

Analytical Study of Financial Performance of Non-Banking Financial Companies (NBFCs) in India

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Abstract

As a promotional agency for industrial development, Non -Banking Financial Institutions (NBFIs) plays an important role in the economic development of India along with the banking sector. The Non-Banking Financial Institutions (NBFIs) sector in India includes All India Financial Institutions (AIFIs), Non-Banking Financial Companies (NBFCs) and Primary Dealers (PDs). The Non-Banking Financial Institutions (NBFIs) sector in India is under the supervision and regulation of Reserve Bank of India. Within the NBFIs sector, NBFCs hold 75 per cent of total assets as compared to AIFIs (23 per cent) and PDs (2 per cent). On the basis of liability structures NBFCs are classified in to NBFCs-D and NBFCs-ND. On the basis of asset size NBFCs-ND are classified as NBFCs-ND-SI. This paper deals with the analytical study of financial performance of non-banking financial companies (NBFCs) in India with special reference to NBFCs-D and NBFCs-ND-SI.

Keywords: *Non-Banking Financial Institutions, Non-Banking Financial Companies, All India Financial Institutions and Primary Dealers, NBFCs-D, NBFCs-ND and NBFCs-ND-SI.*

1. Introduction

The Reserve Bank of India provides incentives to banks for lending to the NBFC sector. Banks are allowed to use government securities held by them equivalent to their incremental credit to NBFCs .The exposure limit of banks to non infrastructure NBFCs has raised from 10 per cent to 15 per cent. These initiatives are given to NBFC sector to make up their asset liability

mismatches .As per the Reserve Bank of India' report NBFCs-ND-SI constitutes 84.8 per cent of the total assets of the NBFC sector. At the end of March 2018, NBFCs-D accounted for 15.2 per cent of total assets and 17.6 per cent of the total credit deployed by NBFCs.This shows the increasing popularity of NBFC sector.

Non-banking financial institutions (NBFIs) are heterogeneous group of financial intermediaries which includes all-India financial institutions (AIFIs), nonbanking financial companies (NBFCs) and primary dealers (PDs). A Non-Banking Financial Company (NBFC) is a company registered under the Indian Companies Act, 1956 which engaged in the business of providing loans and advances, acquisition of shares/stocks /bonds/debentures/securities issued by Government or local authority or other marketable securities of a like leasing, hire-purchase, insurance business and chit business. All India Financial Institutions (AIFI) includes developmental financial institutions and investment institutions that play a major role in the financial markets. A Primary Dealer is a firm that purchases government securities directly from a government with the object of reselling them to others. NBFCs-D are nonbanking financial companies which are authorised to accept and hold public deposits. NBFCs-ND is nonbanking financial companies which do not accept public deposits but they are allowed to raise debt from market and banks. NBFCs-ND-SI is NBFCs-ND whose asset size does not exceed of ₹5 billion or more.

2. Literature Review:

Chavali, K., & Rosario, S. (2018) examined the relationship between the capital structure of NBFCs and their Net Profit, Return on Capital employed, Return on Equity, Return on Assets and Interest Coverage Ratio.Makhijani, N. (2014) found that NBFCs will need to introspect and rethink their business models as they will now not only have to combat stringent regulatory norms but also have to face the challenge of rising cost of funds, scare capital and direct competition from bank.Cheng, X., & Degryse, H. (2010). Examined the impact of bank and non-

bank financial institutions on local economic growth in China and also studied whether the financial development of two different types of financial institutions — banks and non-banks — have a (significantly different) impact on local economic growth. They found that banking development shows a statistically significant and economically more pronounced impact on local economic growth. Akhan, J. A. (2010) examined about the functioning of and recent reforms pertaining to NBFCs in India and provides an all-India list (as on January 15, 2010) of 314 NBFCs which have been issued certificates of registration by the Reserve Bank of India. Vadde, S. (2011) studied about the performance of non-government financial and investment companies (other than banking, insurance and chit-fund companies) during the year 2008-09. Cheema, M., Shah, S. A., & Burki, A. A. (2006) studied about the regulation of mutual funds in Pakistan and also the Role of Mutual Funds and Non-Banking Financial Companies in Corporate Governance in Pakistan.

3. Objectives of the study:

To make an analytical study of financial performance of non-banking financial companies (NBFCs) in India with special reference to NBFCs-D and NBFCs-ND-SI in terms of loan advanced, income generated, expenditure incurred and net profit earned by them..

4. Methodology:

Type of Research: An analytical research design was adopted in this study.

Area of Study: Performance of NBFC in India during 2014-2018.

Source of Data: The present study is based on secondary data.

Statistical tools used: The information gathered was tabulated and analyzed by using charts, averages and standard deviation.

5. Analysis and interpretation: Performance of NBFC analyzed on the basis of secondary data

Table 1. Loan and Advance

| YEAR | NBFC-D | | | NBFC-ND-SI | | |
|------|-------------------------|-----------------------|------|-------------------------|-----------------------|-------|
| | Amount (in billions) | Increase/ decrease | % | Amount (in billions) | Increase/ decrease | % |
| 2014 | 1372 | | | 8273 | | |
| 2015 | 1681 | 309 | 22.5 | 9516 | 1243 | 15.02 |
| 2016 | 2073 | 392 | 23.3 | 11039 | 1523 | 16.01 |
| 2017 | 2453 | 380 | 18.3 | 12346 | 1307 | 11.83 |
| 2018 | 3110 | 657 | 26.8 | 14533 | 2187 | 17.71 |
| AVG. | 2137.8 | | | 11141.4 | | |
| SD | 678.94 | | | 2441.01 | | |

Source: Report on Trend and Progress of Banking in India 2014-18 (R.B.I)

Table Number 1 Represents the performance of NBFC s in terms of loan advanced during 2014-2018. From the table the loan advanced by NBFC-D is increased from 1372 billion from 2014-15 to 3110 billion during 2017-18 which comes to an increase of 1738 billion .It indicates that loan advanced by the NBFC-D is increased during the period of study. The loan advanced by NBFC-ND-SI is increased from 8273 billion from 2014-15 to 14533 billion during 2017-18 which comes to an increase of 6260 billion. It indicates that loan advanced by the NBFC-ND-SI is increased during the period of study. The table shows that both NBFC-D and NBFC-ND-SI achieved their average only during the period 2017 and 2018. But at the same time both shows a decline during 2017 Thus the loan advanced by NBFC-ND-SI is more than the NBFC-D with a standard deviation of. 2441.01 .So that NBFC-ND-SI is a major player than NBFC-D.

Table 2.Incomes

| YEAR | NBFC-D | | | NBFC-ND-SI | | |
|------|-------------------------|-----------------------|------|-------------------------|-----------------------|------|
| | Amount (in billions) | Increase/ decrease | % | Amount (in billions) | Increase/ decrease | % |
| 2014 | 267 | | | 1443 | | |
| 2015 | 300 | 33 | 12.4 | 1702 | 259 | 17.9 |
| 2016 | 356 | 56 | 15.7 | 1785 | 83 | 4.9 |
| 2017 | 402 | 46 | 12.9 | 1909 | 124 | 6.9 |
| 2018 | 480 | 78 | 19.4 | 2034 | 125 | 6.5 |
| AVG. | 361 | | | 1774.6 | | |
| SD | 84.3 | | | 223.9 | | |

Source: Report on Trend and Progress of Banking in India 2014-18 (R.B.I)

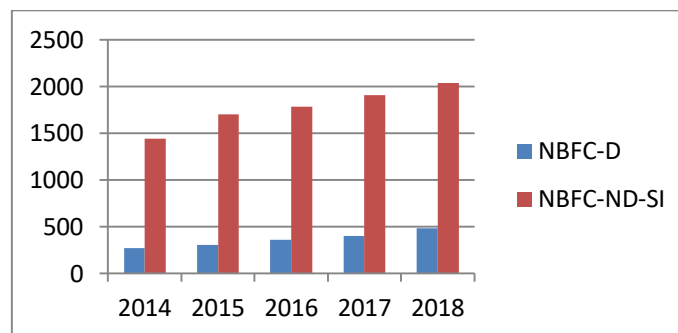


Table Number 2 Represents the performance of NBFC in terms of income generated during 2014-2018. From the table the income generated by NBFC-D is increased from 267 billion in 2014-15 to 480 billion during 2017-18 which comes to an increase of 213. It indicates that income generated by the NBFC-D is increased during the period of study. But this achieved their average only during the period 2017 and 2018 with a SD of 84.3... The income generated by NBFC-ND-SI is increased from 1443 billion from 2014-15 to 2034 billion during 2017-18 which

comes to an increase of 591 billion. It indicates that income generated by the NBFC-ND-SI is marginally increased during the period of study and this achieved its average during the period 2016, 2017 and 2018 with a SD of 223.9. The chart also depicts the increasing trend of NBFC-D and NBFC-ND-SI. Thus the income generated by NBFC-ND-SI is more than the NBFC-D shows that it plays a major role NBFC-D.

Table 3: Expenditure

| YEAR | NBFC-D | | | NBFC-ND-SI | | |
|------|-------------------------|-----------------------|-------|-------------------------|-----------------------|-------|
| | Amount (in billions) | Increase/ decrease | % | Amount (in billions) | Increase/ decrease | % |
| 2014 | 204 | | | 1071 | | |
| 2015 | 234 | 30 | 16.89 | 1257 | 186 | 11.02 |
| 2016 | 284 | 50 | 8.90 | 1343 | 86 | 14.89 |
| 2017 | 325 | 41 | 11.92 | 1498 | 155 | 8.31 |
| 2018 | 374 | 49 | 7.46 | 1584 | 86 | 6.44 |
| AVG | 284 | | | 1350.6 | | |
| SD | 68.3 | | | 201.98 | | |

Source: Report on Trend and Progress of Banking in India 2014-18(Reserve Bank of India)

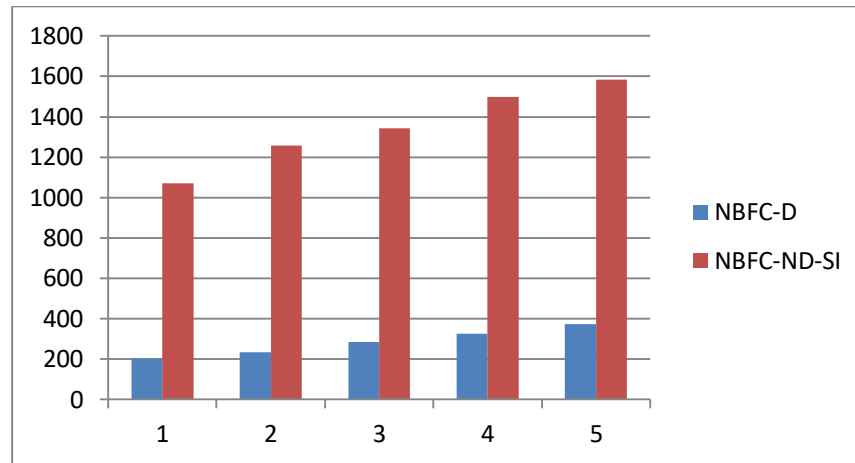


Table Number 3 Represents the performance of NBFC in terms of expenditure incurred during 2014-2018. From the table the expenditure incurred by NBFC-D is increased from 204 billion in 2014-15 to 374 billion during 2017-18 which comes to an increase of 170. It indicates that expenditure incurred by the NBFC-D is increased during the period of study. During 2017 and 2018 the expenditure incurred by NBFC-D is more than the average with a SD of 68.3. The expenditure incurred by NBFC-ND-SI is increased from 1071 billion from 2014-15 to 1584 billion during 2017-18 which comes to an increase of 513 billion. In the case of NBFC-ND-SI is also an increasing trend and it is more than the average during 2017 and 2018 with a SD of 201.98. The chart also depicts the increasing trend of NBFC-D and NBFC-ND-SI. Thus the expenditure incurred by NBFC-ND-SI is more than the NBFC-D So that it has to give importance to the reduction of expenditure.

Table 4: Net Profits

| YEAR | NBFC-D | | | NBFC-ND-SI | | |
|------|-------------------------------|-----------------------|---|-------------------------------|-----------------------|---|
| | Net profit earned (In bn.) | Increase/ decrease | % | Net profit earned (In bn.) | Increase/ decrease | % |
| | | | | | | |

| | | | | | | |
|------|-------|----|------|-------|-----|-------|
| 2014 | 39 | | | 270 | | |
| 2015 | 46 | 7 | 17.9 | 318 | 48 | 17.7 |
| 2016 | 50 | 4 | 8.7 | 318 | 0 | 0 |
| 2017 | 50 | 0 | 0 | 263 | -55 | -17.3 |
| 2018 | 70 | 20 | 4 | 316 | 53 | 20.2 |
| AVG | 51 | | | 297 | | |
| SD | 11.53 | | | 27.96 | | |

Source: Report on Trend and Progress of Banking in India 2014-18 (Reserve Bank of India)

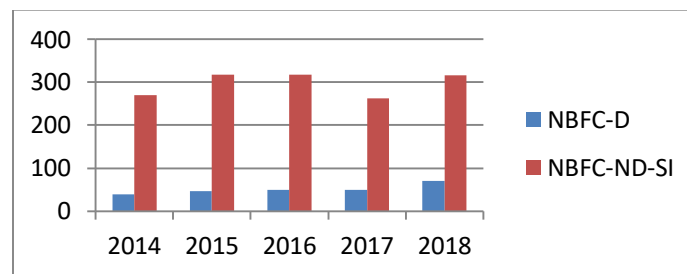


Table Number 4: Represents the performance of NBFC in terms of net profit earned during 2014-2018. From the table the net profit earned by NBFC-D is increased from 39 billion from 2014-15 to 70 billion during 2017-18 which comes to an increase of 31 billion. It indicates that Net profit earned by the NBFC-D is increased during the period of study, but it achieved a net profit of 2016 only (50 billion), that is it cannot maintain increasing trend and cannot achieve its average. So that its percentage of increase is zero (0). In 2018 there was an increase in net profit with 20 percentage and its SD is 11.53. The net profit earned by NBFC-ND-SI is increased from 270 billion from 2014-15 to 316 billion during 2017-18 which comes to an increase of 46 billion. But at the same time it achieved a net profit of 2015 only (318). But in 2018 its net profit increased to 316 and it is more than the average. The chart displays trend of NBFC-D and NBFC-

ND-SI clearly. Thus the growth and performance of NBFC in terms of net profit earned shows that NBFC-ND-SI is more than the NBFC-D shows that it plays a major role than NBFC-D.

6. Conclusion

Economic development of India mainly depends on the industrialization. For accelerating the growth of the industrialization Non-Banking Financial Companies (NBFC) also plays vital role in reducing the unemployment problem by providing finance to the entrepreneurs along with the banks,. This paper focused on an analytical study of financial performance of non-banking financial companies (NBFCs) in India with special reference to NBFCs-D and NBFCs-ND-SI in terms of loan advanced, income generated, expenditure incurred and net profit earned by them. The study reveals NBFC-ND-SI occupies a major position than the NBFC-D. In other words NBFC-ND-SI maintains an increasing trend in advancing loan, generation of income and earning net profit when compared with NBFC-D during the period of study. Thus, NBFC-D must increase their position by providing various services to the entrepreneurs along with NBFC-ND-SI which in turn strengthen the Non-banking Financial Institutions in India.

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