Inspira- Journal of Modern Management & Entrepreneurship (JMME)
ISSN : 2231–167X, GIF: 2.7282, CIF: 5.647, Volume 10, No. 01, January, 2020, pp. 189-191

ROCE IN SELECTED NBFCs IN INDIA

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ABSTRACT

The Capital employed is of two types i.e. gross capital employed and net capital employed. Gross capital employed refers to the sum of all fixed and current assets but not the fictitious assets. The net capital employed refers to the gross capital employed minus current liabilities. In the present study the concept of net capital employed has been used to calculate the return on capital employed.

KEYWORDS: *Gross Capital Employed, Net Capital Employed, Fictitious Assets, Current Assets.*

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Introduction

Return on Capital Employed

The primary objective of making investment in any business is to obtain adequate return on capital invested. Therefore, to measure the overall profitability of the firm, it is essential to compare profit with capital employed. With this objective, return on capital employed is calculated. It is also called 'Return on Investment' (ROI).

To calculate this ratio operating profit (net profit before interest and tax) is considered as return. This figure is taken before taxation because the amount of tax has no relevance to the operational efficiency.The return on capital employed may be calculated as follows:

Return on Capital Employed = (Profit before Interest and Taxes) /Capital Employed *100

The ratio indicates how well the management has used the investment made by owners and creditors into the business. It is commonly used as a basis for various managerial decisions. The primary objective of business is to earn profit. Higher the return on capital employed, the more efficient the firm is in using its funds. The ratio can be found for a number of years so as to find a trend whether the profitability of the company is improving or otherwise.

However, there is a conceptual mismatch in the above formula. The figure of net profit after tax is the profit figure after deducting the interest on debts whereas the figure of capital employed in the denominator includes the long term debts.

The return on capital employed of the companies under study has been shown in the following table:

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Table 1: Return on Capital Employed Ratio of NBFCs under Study (2011-12 to 2017-18)

(Ratio in Percent)

Year	JM Fin	IDFC	IFCI	HDFC	SRTF
2011-12	2.78	11.48	12.59	14.62	18.30
2012-13	3.01	13.32	10.47	15.31	16.07
2013-14	4.59	12.08	9.83	16.70	16.95
2014-15	4.99	10.89	9.81	16.43	14.33
2015-16	6.69	1.71	10.01	15.95	15.63
2016-17	7.58	0.82	6.01	13.64	14.22
2017-18	10.72	2.12	10.35	9.52	10.48
Average	5.77	7.49	9.87	14.60	15.14
S.D.	2.80	5.62	1.95	2.48	2.50

Source: Computed from Annual Reports and Accounts of the NBFCs for the period from 2011-12 to 2017-18.

Table 1 showing that for JM Financial Ltd (i.e., JM Fin), return on capital employed ratio had an increasing trend during the period under study. It was 2.78 percent (lowest) in 2011-12 which increased to 3.01 percent in 2012-13, 4.59 percent in 2013-14, 4.99 percent in 2014-15, 6.69 percent in 2015-16, 7.58 percent in 2016-17 and finally reached up to 10.72 percent (highest) in the year 2017-18.

For IDFC, return on capital employed ratio showed a fluctuating trend during the period under study. It was 11.48 percent in 2011-12 which increased to 13.32 percent in 2012-13 but decreased to 12.08 percent in 2013-14, 10.89 percent in 2014-15, 1.71 percent in 2015-16 and came down to 0.82 percent in 2016-17 which finally increased and reached up to 2.12 percent in the year 2017-18.

In case of IFCI, return on capital employed ratio showed a decreasing trend during the period under study except in the years 2015-16 and 2017-18. It was 12.59 percent in 2011-12 which decreased to 10.47 percent in 2012-13, 9.83 percent in 2013-14 and declined slightly to 9.81 percent in 2014-15. After that, it increased to 10.01 percent in 2015-16 but decreased again to 6.01 percent in 2016-17 which increased and finally reached up to 10.35 percent in the year 2017-18.

For HDFC, return on capital employed ratio showed a decreasing trend during the period under study except in the years 2012-13 and 2013-14. It was 14.62 percent in 2011-12 which increased to 15.31 percent in 2012-13 and reached up to 16.70 percent in 2013-14. Then, the ratio decreased to 16.43 percent in 2014-15, 15.95 percent in 2015-16, 13.64 percent in 2016-17 and declined sharply to 9.52 percent (lowest) in the final year 2017-18.

For Sriram Transport Finance Co. Ltd (SRTF), return on capital employed ratio showed a fluctuating trend during the period under study. It was 18.30 percent in 2011-12 which decreased to 16.07 percent in 2012-13 but increased slightly to 16.95 percent in 2013-14. Then, the ratio decreased to 14.33 percent in 2014-15 but increased to 15.63 percent in 2015-16, which decreased again to 14.22 percent in 2016-17 and further came down to 10.48 percent (lowest) in the final year 2017-18.

The average ratio was highest for SRTF at 15.14 percent followed by HDFC at 14.60 percent, IFCI at 9.87 percent, IDFC at 7.49 percent and lowest for JM Finance Ltd at 5.77 percent which indicate that SRTF having highest average return on capital employed whereas JM Finance Ltd having lowest during the period under study. Standard deviation and coefficient of variation were moderate for NBFCs under study indicted lower fluctuations and good consistency.

Statistical Analysis: F-test

Following hypothesis has been tested for the ratio:

H_0: There is no significant difference between return on capital employed ratio of the NBFCs under study.

H_1: There is significant difference between return on capital employed ratio of the NBFCs under study.

Table 2 shows one way ANOVA statistics computed for the ratio of the NBFCs under study for the period from 2011-12 to 2017-18.

Table 2: One Way ANOVA for Return on Capital Employed Ratio

Source of Variation	Sum of Square	Degree of Freedom	Mean Sum of Square	F_c	F_t
Between Sample	14.1494	4	3.53735	3.43	2.69
Within Sample	30.9340	30	1.0311		
Total	33.0834	34			

Decision

"F" test indicates that the calculated value of Fc = 3.43 and tabular value of Ft = 2.69 at 5% level of significance. As the calculated value of F is more than table value of F (), the null hypothesis has been rejected. It means there is significant difference between return on capital employed ratio of the NBFCs under study.

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