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FINANCIAL PERFORMANCE OF NON-BANKING FINANCIAL COMPANIES (NBFCs) IN INDIA

Suneelkumar
Research Scholar Department of Commerce
Gulbarga University,
Kalaburagi, Karnataka,
India

Dr. A.P Hosmani
Professor Department of Commerce
Gulbarga University,
Kalaburagi,. Karnataka,
India.

ABSTRACT

Non-banking financial company engaged in the business of accepting deposits developing credit and play an important role in changing the scarce financial resource to capital formation and Indian economic growth. NBFCs play a vital role in managing the financial services and contribute almost 24.3% GDP to the Indian economy as compared to banks with 21.4%. Non-banking financial companies have been supplementing the role of the organized banking sector by bridging the credit gaps to the increasing financial needs of the corporate sector delivering credit to the unorganized sector and small local borrowers. The present study include the structure of the NBFCs 2014-15 to 2018-19, the Financial position of Non-banking Financial Companies, Select ratios of the NBFC sector and Asset quality and capital adequacy Ratios of the NBFCs sector.

KEYWORDS: ***NBFCs, Capital Market Exposure, RoA, CRAR,***

INTRODUCTION

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 (New Act 2013) it is engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property. A non-banking institution which is a company and has the principal business of receiving deposits under any scheme or arrangement in one lump sum or installments by way of contributions or in any other manner is also a non-banking financial company (Residuary non-banking company).

The working and operation of NBFCs are quite similar to that of traditional banks. However, they differ from the banks in a few aspects such as NBFCs can't issue cheques drawn in its favor while the Banks can. Furthermore, the Deposit Insurance and Credit Guarantee Corporation don't cover NBFC depositors. Nevertheless, NBFC is the fastest-growing component in the Indian Financial Market owning to an ever-increasing demand for funds for various purposes such as education, house, marriage, vehicle, leisure, etc.

In recent times, NBFCs have experienced unexpected transformation. In addition, the present NBFCs are adopting a high-end tech-based business model to help them grow and earn effectively. The growth of the Fintech segment has been contributed towards more and more use of the internet, smart mobile phones, etc, thereby reaching out to the banking services in almost every corner of the country.

Non-Banking Financial Companies help reach the objective of macroeconomic policies of generating more jobs in the country by promoting SMEs and private industries through lending them loans. This increase in new businesses consequently raises the demand for manpower and creates employment. Also, the Purchasing Power Parity (PPP) of people rises and so does their standard of living. The financial market relies heavily on Non-banking financial institutions for raising capital. The start-ups and small-sized businesses are dependent on funds offered by NBFCs and also to maintain liquidity. For effective functioning and balance in the financial market, NBFCs play a significant role. As NBFCs aim to build capital for several industries – private and otherwise – they aid in accumulating a capital stock for the country. This directly adds to the national income and results in the development of the Gross Domestic Product (GDP).

Classification of NBFCs based on activities

Types of NBFCs	Activities
1. Asset finance company (AFC)	This is the financing of physical assets supporting productive/economic activities, including automobiles, tractor, and generators
2. Loan company	This is Providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an asset finance company.
3. Investment company	Investment company acquiring securities to sell
4. Infrastructure finance company (NBFC-IFC)	(NBFC-IFC) its providing infrastructure loan
5. Systemically important core investment company (CIC-ND-SI)	(CIC-ND-SI) acquiring shares and securities for investment mainly in the equity market.
6. Infrastructure debt fund (NBFC-IDF)	(IDF-NBFC) for facilitating the flow of long-term debt int infrastructure projects.
7. A microfinance institution (NBFC-MFI)	(NBFC-MFI) extending credit to economically disadvantaged groups
8. Factoring (NBFC-Factor)	Undertaking business of acquiring receivables of an assignor or extending loans against the security interest or the receivables at a discount
9. NBFC-non-operative financial holding company (NOFHC)	(NBFC-NOFHC) For permitting promoters/promoter groups to set up a new bank.
10. Mortgage guarantee company (MGC)	(MGC) undertaking mortgage guarantee business.
11. Account aggregator (NBFC-AA)	(NBFC-AA) collecting and providing information about a costumer's financial assets in a consolidated, organized and retrievable manner to the customer or others as specified by the customer.
12. Non-banking financial company- peer to peer lending platform (NBFC-P2P)	(NBFC-P2P) providing an online platform brings lenders and borrowers together to help mobilize funds.

Source: RBI

REVIEW OF LITERATURE

Davinder Kaur (2018) published a paper entitled “A Study Financial Performance of NBFCs” in the International Journal of Management, IT & Engineering, the study was made to analyze the financial performance of NBFCs and its comparison with previous years. The financial performance of NBFCs has been studied from different parameters viz expenses, incomes, taxes, profits, assets, etc.

Dr.J.Shanmuganandavadivel and Dr.D.Sasikala Devi (2018) published a paper entitled "Performance of NBFCs-an Indian Context" in the International Journal of Pure and Applied Mathematics This study found that there has been some deterioration in asset quality of NBFCs in recent years, but it is better than that of banks. NBFCs also reported better profitability and capital positions.

R.Sowndharya and Dr.R.Shanmugam (2014) write on "Analysis of Financial Performance of Non-Banking Financial Companies in India" in the Indian Journal of Applied Research this research paper includes Non-Banking Financial Companies, profitability, liquidity, leverage, Interest Coverage, Risk Indicator ratios. This study indicates the selected NBFCs differ significantly in terms of profitability and leverage indicators. The analysis of variance along with detail about average ratios may become a useful guide to the NBFCs in their financial decision making.

OBJECTIVES OF STUDY

- To study the NBFCs financial structure.
- To study the financial performance of NBFCs.
- To compare the performance with the previous year.

RESEARCH METHODOLOGY

The present study based on the descriptive type of research. This paper is based on secondary data mainly focuses on Literature review, research Paper, RBI Bulletin News Papers, Journals, websites, and other reliable sources. The data is also collected from RBI websites.

DATA ANALYSIS

Data has been presented and analyzed using tables, graphs, and statistical tools. The various indicators of the financial performance of NBFCs total assets have been taken and analyzed for the last two financial years. Apart from this various ratios are also analysed. The following table shows the various financial indicators from the financial year 2014-15 to financial year 2018-19:

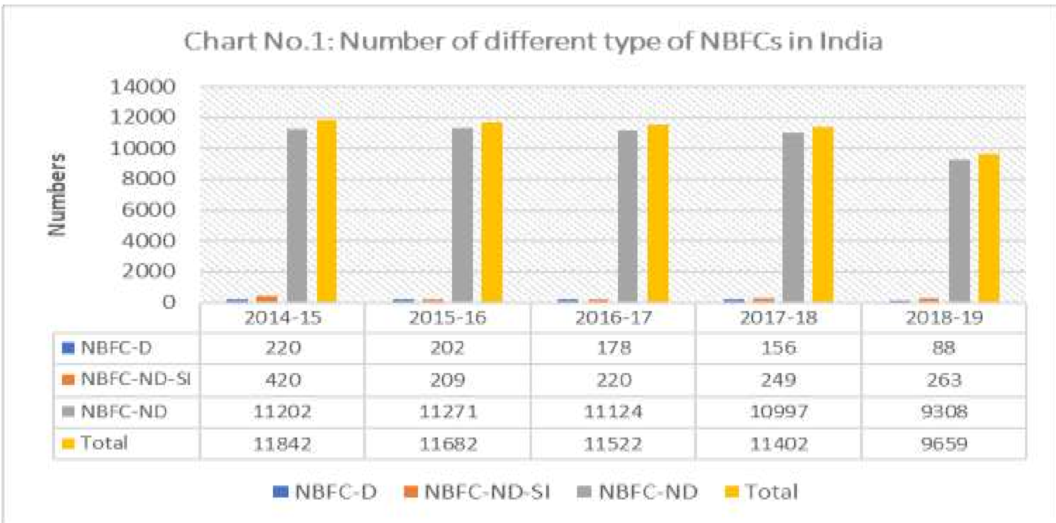
Table 1: Number of different type of NBFCs in India

End-march

Year	NBFC-D	NBFC-ND-SI	NBFC-ND	Total
2014-15	220	420	11202	11842
2015-16	202	209	11271	11682
2016-17	178	220	11124	11522
2017-18	156	249	10997	11402
2018-19	88	263	9308	9659

Source: RBI

The above Table No.1 exhibits the total number of NBFCs for the past five years. The total number of NBFCs considerably decreased over a period of time. The Reserve Bank of India (RBI) cancelled licences of 1,701 non-banking financial companies (NBFCs) in the year ended 31 March 2019.



The financial position of Non-banking Financial Companies

Table No.2: Aggregated balance sheet of the NBFC sector: y-o-y growth

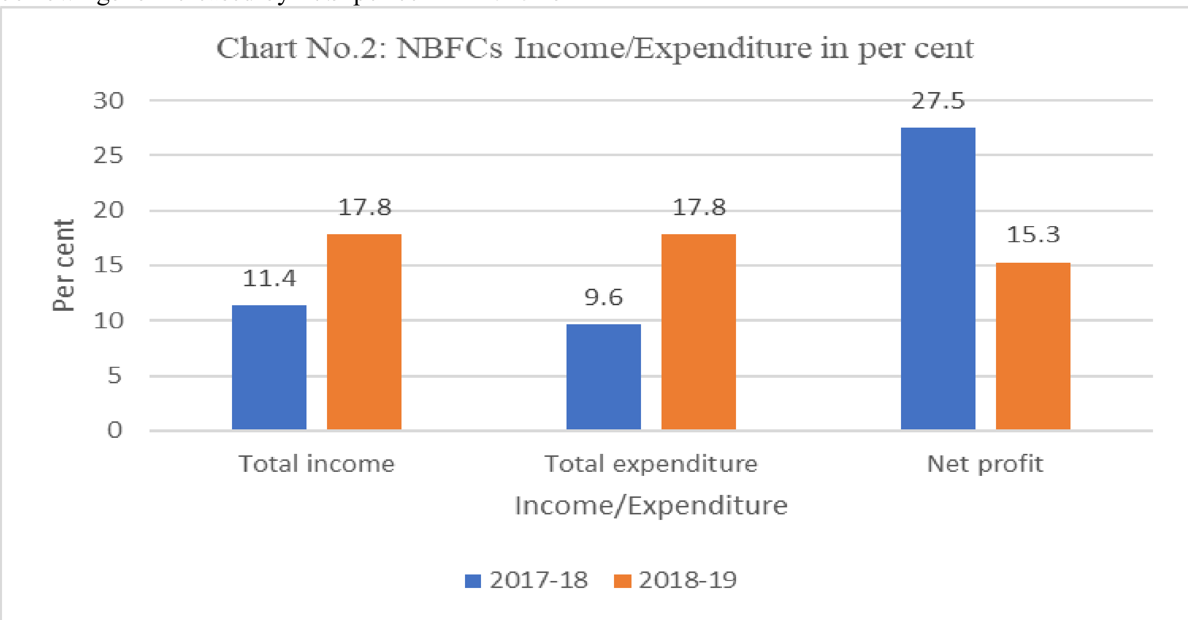
(per cent)

Particulars	**2017-18**	**2018-19**
Share capital	6.0	6.3
Reserves and surplus	18.7	14.6
Total borrowings	19.6	19.6
1) Debentures	13.1	5.2
2) Bank borrowings	34.4	47.9
3) Commercial paper	13.3	4.0
Current liabilities and provisions	22.4	48.7
Total Liabilities / Assets	17.9	20.6
Loans and advances	21.1	18.6
Investments	12.9	24.4
Others	26.7	-2.0
Income/Expenditure		
Total income	11.4	17.8
Total expenditure	9.6	17.8
Net profit	27.5	15.3

Source: *The Reserve Bank's Supervisory Returns.*

The consolidated balance sheet size of the NBFC sector grew by 20.6 per cent to ₹ 28.8 trillion during 2018-19 as against an increase of 17.9 per cent to ₹24.5 trillion during 2017-18. The NBFC sector's Share capital increased by 6.3 per cent in 2018-19 as compared to 6.0 per cent in 2017-18. Reserves and surplus decreased by 14.6 percent, Total borrowings are constant 19.6 percent, Debentures decreased by 5.2 percent, Bank borrowings is increased by 47.9 per cent in 2018-19 as compared to 34.4 per cent in 2017-18, Commercial paper is decreased by 4.0 percent.

The NBFC Total assets sector's Loans and advances decreased by 18.6 per cent in 2018-19 as compared to 21.1 per cent in 2017-18. Investments increased by 24.4 per cent in 2018-19 as compared to 12.9 per cent in 2017-18. Others Assets decreased by -2.0 per cent in 2018-19 as compared to 26.7 per cent in 2017-18.



The above chart exhibits the NBFCs sectors Income/Expenditure Total income increased by 17.8 per cent in 2018-19 as compared to 11.4 per cent in 2017-18. Total expenditure also increased by 17.8 per cent in 2018-19 as compared to 9.6 per cent in 2017-18. Net profits decreased by 15.3 per cent in 2018-19 as compared to 27.5 per cent in 2017-18.

Table No.3: Select ratios of the NBFC sector

(per cent)

Particulars	2017-18	2018-19
Capital market exposure to total assets	10.5	9.5
Real estate exposure to total assets	6.7	6.0
Leverage ratio	3.2	3.4
Net profit to total income	14.1	15.3
RoA	1.7	1.7

Source: *The Reserve Bank's Supervisory Returns*.

The above Table No.3 exhibits Capital market exposure to total assets of NBFCs sectors decreased by 9.5 per cent in 2018-19 as compared to 10.5 per cent in 2017-18. Real estate exposure to total assets decreased by 6.0 per cent in 2018-19 as compared to 6.7 per cent in 2017-18. The leverage ratio increased by 3.4 per cent in 2018-19 as compared to 3.2 per cent in 2017-18. Net profit to total income increased by 15.3 per cent in 2018-19 as compared to 14.1 per cent in 2017-18. RoA was 1.7 per cent in 2018-19.

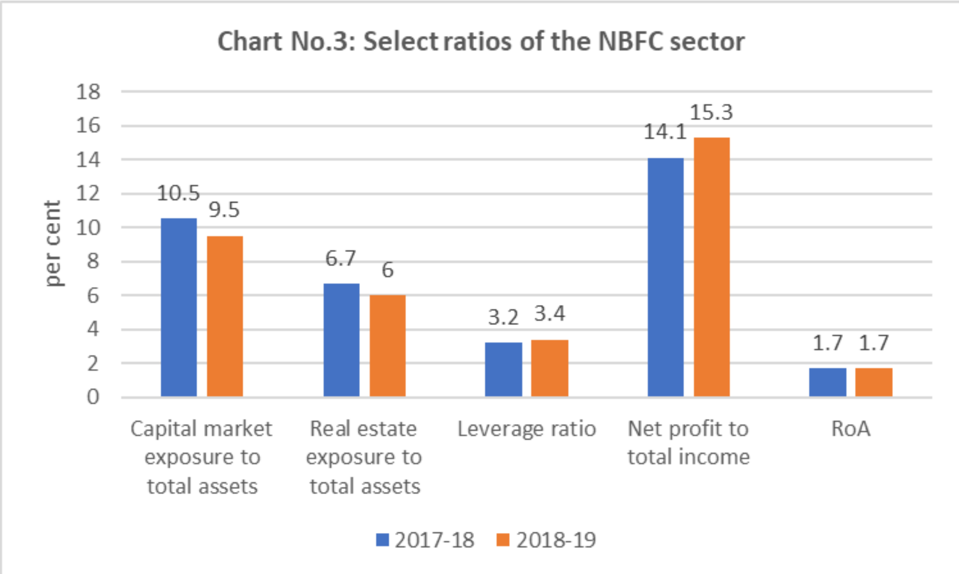


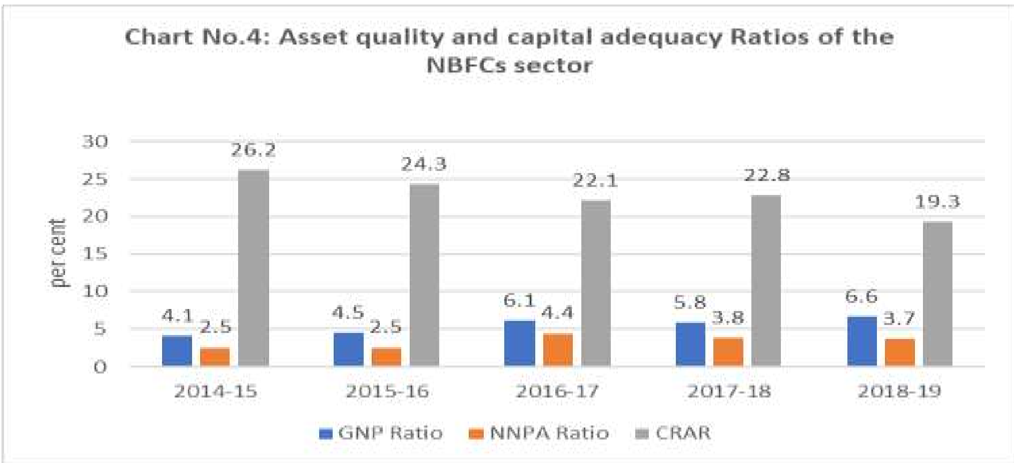
Table No.4: Asset quality and capital adequacy Ratios of the NBFCs sector

(Per cent)

	GNP Ratio	NNPA Ratio	CRAR
2014-15	4.1	2.5	26.2
2015-16	4.5	2.5	24.3
2016-17	6.1	4.4	22.1
2017-18	5.8	3.8	22.8
2018-19	6.6	3.7	19.3

Source: *The Reserve Bank's Supervisory Returns.*

Non-banking financial companies Asset quality and capital adequacy Gross NPAs of the NBFC sector as a percentage of total advances increased from 5.8 per cent in 2017-18 to 6.6 per cent in 2018-19. However, the Net NPA ratio declined marginally from 3.8 per cent in 2017-18 to 3.7 per cent in 2018-19. As on March 2019, the CRAR of the NBFC sector moderated at 19.3 per cent from 22.8 per cent in March 2018



CONCLUSION

Non-Banking Finance Companies (NBFCs) have undergone a significant transformation and today they form an important component of India's financial system. In India NBFCs Playing a critical role in the development of infrastructure, transport and employment generation, NBFCs are changing the business loan landscape in the country. NBFCs mainly lend to the industrial sector. While there has been some deterioration in the asset quality of NBFCs in recent years, it is better than that of banks. NBFCs also reported better profitability and capital positions. The RBI is constantly striving to bring necessary regulatory changes in the NBFC to ensure financial stability in the long run. These initiatives have been motivated by the objectives of financial stability, financial inclusion, and harnessing of specialized domain expertise.

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