GROWTH AND PERFORMANCE OF NON-BANKING FINANCIAL COMPANIES IN INDIA

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ABSTRACT:

Traditionally, India has had a bank-dominated financial sector. Even so, NBFCs have been playing a very dominate role. These were in early times small family run businesses for deposits acceptance and lending activities. Even today, the sector may be small compared to banking sector with a total asset size of just around 14 percent of that of Scheduled Commercial Banks (other than RRBs). As the demand for NBFCs financial services grow, countries need to encourage the development. The selected NBFCs are suggested to adopt very rational and ethical means to recover their debts. Their size of business, income and revenue earning efficacy, credit lending practices and investment made by the NBCS duly influences their expenses management, profit earning efficiency, short and long term capitals and ratios management practices.

INTRODUCTION:

NBFCs over the years have played a very vital role in the economy. They have been at the forefront of catering to the financial needs and creating livelihood sources of the so-called un-bankable masses in the rural and semi-urban areas., Moreover, NBFCs in India take a lead role in providing innovative financial services to Micro, Small and Medium Enterprises (MSME) most suitable to their business requirements. The characteristics of NBFCs financial services include simple process and procedures in sanction and disbursement of credit, timely, friendly and flexible terms of repayment aligned to the unique features of its clients, albeit at a higher cost[1].In short, it can be claimed that NBFCs are the perfect or even better alternatives to the conventional banks for meeting various financial requirements of a financial enterprise. They offer quick and efficient services without making one to go through the complex procedures of conventional banking formalities[2].

OBJECTIVE OF THE STUDY:

To evaluate the nature of income sources and fund utilization practices of NBFC's.

RESEARCH GAP

From large infrastructure financing to small microfinance, a sector has innovated over time and found ways to address the debt requirements of every segment of the economy. In comparison to the banks, the NBFCs have also been growing at a steady rate and growth rate is far better. From the elaborate literature review it has been observed that not many studies that compare the financial performances of NBFCs in a holistic manager have been conducted in the past. The identified research dearth has motivated the researcher to conduct this study.

SIGNIFICANCE OF THE STUDY:

Financing requirements have also risen commensurately and will continue to increase in order to support and sustain the tremendous economic growth They have been at the forefront of catering to the financial needs and creating livelihood sources of the so-called un-bankable masses in the rural and semi-urban areas. they have created a medium of reach and communication and are very effectively serving this segment. Thus, NBFCs have all the key characteristics to enable the government and regulator to achieve the mission of financial inclusion in the targeted time period.

STATEMENT OF PROBLEM:

The NBFCs in different areas, in general, team of financial lendings. Due to competition these institutions the customers are getting diverse finance schemes with attractive rates of interest and thereby these NBFCs are also growing in terms of investment, deposits, loans, advances, profits, etc. Hence the present study is attempts to evaluate the performance of selected NBFCs in India. Non-banking financial companies (NBFCs) constitute an important segment of the financial system in India. As the demand for NBFCs financial services grow, countries need to encourage the development NBFCs and securities market in order to broaden the range of services and stimulate competition and efficiency[3]

[3] **Amita S. Kantawala (1999),** Financial Performance of Non-banking Finance Companies in India, The Indian Economic Journal, Volume No.49, Issue No.1, PP. 86-92.

SCOPE OF THE STUDY

The present study expected to arrive at some important findings and conclusion / recommendations which may help the NBFCs to formulate policies and programmes to manage minimization of income, advances and profit effectively.

HYPOTHESES OF THE STUDY

There is a relationship between the PAT and the interest income earned by the NBFCs Total Income Revenue earned Total Expenses Profit Before Tax Loans and Advances Investment Current Asset Current Liabilities Fixed Asset Current Ratio Quick Ratio Debt-Equity ratio Return on Capital Employed Asset Turnover Ratio Networth Earning Per Share.

Types of NBFCs:

NBFCs can be classified into different segments depending upon the type of activities they undertake. The important ones are as follows:

Equipment Leasing Company, Hire-Purchase Finance Company, Housing Finance Company, Investment Company, Loans Company, Mutual Benefit Finance Company (Nidhi Company), Mutual Benefit Company (Potential Nidhi Company), Non-banking Financial Company, Miscellaneous Non-banking Company**.**

REVIEW OF LITERATURE:

ASSOCHAM (2016)[4] analyzed NBFCs, the NBFC sector has scripted a remarkable place in the financial system. From large infrastructure financing to small microfinance, a sector has innovated over time and found ways to address the debt requirements of every segment of the economy. The industry also responded positively to regulatory efforts to understand the risks and to address such risks through regulations. The NBFCs have greater recognition and the role of NBFCs in financing India's growth in the recent past, even as

[4] **ASSOCHAM (2016),** The Associated Chamber of Commerce and Industry of India, Banking on Non-banking Finance Companies.

global debates on systematic risk arising from non-banks have travelled to Indian shores and let to fundamental shifts in the policy, environment and governing NBFCs. According to ASSOCHAM, the country is looking forward to capitalizing on its potential aggressively.

Sarojit (2015)[5] study compared the growth NBFCs and Bank and assessed their contribution to the Indian Economy. Study period was a proportion of NBFCs "asset to banks". Assets have been increasing steadily and the returns on assets are better than that of banking sector. When compared to the banks, the NBFCs have also been growing at a steady rate and its growth rate is far better. The proportion of credit provided by NBFCs to infrastructure sector to capital formation as well as overall economic growth has been increasing at a higher rate than that of banks

5 **Sarojit Mondal (2015),** Comparison of growth between Non-banking Financial Companies and Banks and Their Contribution in the Indian Economy, International Journal of Arts, Humanities and Management Studies, Volume No. 01, Issue No. 8, ISSN No: 2395-0692.

TABLE-1

REVENUE OF NON-BANKING FINANCIAL COMPANIES

(Values in Rs. crores)

Name of the Company	Mean	SD	CV	CGR
Power Finance Corporation	13,724.88	8,491.55	61.87	23.02
Reliance Capital	2,825.11	1,025.08	36.28	12.20
Infrastructure Development Finance Company	4,636.60	3,026.28	65.27	-0.22
Rural Electricity Corporation	10,971.80	7,283.52	66.38	25.89
Shriram City Union Finance	1972.98	1,280.56	64.91	28.82
Mahindra and Mahindra Financials	26,591.79	12,826.28	48.23	17.48
Muthoot Finance	2,836.38	2,122.61	74.83	44.54
LIC Housing Finance	6,053.04	3,779.08	62.43	25.89
Edelweiss Financial Services	221.52	102.17	46.12	7.15
KGN Industries	34.44	61.05	177.27	-32.39
Shriram Transport Finance Corporation	5,653.51	2,779.55	49.17	20.22
IFCI	2,464.23	757.30	30.73	7.15
JM Financial	32.56	23.65	72.62	-4.50
India Infoline Holdings	413.38	230.80	55.83	-12.90
Centrum Capital	54.22	11.67	21.52	2.32
Manappuram Finance	1,298.55	1,027.55	79.13	58.48

Source: Dion Global Solutions Limited

TABLE -2

TOTAL REVENUE OF NON-BANKING FINANCIAL COMPANIES

(Values in Rs. crores)

Name of the Company	Mean	SD	CV	CGR
Power Finance Corporation	13783.08	8580.10	62.25	23.02
Reliance Capital	2872.30	1053.77	36.69	12.20
Infrastructure Development Finance Company	4705.58	3035.47	64.51	-0.22
Rural Electricity Corporation	11174.91	7301.32	65.34	25.89
Shriram City Union Finance	2009.71	1313.35	65.35	28.82
Mahindra and Mahindra Financials	27402.13	13267.67	48.42	17.48
Muthoot Finance	2871.16	2143.49	74.66	41.25
LIC Housing Finance	6151.20	3801.33	61.80	25.89
Edelweiss Financial Services	229.17	99.67	43.49	7.15
KGN Industries	34.87	60.97	174.83	-32.39
Shriram Transport Finance Corporation	5677.29	2768.15	48.76	20.22
IFCI	2558.33	786.61	30.75	7.15
JM Financial	244.20	537.68	220.18	-0.91
India Infoline Holdings	461.37	261.84	56.75	-12.90
Centrum Capital	59.77	13.84	23.15	2.32
Manappuram Finance	1317.79	1042.16	79.08	58.48

Source: Dion Global Solutions Limited

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TABLE -3

OTHER INCOME OF NON-BANKING FINANCIAL COMPANIES

(Values in Rs. crores)

Name of the Company	Mean	SD	CV	CGR
Power Finance Corporation	16.44	100.68	612.57	-
Reliance Capital	23.50	48.38	205.93	-
Infrastructure Development Finance Company	-68.40	453.17	-662.48	-
Rural Electricity Corporation	141.31	45.38	32.12	-2.27
Shriram City Union Finance	17.89	18.07	100.98	-
Mahindra and Mahindra Financials	616.94	298.20	48.34	12.20
Muthoot Finance	-8.66	61.52	-710.34	-
LIC Housing Finance	98.16	68.42	69.71	12.20
Edelweiss Financial Services	-0.63	3.69	-582.81	-
KGN Industries	0.80	0.84	105.05	-22.37
Shriram Transport Finance Corporation	23.23	29.18	125.61	-16.82
IFCI	48.41	135.72	280.35	-
JM Financial	211.13	537.53	254.60	-
India Infoline Holdings	56.19	44.46	79.12	-1.82
Centrum Capital	6.70	4.09	60.99	51.35
Manappuram Finance	13.97	16.28	116.59	17.48

Source: Dion Global Solutions Limited

TABLE -4

INVESTMENTS OF NON-BANKING FINANCIAL COMPANIES

(Values in Rs. crores)

Name of the Company	Mean	SD	CV	CGR
Power Finance Corporation	437.68	826.97	188.95	51.35
Reliance Capital	10243.03	3887.88	37.96	14.81
Infrastructure Development Finance Company	10015.28	7668.82	76.57	17.48
Rural Electricity Corporation	1229.96	554.56	45.09	4.71
Shriram City Union Finance	251.77	388.34	154.25	99.52
Mahindra and Mahindra Financials	529.98	466.34	87.99	69.82
Muthoot Finance	41.72	37.10	88.92	23.02
LIC Housing Finance	472.54	456.28	96.56	-10.87
Edelweiss Financial Services	1219.82	376.90	30.90	12.20
KGN Industries	4.65	2.03	43.56	-10.87
Shriram Transport Finance Corporation	2070.47	1585.71	76.59	58.48
IFCI	6490.16	2841.95	43.79	14.81
JM Financial	1416.96	392.14	27.68	7.15
India Infoline Holdings	1062.39	365.13	34.37	14.81
Centrum Capital	178.55	86.95	48.70	20.22
Manappuram Finance	261.95	293.99	112.23	99.52

Source: Dion Global Solutions Limited

FINDINGS OF THE STUDY

I. Financial Performances of Selected NBFCs

Major findings of the financial performances of selected NBFCs are enlisted below.

(i) **Income:** The study found that the income of Mahindra and Mahindra Financials (` 26,892 crores), Power Finance Corporation (` 13,767 crores) and Rural Electricity Corporation (` 11,034 crores) were observed to more in comparison to other companies.

(ii) **Total Income:** The study concluded that total income earned by the selected top sixteen NBFCs, on a highest total earning of Mahindra and Mahindra Financials (` 27,617 crores), Power Finance Corporation (` 13,783 crores) and Rural Electricity Corporation (` 11,175 crores) are observed to be more than other NBFCs during the study period.

(iii) **Revenue:** The study observed that revenue earned by the selected top sixteen NBFCs and higher total earning of Mahindra and Mahindra Financials (` 26,592 crores), Power Finance Corporation (` 13,725 crores) and Rural Electricity Corporation (` 10,972 crores) were observed to be more than in comparison to other NBFCs considered as sample.

(iv) **Total Revenue:** The study confirmed total revenue earned by the selected top sixteen NBFCs. On an average of 10 years total earning of top three companies: Mahindra and Mahindra Financials (` 27,402 crores), Power Finance Corporation (` 13,783 crores) and Rural Electricity Corporation (` 11,175 crores) are observed to be more in comparison to other companies.

(v) **Other Income:** The study inferred that other income earned by the selected top sixteen NBFCs, Mahindra and Mahindra Financials valued at (` 616.94 crores).

Investment: The study confirmed that investment made by the selected top sixteen NBFCs and the highest total earning of: Reliance Capital (` 10,243.03 crores) and Infrastructure Development Finance Company (` 10,015.28 crores) were observed to more than in comparison to other companies.

SUGGESTIONS

From the elaborate data analysis it has been observed that out of 16 NBFCs selected for analysis Regulation of Interest Rates to Increase Income and Revenues NBFCs functioning in India are suggested to regulate their interest rates charged against their lending made by them. Like banks the NBFCs are suggested to form an association, which could support them in forming uniform interest rate norms for both lending and deposits ,Increasing the Sources of Income NBFCs are restricted under the Indian Constitution to collect any kind of deposits from the common public, thus, NBFCs are suggested to increase their income from various sources. Improving Assets Quality of NBFCs and adhering Very Conducive Credit Recovery Mechanism The selected NBFCs are suggested to adopt very rational and ethical means to recover their debts.

CONCLUSION

NBFCs have been playing a very important role from the macroeconomic perspective and as a core catalyst in the Indian financial system. NBFCs are certainly emerging as better alternatives to the conventional banks for meeting the financial needs of various sectors. However, to survive and to constantly grow, NBFCs have to focus on their core strengths while improving on weaknesses. They will have to be very dynamic and constantly endeavor to search for new products and services in order to survive in this ever-competitive financial market. From the elaborate data analysis it has been inferred that there exist vast differences in the financial performances of selected NBFCs. Their size of business, income and revenue earning efficacy, credit lending practices and investment made by the NBCS duly influences their expenses management, profit earning efficiency, short and long term capitals and ratios management practices.

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