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Financial Performance Analysis of Selected Non Banking Financial Companies – A CAMEL Model

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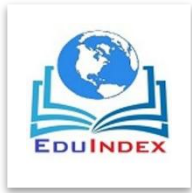
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Abstract

The present study has made a moderate attempt to financial performance analysis of five Non Banking Financial Companies in India during the period of five years from April, 2014 - Mar, 2019, using CAMEL model based on different ratios under the financial parameters (Capital Adequacy, Asset Quality, Management Efficiency, Earnings Capacity and Liquidity). It is observed that the selected Home Loan Services of the Non Banking Financial companies are registered with the Reserve Bank of India in the category of NBFC – ND, Such as Aadhar Housing Finance Ltd (AHFL), Equitas Small Finance Bank Ltd (ESFBL), Hinduja Housing Finance Ltd (HHFL), Aptus Value Housing Finance India Ltd (AVHFL) and Dewan Housing Finance Ltd (DHFL). This research study is mainly based on the secondary data collected from



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the annual reports of the selected NBFCs. The present study has made an attempt to analyze the financial soundness of five NBFCs.

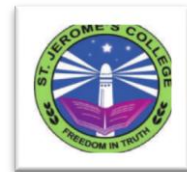
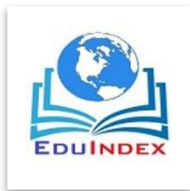
Keywords: Financial Performance, Capital Adequacy, Assets Quality, Management Efficiency, Earning Capacity, Liquidity.

INTRODUCTION

Non-Banking Financial Companies (NBFCs) are the companies involved in financing activities such as giving loans, charging interest and lending etc. The Reserve Bank of India (RBI) controls the operations of all NBFCs under the framework of RBI Act, 1934 and directions issued by it. Every NBFC, in order to carry out its operations, is required to obtain a license from RBI. In other words, any establishment desirous of carrying out the business of NBFCs shall apply to RBI for obtaining the license to operate as NBFCs and must be registered with RBI as an NBFC. Section 45-I (b) of third chapter of Reserve Bank of India Act 1934, defines Non-Banking Financial Company as: (a) a financial institution, which is a company, (b) a financial institution, which is a company and which has as its principal business of receiving deposits under any scheme of arrangement or lending in any manner, (c) Such other non-banking institution or class of such institutions that may function as banks with the previous approval of Central Government and notification in this regard in the official gazette. NBFCs are doing functions akin to that of banks; however, there are a few differences which are as follows:

- NBFC cannot accept demand deposits;
- NBFC is not a part of the payment and settlement system;
- NBFC cannot issue cheques drawn on itself; and deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available for NBFC depositors like banks

So far classification of NBFC is concern, with effect from December 6, 2006 the above NBFCs registered with RBI have been classified as: Asset Finance Company (AFC), Investment Company (IC), and Loan Company (LC). *Asset Finance Company (AFC):* An AFC is a company which is a financial institution carrying on as its principal business of financing physical assets



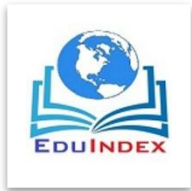
supporting productive/economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipment, moving on own power and general purpose industrial machines. *Investment Company (IC)*: IC means any company which is a financial institution carrying on as its principal business in the acquisition of securities, *Loan Company (LC)*: LC means any company which is a financial institution carrying on as its principal business of providing finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company. RBI basically publishes the list of the different types of NBFCs, but unfortunately adequate data is not available relating to the list of functioning of Loan Companies and even if they are available, the same is not reliable. This is why Loan Companies have been kept outside the purview of our study. Thus, the scope of the present study finally encompasses two categories of NBFCs namely Asset Finance Companies and Investment Companies.

REVIEW OF LITERATURE

Tamal Basu (2015)¹, the comparative analysis of the financial performance of selected investment and assets finance companies. The study reveals that there is no difference between the financial performances of each category of NBFCs apart from their nature of activities under their respective categories.

D. Venkadesh (2017)², this study discussed to appraise the solvency of selected NBFCs. Solvency is a vital indicator of economic performance of an economic system. In fact, it is a mechanism for improving the material quality of life. Solvency is fundamental to progress throughout the world. It is at the heart of economic growth and development, improvements in standards of living and quality of life. In this paper mainly focused on branch productivity and employee productivity of selected NBFCs.

Jafor Ali Akhan (2010)³, writes on "Non- Banking Financial Companies in India. This book discussed the financial system in India. This book is one of the good source in getting information on businesses, classification, management of asset, risk coverage of the NBFC in India.



Paul, P(2011)4, in his study “Financial Performance Evaluation – analyzed the financial performance of the selected NBFC during the period 2004 to 2009. In his study they taken five listed companies for analyzing the financial performance of NBFC. He concluded that the selected companies financial performance is different from one another.

Bhole (1992)5, has studied the growth pattern, problems, prospects and impact of NBFCs on financial market. He maintained that the nation become develop, NBFCs become more important. He compared the business volume and profitability ratio of commercial banks and NBFCs at aggregate level.

OBJECTIVES OF THE STUDY

- To find out the financial performance Analysis of selected Non Banking Financial Companies.

Hypothesis of the study

H0: There is no significant difference in the financial performance of selected NBFCs assessed by the CAMEL rating approach.

METHODOLOGY

The study has covered the average Financial Performance of selected NBFCs for 5 years from April, 2014 - Mar, 2019. The study has considered Five NBFCs Such as AHFL.HHFPL, ESFBL, AVHFIL and DHFL. The present study is based on Secondary data. The relevant data has been collected from the various sources such as annual reports of selected NBFCs as well as official website of RBI. And used Convenience Sampling is adopted for selecting the sample. The statistical tools used along with their purpose are Arithmetic mean, F-test and One way ANOVA.

RESULTS AND DISCUSSION

Table. 1 Capital Adequacy Parameters of the NBFCs from the year April, 2014 - Mar, 2019

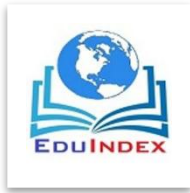
Name of the	Capital Adequacy	Debt to	Total Advances to	Securities to Total	Grand
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NBFCs	Ratio		Equity Ratio		Total Assets		Investment		Total	
	Avg	R	Avg	R	Avg	R	Avg	R	Avg	R
AHFL	19.1	1	1.16	1	45.32	1	51.32	1	1.65	1
HHFPL	17.32	3	1.85	2	39.24	3	41.02	4	2.35	3
ESFBL	16.03	5	2.01	4	37.62	4	39.32	5	2.67	5
AVHFIL	16.59	4	1.92	3	35.21	5	48.65	3	2.45	4
DHFL	17.73	2	2.36	5	41.95	2	49.35	2	1.95	2

Source: Compiled NBFCs Reports

Table 1 reveals that, the capital adequacy of different Non Banking Finance Companies based on four parameters. The AHFL obtained a good rank as compare to all other NBFCs in all parameters hence it is topped and obtained overall first rank by having average score of 1.65. Similarly ESFBL is not performing well means it has some problem with liquidity management it has average score of 2.67. And DHFL, HHFPL and AVHFIL are relatively good.

Table.2 Assets Quality Parameters of the NBFCs from the year April, 2014 - Mar, 2019

Name of the NBFCs	Net NPA to Net Advance Ratio		Standard Advances to Total Advances		Total Investment to Total Assets Ratio		Net NPA to Total Assets		Grand Total	
	Avg	R	Avg	R	Avg	R	Avg	R	Avg	R
AHFL	4.02	2	1.02	1	19.63	1	0.21	1	1.76	1

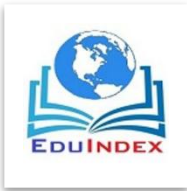
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HHFPL	4.62	3	1.28	4	20.04	3	0.34	3	2.01	3
ESFBL	5.63	5	1.39	5	20.99	5	0.49	5	2.63	5
AVHFIL	5.10	4	1.21	3	20.56	4	0.44	4	2.11	4
DHFL	3.96	1	1.15	2	19.89	2	0.29	2	1.89	2

Source: Compiled NBFCs Reports

Table 2 shows that, the performance all selected NBFCs on asset quality by considering four parameters. of the five NBFCs, **AHFL** performing well in all selected parameters except Standard advances to total advances ratio and topped the list by securing average score of 1.76. And similarly **ESFBL** is lagging behind the all selected banks hence it clearly indicates hidden problem in asset quality management and it has average score of 2.63.

**Table.3 Management Efficiency Parameters of the NBFCs from the year April, 2014 -
Mar, 2019**

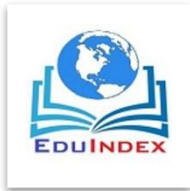
Name of the NBFCs	Secured Advances to Total Advances		Interest Expenses to Total Assets		Profit Per Employee		Business Per Employee		Grand Total	
	Avg	R	Avg	R	Avg	R	Avg	R	Avg	R
AHFL	41.03	1	3.10	1	0.31	1	24	1	2	1
HHFPL	39.76	3	4.01	3	0.48	3	22.61	4	2.8	3
ESFBL	37.12	5	4.88	5	0.73	5	20.06	5	3.1	5
AVHFIL	38.12	4	4.21	4	0.64	4	22.93	3	3	4

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DHFL	40.68	2	3.89	2	0.46	2	23.95	2	2.5	2
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Source: Compiled NBFCs Reports

Table 3 shows that, the performance of selected NBFCs with respect to management efficiency based on four parameters. AHFL top the list of five NFBCs by securing average score of 2 and it indicates the efficiency in the management decisions. Similarly ESFBL is lagging behind of all selected NBFCs by securing the average score of 3.1 which implies that there are some problems with management decisions in the ESFBL and AVHFIL.

Table.4 Earnings Quality Parameters of the NBFCs from the year April, 2014 - Mar, 2019

Name of the NBFCs	Return on Assets		Return on Investment		Return on Earnings		Net Interest Income to Total Assets		Grand Total	
	Avg	R	Avg	R	Avg	R	Avg	R	Avg	R
AHFL	0.41	1	5.3	1	3.01	1	1.72	1	1.24	1
HHFPL	-1.17	3	7.1	4	-12.3	3	1.41	4	2.01	3
ESFBL	-2.01	5	7.9	5	-13.5	5	1.20	5	2.68	5
AVHFIL	-1.84	4	6.9	3	-12.8	4	1.52	3	2.34	4
DHFL	0.43	2	6.8	2	-11.2	2	1.62	2	1.96	2

Source: Compiled NBFCs Reports

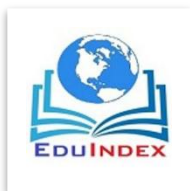


Table 4 shows that, the earning quality of selected NBFCs based on four selected parameter. As per the study it reveals that AHFL and DHFL are relatively top performers having the average score of 1.24 and 1.96. Similarly ESFBL lagging with a average score of 2.68.

Table. 5 Liquidity Parameters of the NBFCs from the year April, 2014 - Mar, 2019

Name of the NBFCs	Cash to Deposit Ratio		Liquid Assets to Total Deposits		Securities to Total Assets		Total Investment to Total Deposit		Grand Total	
	Avg	R	Avg	R	Avg	R	Avg	R	Avg	R
AHFL	3.10	1	1.89	1	14.12	1	13.05	1	1.5	1
HHFPL	2.14	4	1.32	3	13.95	3	12.03	3	3.6	4
ESFBL	2.01	5	0.95	5	12.86	5	11.02	5	3.9	5
AVHFIL	2.75	3	1.01	4	13.12	4	11.86	4	3.1	3
DHFL	3.02	2	1.73	2	14.03	2	12.86	2	2.7	2

Source: Compiled NBFCs Reports

Table 5 reveals that, the liquidity positions of five NBFCs . AHFL is considered to be relatively highly liquid because it earns lowest average score 1.5. Similarly ESFBL is relatively illiquid because it secured highest average score. It indicates that ESFBL has some problems with liquidity management.

Table.6 Overall Performance of All NBFCs from the year April, 2014 - Mar, 2019

Name	Ranks obtained in Various Parameters	Grand
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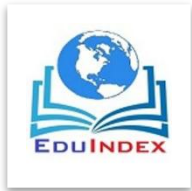
of the Bank	Capital Adequacy		Assets Quality		Management Efficiency		Earnings Quality		Liquidity		Total	
	R	W	R	W	R	W	R	W	R	W	Avg	R
AHFL	1	0.20	1	0.25	1	0.20	1	0.25	1	0.20	1.55	1
HHFPL	3	0.20	3	0.25	3	0.20	3	0.25	4	0.20	3.45	3
ESFBL	5	0.20	5	0.25	5	0.20	5	0.25	5	0.20	5.10	5
AVHFIL	4	0.20	4	0.25	4	0.20	4	0.25	3	0.20	4.15	4
DHFL	2	0.20	2	0.25	2	0.20	2	0.25	2	0.20	2.65	2

Source: Calculated data

Table 6 shows that, the overall performance of all the NBFCs as per CAMEL Model. As per CAMEL approach AHFL topped the list because it performs well in all the respect of Capital Adequacy, Asset quality, Management efficiency, Earnings quality and liquidity. Hence it earns a grand average score of 1.55. Similarly ESFBL ranked fifth and it has average score of 5.10. In every aspect it has improve its efficiency in order to survive in the future. DHFL and HHFPL are also well performers in all the aspects just after AHFL and secure 2nd and 3rd rank respectively. ESFBL and AVHFIL are also need to improve their performance in all the aspects if they want to stay in the market.

Table.7 Analysis of Variance (ANOVA)

Sources	Df	Sum of Squares	Mean Square	F-Ranks
Treatments	5	1.533	0.305	2.5321
Error	23	2.75	0.112	
Total	28			



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Source: Calculated data

Table 7 shows that, the ONE-WAY ANOVA to test the null hypothesis. As calculated F-ratio is more than the table F-value = 5. At 5% level of significance. Hence null hypothesis needs to be rejected and alternative hypothesis needs to be accepted. Hence it can be concluded that there are significant differences among the financial performance of selected NBFCs.

FINDINGS

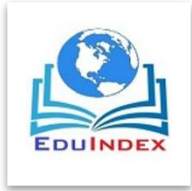
The financial performance analysis of data reveals that, out of all the selected NBFCs, AHFL is considered to be the best performer in Capital Adequacy, Asset quality and Management efficiency and Liquidity Position. The poor performance is concerned the ESFBL is relatively poor performing bank. It is found from the calculations that DHFL and HHFPL is also well performing bank just after AHFL. In case of management efficiency AHFL is topped because Business per employee. Though the ESFBL is found to be poor performer yet net NPA to total assets is very minimal in this bank compare to other banks.

RECOMMENDATION

ESFBL needs to restructure its overall functions otherwise it will face some consequences in the future. AHFL is also well performing but it needs to restructure its assets quality in order to give stiff competition to all other NBFCs. ESFBL and AVHFIL is also facing the problem of liquidity capital adequacy so now it has to focus on increasing liquidity and capital adequacy.

CONCLUSION

NBFCs system of a country influences its economy significantly. Due to radical changes in the NBFCs sector in the recent years, in evaluating the function of the banks, many of the developed countries are now following uniform financial rating system along with other existing procedures and techniques. Though the CAMEL rating approach is used all over the world it is not complete panacea to measuring financial performance of NBFCs as it involves some qualitative judgments by the onsite examiners it is always subjective in nature. And there are some evidences where CAMEL rating approach fails to give accurate results also.



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