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Impact of internal factors on profitability of selected listed gold loan companies in India

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Abstract

Gold is very important asset in India due to variety of reasons such as; emotional value attached to it, auspicious importance, higher liquidity, easy to store, long term value stored in it and investment etc. Gold also serves as collateral asset. Gold loan business is very old in Indian. Now days organized gold loan companies are increasing their footprints in this lending business due to various reasons such as; higher return on investment, lower amount of exposure due to retail lending segment, soaring gold prices, lower default rates etc. The present study aims to analyze the impact of internal factors on profitability of gold loan financial companies. 5 years considered as study period i.e., 2010-2011 to 2014-2015. Two listed gold loan non-banking financial companies were considered as study sample i.e., Muthoot Finance Ltd. and Manappuram Finance Ltd. Multiple Regression and correlation statistical tools were deployed to analyze the data. Two measure of profitability i.e., Return on Assets (ROA) and Return on Equity (ROE) considered as dependent variable. Asset Quality, Capital, Management Efficiency, Operational Efficiency and Size were considered as independent variable. Results revealed that Asset Quality, Capital Management Efficiency and Operational Efficiency had negative impact on ROA and ROE. Size had positive impact on ROE and negative impact on ROA.

Keywords: ROA, ROE, Profitability, Internal Factors, Gold Loan Companies.

1. Introduction

India is one of the biggest markets for gold and gold loans. According to the World Gold Council, India accounts for 10% of the total gold stock in the world, of which rural India accounts for 65% (2010). Indian have an emotional values attached to gold commodity for variety of reasons. Hence it is not shocking that India is one of the major consumers in the world gold market

(http://www.ideasforindia.in/article.aspx?article_id=238#sthash.Ru5zMdm6.dpuf).

Gold serves as a collateral asset in money lending business; because it is easy to store, higher liquidity, and universal acceptability are few of the reasons for the same. Unorganized private money lenders and pawn brokers were only players in the past. In last couple of years, organized players also entered into the gold loan business and their market share increased tremendously. Non-banking financial companies and banks are major organized players in this segment.

Gold loan non-banking financial companies were enjoyed higher return on investment in last decade. But in last couple of years gold loan companies are struggling for its sustainability and profitability, its reflection can be seen in their share prices, which has dropped drastically. Sudden change in this business segment emerges due to the variety of external factors and internal factors. Hiking import duty on gold imports, sixty percent capping on loan to value ratio, restricting lending against gold coins and restricting regional rural banks to provide loans against gold are few of the external factors.

Financial performance of gold loan non-banking financial companies is affected by various determinants. Factors affecting profitability can be fairly categorized into two category i.e., internal factors and external factors. Internal factors are those factors, which are under the control of management. External factors are not under the control of management.

2. Literature Review

A study investigated the impact of bank specific variable capital ratio, asset quality, management efficiency, liquidity and macroeconomic variables inflation and GDP on financial performance of banks in Kenya. Financial performance indicators return on assets

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(ROA), return on equity (ROE) and net interest margin (NIM) were considered as a dependent variable and bank specific and macroeconomic variables considered as an independent variable for the study purpose. 37 commercial banks of Kenya taken as a sample size and period of study considered 2001-2010. Multiple linear regression, t-test and correlation were used as statistical tools for data analyses. The study found that that bank specific factors significantly affect the performance of commercial banks in Kenya, except for liquidity variable. But the overall effect of macroeconomic variables was inconclusive at 5% significance level. The moderating role of ownership identity on the financial performance of commercial banks was insignificant. Thus, it was concluded that the financial performance of commercial banks in Kenya was driven mainly by board and management decisions, while macroeconomic factors have insignificant contribution (Ongore and Kusa, 2013)^[3].

The study examined the profitability indicators of public and private commercial banks of Pakistan. The study employed sample of 22 public and private sector commercial banks of Pakistan and study period covers 2006-2009. The Return on Assets (ROA) and Return on Equity (ROE) were used as dependent profitability measures to determine the affect of bank-specific and macroeconomic indicators on profitability. The descriptive, correlation and regression analysis statistical tools used for the data analyses purpose. For model I, capital, Credit Risk, Asset Management, Economic Growth and Consumer Inflation Price found to be significantly affecting the profitability of commercial banks measured by Return on Assets (ROA). The bank specific variables (Capital, Credit Risk and Asset Management) were found to be significantly affecting at 1% level of significance, whereas the relation of macroeconomic variables (Gross Domestic Product and Consumer Inflation Price) were significant at 5% level of significance. In model II, where profitability is measure by Return on Equity (ROE); Operating Efficiency, Asset Management and Economic Growth established to have significant affect the profitability. Whereas the Operating Efficiency and Economic Growth significant at 5% level of significance and the Asset Management significant at 1% level of significance (Ali, Akhtar, and Ahmed, 2011)^[1].

A study examined the impact of bank-specific and macroeconomic determinants of the bank's profitability in Turkey over the time period from 2002 to 2010. Ten commercial banks taken as sample for the study, Multiple Linear regression and Correlation were used for the data analyses purpose. The Return on Assets (ROA) and Return on Equity (ROE) were used as an independent variables and bank specific variables (Capital Adequacy, Asset Size, Liquidity, Deposit, Income Expenditure Structure), macroeconomic variables (Economic Activity, Inflation and Interest Rate) taken as dependent variables for the study. The results showed that Asset Size and Non-Interest Income have a positive and significant effect on bank profitability. However, size of credit portfolio and loans under follow-up have a negative and significant impact on bank profitability. With regard to macroeconomic variables, only the Real Interest Rate affects the performance of banks positively (Alper and Anbar, 2011)^[2].

To evaluate the effect of bank-specific determinants: capital adequacy, asset quality, liquidity, operational cost efficiency and income diversification on the profitability as well as

external variables: market structure determinants; foreign ownership and market concentration, on the financial performance of commercial banks in Kenya, annual financial statements of 38 Kenyan commercial banks from 2002 to 2008 were obtained from the CBK and Banking Survey 2009. Multiple linear regressions were used as a statistical tool to analyze the data which revealed that all the bank specific determinants had a statistically significant impact on profitability, while none of the market determinants had a significant impact (Olweny and Shipho, 2011)^[4].

A research work examined impact of bank specific and macroeconomic factors on profitability of Korean banks. Total number of commercial banks in the sample varied from 11 banks in 1992 to 29 banks in 2000 due entry and exit of the commercial banks in Korea. 1992-2003 was considered period of the study. Return on assets (ROA) and Return on equity (ROE) was considered for analysis of banks' profitability. Internal factors such as: Liquidity, Diversification, Credit Risk, Management Efficiency, Network Embeddedness and external factors i.e. GDP, Concentration Ratio, Inflation, and Market Capitalization taken as independent variables. Correlation, Linear Regression and Descriptive Statistics, were used for the data analyses purpose. It was found that lower liquidity level tend to exhibit higher profitability. Higher diversification showed positive relation and impact of credit risk, overheads were always had negatively related with banks' profitability. Inflation displayed a pro-cyclical impact and industry concentration had positive and significant relation with profitability. Korean banks had been relatively more profitable during the pre-crisis compared to the post financial crisis (Sufian, 2011)^[5].

3. Research Objectives

- To explore the internal factors affecting the financial performance of selected listed gold loan non banking financial companies in India.
- To evaluate the impact of internal factors on the financial performance of selected listed gold loan non banking financial companies in India.

4. Rationale

Previously Gold loan business was mainly controlled by unorganized sector. In last couple of years it witnessed the entry of organized players such as; non-banking financial companies and banks. Market share of organized players are rapidly growing. Financial soundness is very critical for their survival and avoiding any negative shocks or contagion effects on the financial system. Determinants that affect financial performance can be classified into internal and external. Understanding of the internal factors that influence the financial performance is essential not only for the companies' management, but also for numerous stakeholders. Knowledge of internal factors that affect significantly profitability of companies would be helpful for the regulators to implementing and modifying their policy framework.

5. Research Methodology

5.1 The Study

The study is exploratory and analytical in nature. The study relates to analyze the impact of internal factors on profitability of selected listed gold loan non banking

financial companies in India. Impact of internal variables i.e., Asset Quality (AQ), Capital (CAP), Management Efficiency (ME), Operating Efficiency (OE) and Size were judged on profitability.

5.2 Key Variables

5.2.1 Dependent Variable

The study applies one dependent variable which is Profitability. Two measures of profitability were undertaken considered, Return on Equity (ROE) and Return on Assets (ROA).

5.2.2 Independent Variable

The study employed following five internal factors: Asset Quality (AQ), Capital (CAP), Management Efficiency (ME), Operating Efficiency (OE) and Size to judge the impact on profitability.

5.3 Study Sample

Muthoot Finance Ltd. and Manappuram Finance Ltd. both the listed gold loan non banking financial companies were considered as sample. The period of the study was 5 years (2010-2011 to 2014-2015). Thus it had 10 observations for each measure.

5.4 Data Collection

The data was collected from secondary sources such as financial statements and balance sheets of the selected companies for the study period. In addition, the data was also collected from Annual Reports, Books, research papers, articles, journals, Internet, etc.

5.5 Statistical Tools

Statistical tools such as Correlation and Multiple Linear Regression were used to derive the relationship and find significant effect of internal factors on profitability. The Scatter Plot, Volatility Index Factor (VIF) and Durbin-Watson Tests were applied to deal with the problems of Heteroscedasticity, Multicollinearity and Autocorrelation respectively. SPSS 21 software was used for data analysis.

5.6 Multiple Linear Regressions

Following 2 models of multiple regression analysis were used to analyze the impact of internal factors on the ROA and ROE.

Model 1 $ROA = \beta_0 + \beta_1AQ + \beta_2CAP + \beta_3ME + \beta_4OE + \beta_4SIZE + ut$

Model 2 $ROE = \beta_0 + \beta_1AQ + \beta_2CAP + \beta_3ME + \beta_4OE + \beta_4SIZE + ut$

Where;

ROA = Return on Assets

ROE = Return on Equity

β_0 = Intercept

AQ = Asset Quality

CAP = Capital

ME = Management Efficiency

OE = Operating Efficiency

Size = Size

ut = Error term.

The above mentioned terms are measured as follows:

ROA = Net Profit / Total Assets

ROE = Net profit / Stockholders' Equity.

AQ = Net NPA Ratio

CAP = Capital Adequacy Ratio

ME = Interest Spread

OE = Total Expenses / Total Revenue

Size = Natural Log of Total Assets

5.7 Hypothesis

In developing hypothesis, main goal was to find whether the five independent variables namely Asset Quality, Capital, Management Efficiency, Operating Efficiency and Size had significant impact on the dependent variable namely, Profitability. For hypothesis formation taking their measures independently, the respective Null and Alternative Hypotheses are as follows:

H01: There exists an insignificant impact of Asset Quality (AQ), Capital (CAP), Management Efficiency (ME), Operating Efficiency (OE) and Size on Return on Asset (ROA).

H11: There exists a significant impact of Asset Quality (AQ), Capital (CAP), Management Efficiency (ME), Operating Efficiency (OE) and Size on Return on Asset (ROA).

H02: There exists an insignificant impact of Asset Quality (AQ), Capital (CAP), Management Efficiency (ME), Operating Efficiency (OE) and Size on Return on Equity (ROE).

H12: There exists a significant impact of Asset Quality (AQ), Capital (CAP), Management Efficiency (ME), Operating Efficiency (OE) and Size on Return on Equity (ROE).

6. Results and Interpretation

Table 1: Correlation Matrix Regarding ROA

		ROA	AQ	CAP	ME	OE	SIZE
ROA	Pearson Correlation	1	-.313	-.364	.330	-.983**	.022
	Sig. (2-tailed)		.378	.301	.351	.000	.953
	N	10	10	10	10	10	10
AQ	Pearson Correlation	-.313	1	-.137	-.372	.289	.792**
	Sig. (2-tailed)	.378		.707	.290	.419	.006
	N	10	10	10	10	10	10
CAP	Pearson Correlation	-.364	-.137	1	.213	.244	-.470
	Sig. (2-tailed)	.301	.707		.554	.497	.170
	N	10	10	10	10	10	10
ME	Pearson Correlation	.330	-.372	.213	1	-.390	-.367
	Sig. (2-tailed)	.351	.290	.554		.265	.297
	N	10	10	10	10	10	10
OE	Pearson Correlation	-.983**	.289	.244	-.390	1	.050
	Sig. (2-tailed)	.000	.419	.497	.265		.891
	N	10	10	10	10	10	10
SIZE	Pearson Correlation	.022	.792**	-.470	-.367	.050	1
	Sig. (2-tailed)	.953	.006	.170	.297	.891	
	N	10	10	10	10	10	10

** . Correlation is significant at the 0.01 level (2-tailed).

6.1 Correlation

Referring to the Table 1 Correlation Matrix Regarding ROA, it was found that there was an insignificant negative Correlation (-0.313 at 5% level of significance) between: Net NPA Ratio (NNPA) i.e., Asset Quality and ROA. It showed that if Net NPA Ratio increases then ROA will decrease and, vice versa. It seems very rationale too; if Net

Non Performing Assets increases than asset quality of gold loan companies likely to decrease and negatively impact ROA. There was an insignificant negative correlation (-0.364 at 5% level of significance) between: Capital (CAP) and ROA. It revealed that if Capital Adequacy Ratio (Capital) increases than ROA will decrease and, vice versa. It revealed that higher capital adequacy ratio requires more capital to be invest in zero or lower yielding assets which ultimately decreases ROA.

There was an insignificant positive correlation (0.330 at 5% level of significance) between: Management Efficiency (ME) and ROA. If interest spread (Management Efficiency) increases of gold loan companies than it will increases the profitability in terms of ROA as a measure and, vice versa. There was a significant negative correlation (-0.983 at 1% level of significance) between: Operating Efficiency (OE) and ROA. If Total Expenses / Total Revenue Ratio (OE) increases means total expenses are increasing and operating efficiency of the companies decreases, which ultimately deprived the profitability measure i.e., ROA. There was an insignificant positive correlation (.022 at 5% level of significance) between: Size and ROA. If Natural log of Total Assets (SIZE) increases than its Impact on ROA will

be positive but not significant. Positive relationship implied that asset size of companies increases than impact on ROA will be positive and showed economies of scale.

6.2 Regression Model

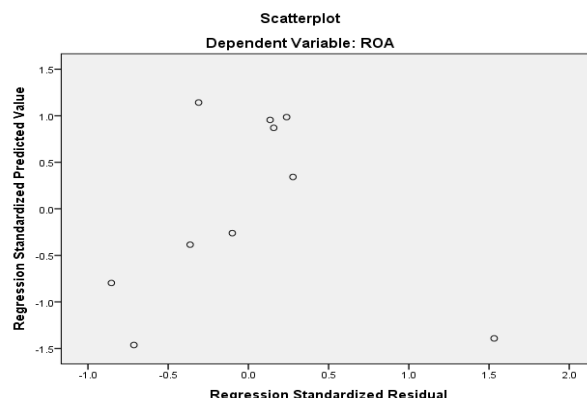


Fig 1: Scatter Plot for Dependent Variable ROA

Table 2: Regression Model Summary^b of ROA

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.999 ^a	.997	.994	.10128	.997	302.059	5	4	.000	2.070
a. Predictors: (Constant), SIZE, OE, ME, CAP, AQ										
b. Dependent Variable: ROA										

Table 3: Analysis of Variance (ANOVA^a) for ROA

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	15.491	5	3.098	302.059	.000 ^b
	Residual	.041	4	.010		
	Total	15.532	9			
a. Dependent Variable: ROA						
b. Predictors: (Constant), SIZE, OE, ME, CAP, AQ						

Table 4: Coefficients of Regression Model of ROA

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics		
	B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF	
1	(Constant)	1.328	4.036		.329	.759	-9.879	12.535		
	AQ	-.431	.091	-.235	-4.754	.009	-.682	-.179	.270	3.700
	CAP	-.021	.010	-.067	-2.005	.116	-.050	.008	.591	1.691
	ME	-.015	.021	-.022	-.720	.511	-.072	.042	.697	1.434
	OE	-.163	.006	-.918	-29.424	.000	-.178	-.147	.679	1.474
	SIZE	.599	.150	.214	3.998	.016	.183	1.014	.231	4.331

As per Table 4 Coefficients of Regression Model of ROA, the values of Volatility Index Factor (VIF) (Collinearity Statistics) is greater than .10 and less than 10, for Asset Quality (3.700), Capital (1.691), Management Efficiency (1.434), Operational Efficiency (1.474) and Bank Size (4.331). It implied that the problem of multicollinearity did not exist among the independent variables. As per Table 2 Regression Model Summary of ROA, value of Durbin Watson Test was 2.070. The calculated value was approximately closer to the standard value 2; it implied that the problem of autocorrelation did not exist. Figure 1 Scatter Plot for Dependent Variable ROA, it seemed that data set

was randomly distributed which implied that there was no problem of heteroscedasticity. As per Table 2, Regression Model Summary of ROA (Annexed herewith), the adjusted R-square (.994 or 99.4%), so 99.4% of the variation in the dependent variable (ROA) was explained by the independent variables (Asset Quality, Capital, Management Efficiency, Operational Efficiency and Size). This implied that the model so applied was good fit.

As per Table 3 Analysis of Variance (ANOVA) for ROA calculated Probability Value was .000 (at 5% level of significance) which was less than .05; hence was significant. So, Null Hypothesis H01: There exists an insignificant

impact of Asset Quality (AQ), Capital (CAP), Management Efficiency (ME), Operating Efficiency (OE) and Size (SIZE) on Return on Asset (ROA) was rejected And Alternative Hypothesis H11: There exists a significant impact of Asset Quality (AQ), Capital (CAP), Management Efficiency (ME), Operating Efficiency (OE) and Size on Return on Asset (ROA) was accepted.

The Regression Model (1) was as follows:

$$ROA = 1.328 - .431 AQ - .021 CAP - .015 ME - .163OE + .599 Size + ut$$

As per Table 4 Coefficients of Regression Model of ROA analysis showed that Asset Quality (-.431), Capital (-.021), Management Efficiency (-.015) and Operating Efficiency (-.163) were negatively affecting ROA. Size (.599) was

positively affecting ROA with Constant 1.328 and ut. If Net NPA ratio (AQ) increases than default on loans increases which ultimately decreases ROA. Capital is also had negative impact on ROA. It implied that if capital increases than companies have to invest in lower yielding assets, which ultimately decreases ROA. Operating Efficiency impact negatively ROA; it seems very rational because if expenses or cost increases than profitability deteriorates. Size positively affects ROA; it implied presence of economies of scale.

Results and Interpretation Model 2

Table 5: Correlation Matrix Regarding ROE

		ROE	AQ	CAP	ME	OE	SIZE
ROE	Pearson Correlation	1	-.167	-.747*	.041	-.769**	.178
	Sig. (2-tailed)		.645	.013	.910	.009	.623
	N	10	10	10	10	10	10
AQ	Pearson Correlation	-.167	1	-.137	-.372	.289	.792**
	Sig. (2-tailed)	.645		.707	.290	.419	.006
	N	10	10	10	10	10	10
CAP	Pearson Correlation	-.747*	-.137	1	.213	.244	-.470
	Sig. (2-tailed)	.013	.707		.554	.497	.170
	N	10	10	10	10	10	10
ME	Pearson Correlation	.041	-.372	.213	1	-.390	-.367
	Sig. (2-tailed)	.910	.290	.554		.265	.297
	N	10	10	10	10	10	10
OE	Pearson Correlation	-.769**	.289	.244	-.390	1	.050
	Sig. (2-tailed)	.009	.419	.497	.265		.891
	N	10	10	10	10	10	10
SIZE	Pearson Correlation	.178	.792**	-.470	-.367	.050	1
	Sig. (2-tailed)	.623	.006	.170	.297	.891	
	N	10	10	10	10	10	10
*. Correlation is significant at the 0.05 level (2-tailed).							
**. Correlation is significant at the 0.01 level (2-tailed).							

6.3 Correlation

Referring to the Table Correlation Matrix Regarding ROE, it was found that there was an insignificant negative Correlation (-0.167 at 5% level of significance) between: Net NPA Ratio (NNPA) i.e., Asset Quality and ROE. It showed that if Net NPA Ratio increases then ROE will decrease and, vice versa. It seems very rationale too; if Net Non Performing Assets increases than asset quality of gold loan companies likely to decrease and negatively impact ROE. There was a significant negative correlation (-0.747 at 5% level of significance) between: Capital (CAP) and ROE. It revealed that if Capital Adequacy Ratio (Capital) increases than ROE will decrease and, vice versa. It revealed higher capital adequacy ratio requires more capital to be investing in zero or lower yielding assets, which ultimately decreases ROE. There was an insignificant positive correlation (0.041 at 5% level of significance) between: Management Efficiency (ME) and ROA. If interest spread (Management Efficiency) increases for gold loan companies than it will increases the profitability in terms of ROE as a measure and, vice versa. There was a significant negative correlation (-0.769 at 1% level of significance) between: Operating Efficiency (OE) and ROE. If Total Expenses / Total Revenue Ratio (OE) increases means total expenses are increasing and operating efficiency of the companies decreases which ultimately deprived the

profitability measure i.e., ROE. There was an insignificant positive correlation (.178 at 5% level of significance) between: Size and ROE. Natural log of Total Assets (SIZE) if increases than its Impact on ROE will be positive but not significant. Positive relationship also implied that is asset size of companies increases than impact on ROE will be positive and showed economies of scale.

6.4 Regression Model

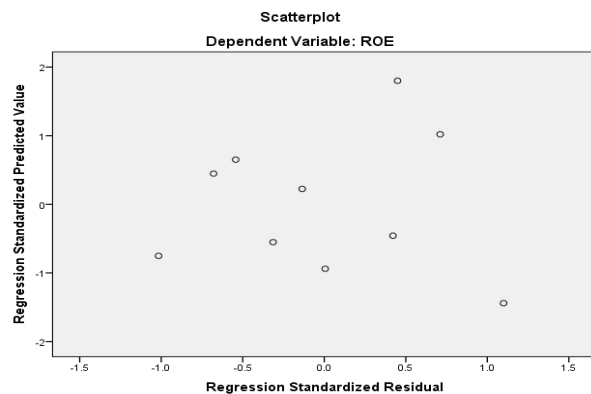


Fig 2: Scatter Plot for Dependent Variable ROE

Table 6: Regression Model Summary^b of ROE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F	df1	df2	Sig. F Change	
2	.971 ^a	.943	.871	5.20439	.943	13.199	5	4	.013	1.965
a. Predictors: (Constant), SIZE, OE, ME, CAP, AQ										
b. Dependent Variable: ROE										

Table 7: Analysis of Variance (ANOVA^a) for ROE

Model	Sum of Squares	df	Mean Square	F	Sig.	
2	Regression	1787.538	5	357.508	13.199	.013 ^b
	Residual	108.343	4	27.086		
	Total	1895.881	9			
a. Dependent Variable: ROE						
b. Predictors: (Constant), SIZE, OE, ME, CAP, AQ						

Table 8: Coefficients of Regression Model of ROE

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics		
	B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF	
2	(Constant)	261.849	207.426		1.262	.275	-314.059	837.758		
	AQ	-.564	4.656	-.028	-.121	.909	-13.492	12.365	.270	3.700
	CAP	-2.116	.539	-.610	-3.927	.017	-3.611	-.620	.591	1.691
	ME	-.986	1.056	-.134	-.934	.403	-3.918	1.945	.697	1.434
	OE	-1.290	.284	-.659	-4.539	.011	-2.079	-.501	.679	1.474
	SIZE	-3.199	7.695	-.103	-.416	.699	-24.564	18.165	.231	4.331

As per Table 8 Coefficients of Regression Model of ROE, the values of Volatility Index Factor (VIF) (Collinearity Statistics) is greater than .10 and less than 10, for Asset Quality (3.700), Capital (1.691), Management Efficiency (1.434), Operational Efficiency (1.474) and Bank Size (4.331). It implied that the problem of multicollinearity did not exist among the independent variables. As per Table 6 Regression Model Summary of ROE, value of Durbin Watson Test was 1.965. The calculated value was approximately closer to the standard value 2; it implied that the problem of autocorrelation did not exist. Figure 2 Scatter Plot for Dependent Variable ROE, it seemed that data set was randomly distributed which implied that there was no problem of heteroscedasticity. As per Table 2, Regression Model Summary of ROA, the adjusted R-square (.871 or 87.1%), so 87.1% of the variation in the dependent variable (ROE) was explained by the independent variables (Asset Quality, Capital, Management Efficiency, Operational Efficiency and Size). This implied that the model so applied was good fit.

As per Table 7 Analysis of Variance (ANOVA) for ROE calculated Probability Value was .013 (at 5% level of significance) which was less than .05; hence was significant. So, Null Hypothesis H02: There exists an insignificant impact of Asset Quality (AQ), Capital (CAP), Management Efficiency (ME), Operating Efficiency (OE) and Size (SIZE) on Return on Equity (ROE) was rejected And Alternative Hypothesis H12: There exists a significant impact of Asset Quality (AQ), Capital (CAP), Management Efficiency (ME), Operating Efficiency (OE) and Size on Return on Equity (ROE) was accepted.

The Regression Model (1) was as follows:

$$ROE = 261.849 - .564 AQ - 2.116 CAP - .986 ME - 1.290 OE - 3.199 Size + ut$$

As per Table 4 Coefficients of Regression Model of ROA analysis showed that Asset Quality (-.564), Capital (-2.116),

Management Efficiency (-.986) and Operating Efficiency (-1.290) and Size (3.199) were negatively affecting ROE with Constant 261.849 and ut. If Net NPA ratio (AQ) increases than default on loans increases which ultimately decreases ROE. Capital is also had negative impact on ROA. It implied that if capital increases than companies have to invest in lower yielding assets, which ultimately decreases ROE. Operating Efficiency impact negatively ROE; it seems very rational because if expenses or cost increases than profitability deteriorates. Size also negatively affects ROE; it implied presence of diseconomies of scale.

7. Discussion

Two regression models i.e., ROA and ROE were employed. ROA Model explained variation upto 99.7% and 99.4% according to R Square and Adjusted R Square respectively. ROE Model explained variation upto 94.3% and 87.1% according to R Square and Adjusted R Square respectively. It showed that both models were good fit. On comparison of the two models, based on the higher Explanatory Power (R Square and Adjusted R Square), ROA Model was more appropriate than ROE Model.

8. Conclusion

ROA had no positive significant Correlation with any variables. ROA had positive insignificant Correlation with Management Efficiency and Size. ROA had significant negative Correlation with Operational Efficiency. ROA had insignificant correlation with Asset Quality and Capital. ROE had insignificant positive Correlation with Management Efficiency and Size. At the same time ROE had significant negative Correlation with Capital and Operational Efficiency. Asset Quality had insignificant negative Correlation with ROE.

In case of Regression Model regarding predicting ROE, it was concluded that independent variable viz., Asset Quality

(AQ), Capital (CAP), Management Efficiency (ME), Operational Efficiency and Size. Regression model regarding predicting ROA, it was concluded that independent variable viz.; Asset Quality (AQ), Capital (CAP), Management Efficiency (ME) and Operational Efficiency had negative impact on ROE. Size had positive impact on ROE. Both Regression Models (ROE and ROA) are good fit to predict impact of internal factors on profitability of gold loan non banking financial companies. ROA had better explanatory power and better fit model based on R Square and Adjusted R Square parameters as compared to ROE model.

9. Suggestions

Asset Quality should be improved by gold loan companies and by implementing stronger credit appraisal system. Capital Adequacy Ratio should be optimally maintained by companies in such a way that correct trade-off can be maintained between solvency and profitability. Expenses or Cost should be reduced and companies should optimally utilize the available resources, so that profitability can be enhanced. Companies should increase their Size i.e. assets under management, so that economies of scale can be experienced. Gold companies should deploy Regression Model (ROA) to enhance for better predictability.

10. Limitations of the Study

Five years (2010-2011 to 2014-2015) data were considered for the research. Only 2 gold loan companies were considered as sample. 5 internal factors were considered as sample for the study and external factors were out of preview.

11. Future Scope of the Study

Larger time period and higher number of gold loan non banking financial companies may be considered as sample for more comprehensive results. External factors and more internal factors may be considered for the future study purpose and to improve the models. Categorization of companies may be done such as Public Sector V/s. Private Sector companies for comparison purpose.

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