International Research Journal of Human Resource and Social Sciences
ISSN(O): (2349-4085) ISSN(P): (2394-4218)
Impact Factor 5.414 Volume 7, Issue 06, June 2020
Website- www.aarf.asia, Email : editoraarf@gmail.com

A PRAGMATIC ANALYSIS OF LEADING NON-BANKING FINANCIAL COMPANIES (NBFC) IN INDIAN FINANCIAL MARKETS

AUTHORS

Vandana Agarwal [1] & Dr. Seema Baldua [2]

1. Research Scholar, Department of Accountancy & Business Statistics University of Rajasthan, Jaipur
2. Associate Professor, Department of Accountancy & Business Statistics, University of Rajasthan, Jaipur

ABSTRACT

Financial management is concerned with duties of the financial managers in the business who perform such varied tasks as budgeting, financial forecasting cash management, credit administration and investment analysis and funds management etc., Financial services is concerned with the design and delivery of advice and financial products to individuals and business with the areas of banking and related institutions personal financial planning, mutual funds, factoring, leasing and insurance etc., Non fund based and advisory are provided by the non-banking financial companies. A Non-Banking Financial Company (NBFC) is a company registered under the Companies 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. It is also engaged in leasing, hire purchase, insurance business and chit business. A modest attempt is made in this paper to study the growth and penetration of non banking financial companies in Indian financial markets.

Keywords: finance, financial management, financial derives

INTRODUCTION

Non-Banking Financial Companies (NBFCs)

Non-banking Financial Companies (NBFCs) are financial institutions that provide certain types of banking services but do not hold a bank license. The NBFCs in India made a humble beginning way back in 1960s to serve the need of the savior and investor whose financial requirements were not sufficiently covered by the existing banking system. The NBFCs began to invite fixed deposits from the investors and work out leasing deal for big industrial firms. Initially they operated on a limited seal and could not make a significant impact on the financial systems. However between 1980s and 1990s, NBFCs have gained strong in Indian financial system. They are registered companies conducting business activities similar to regular banks. Their banking operations encompass making loans and advances available to consumers and business, acquisition of marketable securities leasing of hard assets such as automotives hire purchase and insurance business. Through they are akin to banks, they differ in couple of ways. NBFCs cannot accept demand deposits and cannot issue clearances to customers and the deposits with them are not insured by the deposit insurance and credit guarantee corporation (DICGC).

Growth of NBFCs

The NBFC sector in India has witnessed a significance growth over the past 10 years and has come to be recognized as a systematically key element of the financial systems. The importance of NBFCs was not significant before 1980s and 1981, they were hardly 7063. At present the number of NBFCs has gone up to nearly over 40,000. Mainly NBFCs are of two types of financial and non financial. In these two categories of NBFCs there are public limited and private limited companies.

It is pertinent to note that nearly 85 to 90 percent of the companies are of non financial in nature some of them accepting deposits. Some of the NBFCS are: Hire purchase finance companies, equipment leasing companies, loan companies, investment companies, housing finance companies, mutual benefit finance companies, insurance companies, stock broking companies. Other companies are Chits and Kuris and they organize the collecting of funds from subscribing members in installments with a definite time frame and each one of them is eligible for drawing the prize amount decided by the tender or loto or in any sequential order as in the case of Nidhis.

By 2005, the member of NBFCs has been reported to have gone up to 38050 as against 25085 just before reforms started in 1991. During the last one and half tickets the number of NBFCs mobilizing, deposits have increased by 9 times and more. The rate of growth of deposits of NBFCs is however higher at 50% to 120%. The contribution of NBFCs to the economy has grown substantially from 8.4% in 2006 to more than 14% in March 2015. In terms of financial assets, NBFCs have registered robust growth, i.e., a compound annual growth (CAGR) 219 percent over the past few years, consisting of 13% of the total credit and estimated to reach nearly 18% by 2018-19. The success of NBFCs can be clearly attributed to their superior product lines, lower cost, broader and effective reach, robust risk management capabilities to check and control bad debts and proper comprehension of their consumer segments.

Not only they have shown success in their traditional bastions (passenger and commercial vehicle finance) but also managed to build substantial assets under management (AUM) in the personal loan and housing finance sector which have been the bread and butter for retail banks. Going forward, the latent credit demand of an emerging India will allow NBFCs to fill the gap, especially were traditional banks have been wary to serve. Additionally improving macroeconomic condition, higher credit penetration, increased consumption and disruptive, digital banks will allow NBFCs credit to grow at a healthy rate of 7 to 10% was next five years.

Evaluation of NBFCS

Over the past several decades, NBFCS have emerged as important financial intermediacies particularly for the small and retail sectors in underserved areas and unbanked sectors. NBFCS have turned out to the growth engines in an earner where increased importance is aligned to financial inclusion. The growing important of NBFC segment in the Indian financial systems has led to a changing landscape of the NBFC framework with NBFCS emerging as an important segment deeply connected with entitles in the financial sector, coupled with failures of large NBFCS a more comprehensive and enhanced framework was put into place by the RBI is the years 1996 and 1997. In 1999 the capital requirement for the fresh registration was enhanced from Rs.25 lakhs to Rs.200 lakhs. Further more in 2006 in order to bridge the gap between bank and NBFCs, non deposit accepting NBFCs and non systematically important NBFCs based on their arbit rize. Certain prudential norms were imposed on such NBFCs. The forms of RBI has shifted from deposit accepting NBFCs to non deposit accepting NBFCs.

Regulatory Framework for NBFCs

In the Indian context NBFCs are considered similar to shadow banks although they are still subject to regulatory imprecision. The light touch regulations on shadow banks gave rise to high leverage and the credits assets. The resultant liquidity crunch got further transformed to the banking systems due to its interlink ages with shadow banking sector.

The financial statistics Board (FSB) has been instantly working towards strengthening the are sight and regulation of the shadow banking systems to mitigate the risk, arising therefore. At the same time, the RBI has not failed to recognize the importance role played by NBFCs in bringing about financial inclusion in the country. NBFCs fill the important gaps in financial inclusions by catering to geographies and sectors where the banking sector in unable to foray into. In the light of the above the RBI took various steps to revamp the NBFC framework. The deposits of the revised NBFC classification figure. Revised NBFC classification details

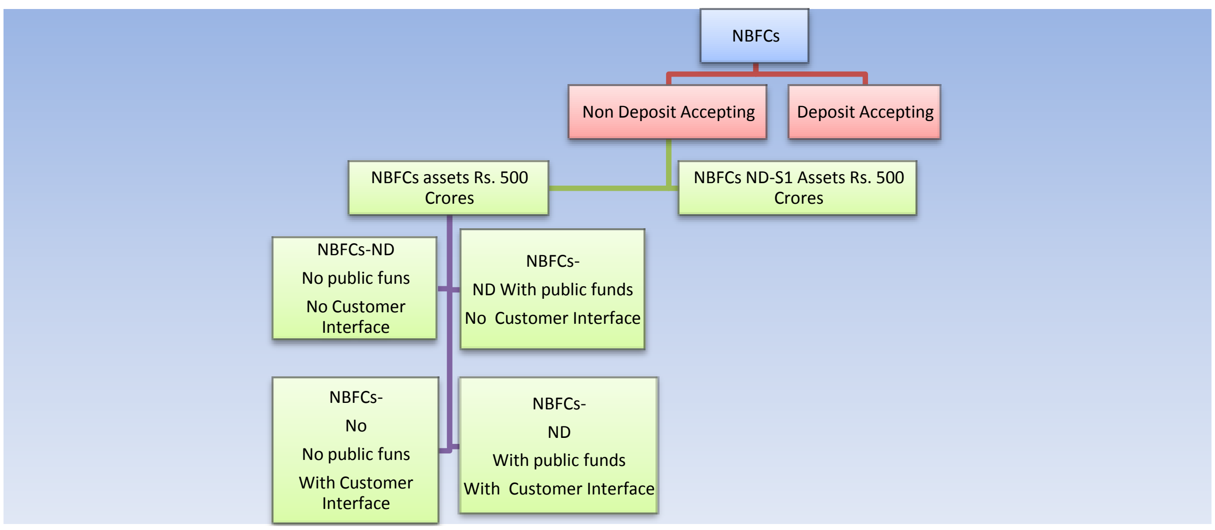

Fig 1 : A comprehensive review of NBFC regulations was conducted by the RBI in 2014. The revised regulations are meant to focus

***Source*:** Collected through internet has been presented in the above figure. **Large Penetration of NBFCs**

For a huge and diverse country like India, ensuring financial access to fuel growth and entrepreneurship is essential. There is a strong urban demand and an increase in credit penetration to should continue to drive the growth consumer finance segment. However there may be a period of muted growth from the rural sector. Driven by higher disposable incomes through increased effectiveness of government schemes and seventh pay commission, it can be said that healthy growth in the consumer segment would become the reality. On the small and medium enterprises (SMEs) front, business and professional loans seem to be on a growth trajectory, but mortgage backed loans (Loan against property), which form a large proportion of the SME loans will remain muted due to the increased competition from the new entrants in the financial market and traditional banks, which have been successful in capturing and retaining the upper end of the ticket sized band. With the commencement of

Government backed schemes such as Pradhana Mantri Jan Dhan Yojana (PMJDY), there has been a significant jump number of bank accounts, however only 15% of the adults have reported using an account to make or receive payments. The government and regulatory bodies have initiated vital measures to enhance this number and subsequently financial access by granting in principal and above focused approach of the other industries bodies like the National Payments Corporation of India (NPCI). To further solidify and augment the payments by launching the unified payment interface (UPI) and Bharat Bill Payment System (BBPS).

PERFORMANCE OF SELECTED NBFCS

Among many NBFCs, five leading NBFCs have been selected to access their performance; they are L & T finance Bajaj Finserv, Bajaj Holdings , Muthoot Finance & Reliance Capital. . In order to ascertain as to whether the selected mentioned NBFCs are on equal booting or not two variables or factors that have been considered are Net profit ratio and Operating Profit Ratio whereas for the study period.

Results of Net Profit ratio and Operating profit ratio is depicted in table's below:

NET PROFIT RATIO

The net profit percentage is the ratio of after-tax profits to net sales. It reveals the remaining profit after all costs of production, administration, and financing have been deducted from sales, and income taxes recognized. As such, it is one of the best measures of the overall results of a firm, especially when combined with an evaluation of how well it is using its working capital. The measure is commonly reported on a trend line, to judge performance over time. It is also used to compare the results of a business with its competitors.

Net profit is not an indicator of cash flows, since net profit incorporates a number of non-cash expenses, such as accrued expenses, amortization, and depreciation. The formula for the net profit ratio is to divide net profit by net sales, and then multiply by 100. The formula is:

$$\textbf{(Net profit} \div \textbf{Net sales) x 100}$$

The measure could be modified for use by a non-profit entity, if the change in net assets were to be used in the formula instead of net profit.

TABLE 1 NET PROFIT RATIO OF NBFC'SCOMPANIES UNDER STUDY

(Net Profit Ratio in Times)
(Values in Rs Crore)

COMPANY		Financial Year				
		2018-19	**2017-18**	**2016-17**	**2015-16**	**2014-15**
		Mar '19	**Mar '18**	**Mar '17**	**Mar '16**	**Mar '15**
Bajaj Finserv	Net Profit	307.17	141.62	70.02	163.13	125.93
	Net Sales	423.05	241.90	153.90	242.32	200.24
	Ratio	0.73	0.59	0.45	0.67	0.63
Bajaj Holdings	Net Profit	788.19	799.93	538.18	1270.51	867.73
	Net Sales	993.63	949.09	880.49	1394.51	972.22
	Ratio	0.79	0.84	0.61	0.91	0.89
L & T Finance	Net Profit	267.06	266.05	248.66	378.04	261.63
	Net Sales	482.11	454.58	277.58	348.50	290.62
	Ratio	0.55	0.59	0.90	1.08	0.90
Muthoot Finance	Net Profit	1972.14	1777.56	1179.83	809.55	670.52
	Net Sales	6878.21	6266.52	5728.63	4861.40	4313.80
	Ratio	0.29	0.28	0.21	0.17	0.16
Reliance Capital	Net Profit	157.00	-5760.00	419.00	977.00	757.00
	Net Sales	2312.00	2583.00	1954.00	4076.00	3948.00
	Ratio	0.07	-2.23	0.21	0.24	0.19

***Source** –Annual Reports& Accounts of NBFC's Companies under Study*

INTERPRETATION OF NET PROFIT RATIO

From the above table the Net Profit Ratio for five NBFC's of India can be examined. The first company was Bajaj Finserv with a net profit of 0.37 in the year 2008-09 which slightly increased to 0.59 in the year 2017-18. Similarly, Bajaj Holdings had a net profit of 0.80 in the year 2008-09 which very minutely increased to .84 in the year 2017-18 respectively.

In case of L & T finance the net profit ratio was 0.66 whereas its net sales recorded as 192.38. The company had a fluctuating trend in its net profit ratio throughout the ten years study. The fourth company named Muthoot finance had mean net sales of 3997.90 whereas its net profit was 0.19.

Lastly, Reliance Capital showed a negative net profit ratio in the year 2017-18 with -2.23 figure. Rest all the year; it marked a low net profit ratio. Overall, all the companies had a decent net profit ratio in all the years with fluctuating trend.

HYPOTHESIS TESTING

For the Testing of Hypothesis Researcher has applied F (ANOVA) Test.

***Null Hypothesis H_0:** There is no significant difference in Financial Performance (Based on Net Profit ratio) of NBFC's Companies in India during study period.*

***Alternate Hypothesis H_1:** There is a significant difference in Financial Performance (Based on Net Profit ratio) of NBFC's Companies in India during study period.*

Table No.4.8 (b) Analysis of Variance (Anova)of Net Profit Ratio

ANOVA Summary					
Source	Degrees of Freedom	Sum of Squares	Mean Square	F-Stat	P-Value
	DF	SS	MS		
Between Groups	4	5.8701	1.4675	7.0112	0.0001
Within Groups	50	10.4656	0.2093		
Total:	54	16.3357			

*(Obtained from Analysis of Table 5.2(a))*It is clear from table No.4.8 (b) that the calculated value of 'F' was 7.0112, which is higher than table value of 'F' 2.87 and P value is 0.0001 which is less than 0.05 at 5% level of significance. So, null hypothesis is rejected and alternative hypothesis is accepted. So, it can be concluded that there is a significant difference in Net Profit ratio in selected NBFC's under study.

OPERATING PROFIT RATIO

The operating margin ratio, also known as the operating profit margin, is a profitability ratio that measures what percentage of total revenues is made up by operating income. In other words, the operating margin ratio demonstrates how much revenues are left over after all the variable or operating costs have been paid. Conversely, this ratio shows what proportion of revenues is available to cover non-operating costs like interest expense.

This ratio is important to both creditors and investors because it helps show how strong and profitable a company's operations are. For instance, a company that receives 30 percent of its revenue from its operations means that it is running its operations smoothly and this income supports the company. It also means this company depends on the income from operations. If operations start to decline, the company will have to find a new way to generate income.

Conversely, a company that only converts 3 percent of its revenue to operating income can be questionable to investors and creditors. The auto industry made a switch like this in the 1990's. GM was making more money on financing cars than actually building and selling the cars themselves. Obviously, this did not turn out very well for them. GM is a prime example of why this ratio is important.

The operating margin formula is calculated by dividing the operating income by the net sales during a period.

Operating Profit Ratio= Operating Income/ Net sales

Operating income, also called income from operations, is usually stated separately on the income statement before income from non-operating activities like interest and dividend income. Many times operating income is classified as earnings before interest and taxes. Operating income can be calculated by subtracting operating expenses, depreciation, and amortization from gross income or revenues.

The operating profit margin ratio is a key indicator for investors and creditors to see how businesses are supporting their operations. If companies can make enough money from their operations to support the business, the company is usually considered more stable. On the other hand, if a company requires both operating and non-operating income to cover the operation expenses, it shows that the business' operating activities are not sustainable.

TABLE 2 OPERATING PROFIT RATIO OF NBFC'SCOMPANIES UNDER STUDY

(Profit Ratio in Times)
(Values in Rs Crore)

COMPANY		Financial Year				
		2018-19	**2017-18**	**2016-17**	**2015-16**	**2014-15**
		Mar '19	**Mar '18**	**Mar '17**	**Mar '16**	**Mar '15**
Bajaj Finserv	Operating Income	302.03	158.21	94.36	187.06	149.22
	Net Sales	423.05	241.9	153.9	242.32	200.24
	Ratio	0.71	0.65	0.61	0.77	0.75
Bajaj Holdings	Operating Income	909.1	884.6	669.81	1,357.09	935.42
	Net Sales	993.63	949.09	880.49	1,394.51	972.22
	Ratio	0.91	0.93	0.76	0.97	0.96
L & T Finance	Operating Income	461.82	431.44	253.76	316.35	255.09
	Net Sales	482.11	454.58	277.58	348.5	290.62
	Ratio	0.96	0.95	0.91	0.91	0.88
Muthoot Finance	Operating Income	5,353.33	4,753.31	4,244.97	3,723.27	3,207.49
	Net Sales	6,878.21	6,266.52	5,728.63	4,861.40	4,313.80
	Ratio	0.78	0.76	0.74	0.77	0.74
Reliance Capital	Operating Income	2,142.00	-3,696.00	1,787.00	3,441.00	3,192.00
	Net Sales	2,312.00	2,583.00	1,954.00	4,076.00	3,948.00
	Ratio	0.93	-1.43	0.91	0.84	0.81

***Source** –Annual Reports& Accounts of NBFC's Companies under Study*

INTERPRETATION OF OPERATING PROFIT RATIO

The table shows the operating profit ratio for five respected NBFC's of India and the firs named Bajaj Finserv showed a decent operating profit throughout its study period. For 2008-09 it was calculated as 1.01 whereas in the year 2017-18 it almost remained same with a figure of 1.04. The second company was Bajaj Holdings with operating income generated as 906.38 whereas its net sales were marked as 848.72.

In case of the third company that was L & T finance, the operating profit ratio was calculated as 1.24 whereas its net sales were marked as 192.38. The operating income for the same was 241.59 whereas for Muthoot it was 3995.60. Muthoot had a operating profit ratio of 0.98 which was lower than L & T finance.

The last company under the study was Reliance Capital with a operating profit ratio of 1.02. The company had operating income valued as 3042.79 whereas its net sales recorded as 3001.05. All the NBFC's recorded similar growth in terms of operating profit ratio.

HYPOTHESIS TESTING

For the Testing of Hypothesis Researcher has applied F (ANOVA) Test.

Null Hypothesis H_0: *There is no significant difference in Financial Performance (Based on Operating Profit ratio) of NBFC's Companies in India during study period.*

Alternate Hypothesis H_1: *There is a significant difference in Financial Performance (Based on Operating Profit ratio) of NBFC's Companies in India during study period.*

Table No. 2 (b) Analysis of Variance (ANOVA) of Operating Profit Ratio

ANOVA Summary					
Source	Degrees of Freedom	Sum of Squares	Mean Square	F-Stat	P-Value
	DF	SS	MS		
Between Groups	4	0.6768	0.1692	1.5635	0.1985
Within Groups	50	5.4109	0.1082		
Total:	54	6.0877			

(Obtained from Analysis of Table 5.3(a))

It is clear from table No.2 (b) that the calculated value of 'F' was 1.5635, which is lower than table value of 'F' 2.87 and P value is 0.1985 which is higher than 0.05 at 5% level of significance. So, null hypothesis is accepted and alternative hypothesis is rejected. **So, it can be concluded that there is no significant difference in Operating Profit ratio in selected NBFC's under study.**

CONCLUSION

Non-banking Finance companies (NBFCs) are playing a significant role in providing million of rupees to the domestic small cottage and reliable sectors of the economy and they are helping them to meet their financial requirements for their diversification and development. NBFCs are working actively on par with scheduled commercial banks in meeting the requirements of trade and industry in the country. The credit appraisal systems of NBFCs have been reasonability well for the mutual benefit of the lenders and barrowers. With their inherent ability to move fast and to tap into specific customer segments, it seems that NBFCs would be able to transfer these benefits in meeting the non-corporate needs of the economy including those of small and medium enterprises and retail customers with an estimate suggesting that more than 50 percent of micro, small and medium enterprises (MSMFs) do not have reach to formalized credit the needs of the industry cannot be overstated other than the opportunity in SME financing enhance penetration for housing will surely drive double digit growth over the next decade. India's housing finance regiment continues to display huge potential for growth, and housing finance companies with 40 percent of the share are clearly leading the way in the country. Moreover as newer customer needs emerge from a digitally savvy customers segment, NBFCs could potentially often up new avenues for growth. It can be noticed that there was a proliferating many number of NBFCs of varying types in the Indian economy and are playing a key role in meeting the credit demands and requirements which are nor liberally provided by traditional banks. NBFCs have a significant presence is a notes of the economy and its part in the development of the economy in various ways.

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