earning capacity etc., are used for measuring the value of stocks, while metrics like Enterprise Value, Relative ratio analysis etc., are used for assessing Corporate Value. The key objective of doing the valuation is to ascertain whether a particular company's share is overpriced or underpriced in order to take investment decision by buying or selling the equity shares of the company. When an investor wants to make long term investment in shares, it is essential to understand the business and its nature. Over the long term, the stock prices of a fundamentally strong company tend to appreciate, thereby creating wealth for its investors. The company analysis provides an insight into the earning capacity. In this article, valuation of selected companies belonging to the NBFC sector is done. The NBFCs are basically classified into Investment, Leasing and Hire Purchase and Housing Finance companies. The top NBFCs having presence across various categories have been taken into account to identify the best investment opportunity.

### A. Need for the Study

The study of valuation of Non-banking Finance companies is to find out the performance of the companies on a sustainable basis as some of the investor fraternity have aversion towards investing in NBFC companies due to the fear of the quality of lending book. NBFC plays an important role in development of the economy by satisfying the financial needs of the customers, who find it convenient to avail facilities from NBFCs than from the banking sector, due to operational convenience or other factors.

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### B.Objectives

The primary objective of this study is to do an analysis of selected NBFCs listed in NSE. The study is to analyze the financial strength and performance through various financial metrics and tools for identifying the scope for investing in their equities.

### C.Scope of the Study

The study focuses on analysis of the following selected companies from NBFC sector like L&T Financial Holdings Ltd, Sundaram Finance Ltd, Bajaj Finserv Ltd., Cholamandalam Investment and Finance Company Ltd., for the period of seven years from 2010-11 to 2016-17.

## II.RESEARCH METHODOLOGY

The Design applied for this research is analytical in nature. Secondary data collected from various sources like annual reports and concerned website are used for the purpose of this study. The parameters are studied over a period of seven years starting from 2010-11 to 2016-17. Various tools like CAGR, DuPont Analysis, Price Earnings to Growth Ratio (PEG), Enterprise Valuation Model and other relevant ratios are used for valuation.

### A.Limitation

Since the data is collected from secondary sources the accuracy and reliability of the data is based on the source from which the information is obtained. The sufficiency of the secondary data available is a constraint in the study.

### B.Data Analysis & Interpretation

The Enterprise value of the selected companies are calculated by adding Market value of common stock, market value of preferred stock, total debt, minority interest and deducting cash and cash equivalent to arrive Enterprise Value.

ENTERPRISE VALUE (AMOUNT - RUPEES IN CRORE)

Financial Year	L & T Finance Holding	Bajaj Finserv	Cholamandalam	Sundaram
2011	23614.30	55892.66	10878.51	14173.20
2012	30272.39	61766.02	14594.08	17004.14
2013	43397.16	68077.48	20084.80	23359.39
2014	51037.79	75377.21	22876.51	26910.93
2015	56306.76	98251.27	29312.66	37806.19
2016	67301.26	114777.99	34981.53	37344.09
2017	85699.66	176156.12	40982.83	42867.07
Rank-Size	2	1	4	3
CAGR	20.22%	17.82%	20.86%	17.13%
Rank	2	3	1	4

Dupont Analysis - Return On Equity – In Percentage

Company/Year	2011	2012	2013	2014	2015	2016	2017	Ave.	Rank
Sundaram	20.43	19.79	21.40	18.84	15.28	13.94	14.05	17.68	2
Cholamandalam	7.96	12.04	15.77	16.10	13.99	15.66	16.60	14.02	3
Bajaj FinServ	39.49	37.05	28.38	23.53	21.93	20.72	21.81	27.56	1
L&T FH	13.57	9.57	11.72	8.71	10.99	10.30	11.60	10.92	4

The Return on Equity is relatively high for Bajajfinserv followed by Sundaram finance and L&T Finance holding is consistently maintaining at around 10 %. Cholamandalam is improving its margin little high and for sundaram it is declining during the study period.

PEG Ratio:

For arriving at the PEG ratio, the Price Earnings ratios are divided by profit growth rate ( in percentage) instead of by

the growth rate of earnings per share, which is the normal practice. Lower PEG ratio indicates that profit is growing at a higher rate. A ratio of more than 1.00 indicates that the price earnings ratios are more than the profit growth rate. The PEG ratio for Sundaram is negative during the year ending 2015; this is reflected by the increase in share price in 2015. The share price gets corrected in the subsequent years which are in line with the PED ratios calculated. Thus, using profit Growth rate in the denominator while arriving at the PEG ratio stands justified.

Peg Ratio (Based On Growth Rate Of Profit)

Companies	2012	2013	2014	2015	2016	2017	Ave.	Rank
Sundaram	0.495	0.305	3.367	-22.723	11.957	1.665	-0.821	1
Cholamandalam	0.133	0.144	0.572	0.935	0.648	0.840	0.545	3
Bajaj FinServ	0.228	0.436	-7.804	1.369	0.948	1.185	-0.606	2
L&T FH	1.070	0.287	-1.332	0.340	48.019	1.086	8.243	4

Average Ratios For The Study Period

Financial Performance Ratios	L&T FH	Bajaj Finserv	Cholamandalam	Sundaram
Dividend Payout Ratio (%)	13.96	1.55	14.47	19.37
Tax to Net Profit (%)	38.20	28.50	53.01	49.48

PBT Margin (%)	19.96	47.02	17.59	20.43
PBIT Margin (%)	75.31	69.30	81.53	58.52
PBITDA (%)	76.94	69.80	82.27	61.04
Net Profit Margin(%)	14.34	37.67	11.49	13.62
ROCE(Return on Capital Employed)	12.09	12.02	16.32	17.41
ROE(Return On Equity) %	10.92	27.56	14.02	17.68
ROA(Return on Assets) %	1.63	2.04	1.68	2.35
Asset Turnover Ratio (%)	11.22	9.11	14.44	16.76
Advances to Loans Ratio	1.124	0.927	1.269	1.226
Written off to total advances (%)	1.76	2.32	1.91	0.65
Long term Debt to Total Asset (%)	56.25	20.08	50.16	42.42
Debt Equity Ratio	3.829	2.930	4.290	3.256
Interest Coverage Ratio (%)	1.364	3.382	1.343	1.539
Expenses to Income (%)	81.10	53.80	82.65	79.66

The Table depicted above shows the average values of Ratios for seven years for all the four companies. The Average is being calculated to rank the companies based on the performance of Ratios.

**Ranking Of Ratios For The Study Period**

Financial Performance Ratios	L&T FH	Bajaj Finserv	Cholamandalam	Sundaram
Dividend Payout Ratio	4	5	3	2
Tax to Net Profit	2	1	5	4
<b>Profitability Ratios</b>				
PBT Margin	4	1	5	3
PBIT Margin	3	4	2	5
PBITDA	3	4	2	5
Net Profit Margin	3	1	5	4
<b>Performance Ratio</b>				
ROCE(Return on Capital Employed)	4	5	2	1
ROE(Return On Equity)	5	2	4	3
ROA(Return on Assets)	5	3	4	2
Asset Turnover Ratio	4	5	2	1
<b>Performance Ratio</b>				
Interest Spread	3	1	4	2
Advances to Loans Ratio	4	5	2	3
Written off to total advances	3	5	4	2
Long term Debt to Total Asset	4	1	3	2
<b>Financial Stability Ratio</b>				
Debt Equity Ratio	3	1	4	2
Interest Coverage Ratio	4	1	5	3
Expenses to Income	4	1	5	3
<b>Total</b>	<b>62</b>	<b>46</b>	<b>61</b>	<b>47</b>

The Average of all the ratios has been taken for seven years for all the four companies. The highest value has been given rank 1 and the lowest value has been given 5, except for ratios like Debt- Equity, Expenses to income, Written off to advances, Tax to Net profit where lowest value is given rank

1 and highest value is given rank 5. The Company with least 'sum of ranks' is given rank 1 and the highest 'sum of ranks' is given rank 5. Based on this approach, Bajaj Finserv has secured the first rank and the L&T FH finance has secured the fourth rank.

**Overallperformance Ranking From 31/3/11 To 31/3/17  
(1- Best performer 5- Least performer)**

Financial Metrics	L&T FH	Bajaj Finserv	Cholamandalam	Sundaram
<b>Selected Ratios</b>	4	1	3	2
<b>Enterprise Value CAGR</b>	2	3	1	4
<b>EV in Size</b>	2	1	4	3

## A study on Corporate Valuation with Special Reference to Select Nbfcs Listed in NSE

<b>DuPont (Average)</b>	4	1	3	2
<b>PEG(Profit)</b>	1	3	2	4
<b>Overall Total</b>	13	9	13	15
<b>Overall Ranking</b>	2	1	2	3

The Final Ranking is assigned by calculating the overall total of all the rankings. The company with the lowest total is awarded with the rank one. BajajFinserv has secured first rank because of its performance.

### III.FINDINGS AND SUGGESTIONS

DuPont Analysis is used to identify the factor contributing to the maximum growth of the Return on Equity. The ranking is done based on the average of return on equity. The L&T FH secured the fourth rank in the DuPont Analysis with the consistent growth rate of 10.92% whereas Bajaj finserv shows first rank with the average ROE of 27.56%

As per the CAGR of Enterprise value the Sundaram Finance has secured the last place as per our study with the least growth rate of 17.13%. Even Bajaj Finserv secured the fourth place with a slight edge of 17.82%, but they have highest Enterprise value of Rs.176,156.12 Crore followed by L&T finance holding.

The average of the PEG ratio has been taken for the ranking. The L&T FH has secured the fourth place in PEG ratio based on its earnings and the net profit. Based on PEG ratio, Sundaram finance stands at the top, which indicates that it is undervalued and hence a stock worth buying.

Ratio Analysis is used to analyze the company's operational and financial performance. Seventeen ratios have been applied to evaluate the performance on the basis of their efficiency, liquidity and solvency. Then, the average of all the ratios has been calculated and ranking has been done for the four companies.. The L&T FH has the lowest average ROE with 10.92% during the study period. The L&T FH has also displayed an average Interest coverage ratio of 1.36. The L&T FH secured last rank as per ratio analysis due to its average performance across various areas. Cholamandalam Finance has the highest average of 'secured loan percentage' (98.66%)during the study period. Sundaram Finance has the second best in terms of 'secured to total loans ratio', with 97.83%.

### IV.CONCLUSION

The competitive strength of Sundaram in terms of building its Enterprise value may be improved compared to its peers. L&T Finance holding is growing its Enterprise Value relatively better than its peers. Though the Bajaj Finserv performs the business in large scale, it has also managed to keep the margin at check with 28.50 %. Other comparison companies must attempt to reduce its expenses from operation in order to be more efficient. The Bajaj Finserv has the most efficient 'expenses to income' ratio. Sundaram finance is also having control over this ratio. Hence, low risk taking investor may look for Cholamandalam and Sundaram finance for investment. However, investors who are not risk averse can prefer Bajajfinserv because of its

aggressive performance, indicated by the performance ratios.

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