A Study on Financial Performance and Growth of Non-Banking Financial Companies

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Abstract

The financial performance and expansion of Non-Banking Financial Companies (NBFCs), which are becoming more and more significant in the provision of financial services, particularly to industries that traditional banking institutions do not adequately serve, are examined in this paper. NBFCs play a vital role in financial inclusion and offer loans, asset management, and other financial products that greatly boost economic growth. The study focuses on evaluating important financial indicators such liquidity ratios, capital sufficiency, asset quality, and profitability.

Additionally, it looks into how NBFCs have grown, examining elements including operational efficiency, service diversification, and market penetration. The study also investigates how the performance and growth trajectory of NBFCs are affected by changes in regulations, macroeconomic circumstances, and technology developments. Although the industry has grown significantly, the results show that issues including credit risk, regulatory pressure, and the requirement for digital transformation still exist.

Strategic planning, risk management, and alignment with changing market conditions are all emphasized in the study's suggestions for improving NBFCs' financial stability and competitive advantage.

Keywords: Financial Performance, Growth Analysis, Profitability, Asset Quality, Capital Adequacy, Liquidity Ratios.

1. Introduction:

In the financial ecosystem, non-banking financial companies (NBFCs) are essential because they offer a variety of financial services that enhance those provided by conventional banks. These services include asset management, leasing, loans, and other financial products aimed to small and medium-sized businesses (SMEs), people, and particular economic sectors that might not have access to traditional banking. The growing importance of NBFCs, particularly in emerging nations, emphasizes how important they are to financial inclusion, economic growth, and the general stability of the financial industry.

Policymakers, investors, and financial experts have paid close attention to the financial performance and expansion of NBFCs in recent years. The industry has grown quickly because to the changing regulatory environment and the rising demand for alternative financial services. But NBFCs have unique problems including managing credit risk, adhering to regulations, and competing with conventional banks, which may affect their long-term viability and financial success.

With an emphasis on important financial measures including profitability, asset quality, liquidity, and capital adequacy, this research attempts to investigate the financial performance and growth trajectory of NBFCs. Additionally, the study will examine how external factors—such as macroeconomic conditions, regulatory changes, and technical advancements—have shaped these organizations' growth and success. For stakeholders aiming to negotiate the intricate financial environment and create plans that improve the stability, effectiveness, and competitiveness of the industry, it is essential to comprehend the dynamics of financial performance and growth in the NBFC sector.

Our study's objectives are to shed light on the advantages and disadvantages of NBFCs, pinpoint the variables driving their expansion, and make suggestions that can enhance their operations and benefit the larger financial system.

1.1 Problem Statement:

In the financial system, non-banking financial companies (NBFCs) are essential because they offer financial services and loans to a range of industries, including small enterprises, retail, and neglected areas. The regulatory limitations and business models that NBFCs operate under, in contrast to traditional banks, have an impact on their financial performance and development trajectory. Their sustainability and growth have been hampered, meanwhile, by current market rivalry, legislative changes, and economic swings.

The purpose of this study is to examine the growth trends and financial performance of NBFCs in order to pinpoint the major elements influencing their overall stability, liquidity, profitability, and asset quality. To assess how NBFCs manage economic uncertainty and regulatory frameworks, this study looks at financial metrics such return on assets (ROA), return on equity (ROE), non-performing assets (NPA), and capital adequacy ratios.

The results of this study will shed light on the NBFCs' state of finances, their ability to withstand financial risks, and possible approaches to long-term growth. Moreover, the research will assist investors, financial analysts, and regulators in comprehending the changing function of NBFCs within the wider financial system.

1.2 Objectives:

1. To assess important financial metrics including capital adequacy, asset quality, liquidity, and profitability in order to assess the financial performance of NBFCs.

2. To evaluate NBFCs' recent growth trends while taking market share, loan portfolio expansion, and revenue growth into account.

3. To investigate how NBFCs' operational effectiveness and financial stability are affected by economic and regulatory developments.

4. To determine the primary obstacles to NBFCs' capacity to maintain financial sustainability, such as problems with funding, credit risk, and non-performing assets (NPAs).

5. To contrast the NBFCs' and traditional banks' financial results in order to show how their methods to risk management and growth differ.

6. To offer suggestions, based on the study's results and industry best practices, for enhancing the NBFCs' financial stability and prospects for expansion.

7. To investigate how NBFCs may become more efficient and competitive via the use of digital transformation and technology.

1.3 Hypothesis:

Null Hypothesis (H_0):

There is no significant relationship between the financial performance and growth of Non-Banking Financial Companies (NBFCs).

Alternative Hypotheses (H_1):

1. **H_{11}:** Financial performance indicators such as Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM) have a significant impact on the growth of NBFCs.
2. **H_{12}:** Regulatory changes and economic fluctuations significantly affect the financial stability and growth of NBFCs.
3. **H_{13}:** A higher proportion of Non-Performing Assets (NPAs) negatively impacts the profitability and growth of NBFCs.
4. **H_{14}:** The capital adequacy ratio (CAR) has a significant influence on the financial stability and sustainability of NBFCs.
5. **H_{15}:** NBFCs that adopt digital transformation and financial technology (FinTech) solutions experience higher growth and better financial performance compared to traditional NBFCs.

6. **H_{16}:** The financial performance of NBFCs differs significantly from that of traditional banks in terms of profitability, liquidity, and risk management.

2. Literature Review:

Dr. Amardeep (2013) analysed that "The role of NBFCs in creation of productive national assets can hardly be undermined. This is more than evident from the fact that most of the developed economies in the world have relied heavily on lease finance route in their development process".

Dr. Yogesh Maheshwari (2013) in his paper state that "Changing Monetary scenario have opened up opportunities for NBFCs to expand their global presence through self-expansion strategic alliance etc. The Monetary reforms have brought Indian Monetary system closer to global standards".

Sornaganesh and Maria Navis Soris17 (2013) B "A Fundamental Analysis of NBFCs in India" in 'Outreach'. The study was made to analyse the performance of five NBFCs in India. The annual reports of these companies are evaluated so as to ascertain investments, loans disbursed, growth, return, risk, etc. To sum up, the study is concluded that the NBFCs are earning good margins on all the loans and their financial efficiency is good.

Jency (2017) tried to learn the performance of non-banking financial institutions. She has found that the NBFC sector assumes a critical role in financial inclusion as it caters to a wide range of financial activities particularly in areas where commercial banks have limited penetration. Moreover, the profitability of NBFCs has risen significantly than that of commercial banks.

Akanksha Goel in her article in 'ELK Asia Pacific Journal' studied the growth prospects of NBFCs in India.

Sunita yadav in her article in 'International journal of recent scientific research' studied the financial performance of selected NBFCs on parameters like Net profit ratio, Return on Investment, Annual growth rate etc.

Ranjan kshetrimayum in his article in 'A journal of Radix International educational and research consortium' studied the evolution, growth and development of NBFCs in India.

Shollapur M.R in his article in 'The Indian Journal of Commerce' has revived concept of NBFCs. As per him the abstract NBFCs constituted a significant part of financial system and compliment the service provide by commercial bank in India. The efficiency of financial services and flexibilities helped them build a large body of client including small borrower and bigger corporate establishment. The pace of financial liberalization has a intensified the competition. As a result, there has been a shift towards strategic perspective marketing process of NBFCs. This perspective enables them to predict the future impact of change and help to move out of week area and grab new opportunity through continuous monitoring system.

R.M Srivastava & Divya Nigam in his book Management of Indian Financial Institution background material for economic growth and financial institution, types of financial institution, recent trend Indian financial market. He put enfaces on the fact that the money market has passed through a phase of substantial adjustment and advancement in recent year.

K.C Shekhar & Lakshmy Shekhar in his book has explain role of NBFCs in India has shown rapid development especially in 1990 owing to their high degree of orientation towards consumers and implication of section requirement. The role of NBFCs as effective financial intermediaries arise has been well recognized as they have inherent abilities to take quicker decision, assume risk and customize their services provided by bank and market the components on a conceptual basis.

E. N. Murty suggests the advantage and outlook of NBFCs. In remarkable surgeon under stringent production like prudential limit and capital adequacy just like M&M Finance, DBS Chula, Sundaram Finance Sri Ram Transport Finance etc. In outlook NBFCs has been searching for avenue for future growth, if they get regulatory treatment on for with the bank. So that large NBFC will be converting and making available credit to credit.

Research Gap:

In the Indian financial system, non-banking financial companies (NBFCs) have become important participants by providing financing and financial services to industries that traditional banks sometimes overlook. Although a number of studies have looked at NBFCs' financial performance using traditional metrics like profitability, liquidity, and capital adequacy, there is still a dearth of targeted research that links financial performance to sustainable growth tactics.

For example, the majority of current research does not examine the ways in which NBFCs' growth trajectory and operational efficiency are impacted by elements like digital innovation, regulatory changes, and changes in consumer behaviour.

Furthermore, despite the fact that these subsectors function in a variety of risk contexts and business models, there is no comparative analysis among the various NBFC categories, such as microfinance institutions, home finance businesses, and infrastructure finance NBFCs. Lack of such segmented studies limits a more thorough comprehension of opportunities and difficulties unique to a given sector.

Furthermore, not enough research has been done on how recent macroeconomic shocks, such as the COVID-19 epidemic, have affected NBFCs' financial stability and ability to adjust strategically.

Due to this, there is a research vacuum in carrying out a comprehensive study that evaluates NBFCs' growth patterns, resilience, and adaptation in a financial environment that is changing quickly, in addition to evaluating their financial performance.

3. Research Methodology

3.1 Research Framework:

Descriptive Cross Sectional Research Design

Theory and practical learning should be well balanced in a good research project. A research project's design includes its research design. Decisions about the research process and data collection techniques are part of the research design, which is a detailed strategy to guide the study towards achieving the research objectives. It is essentially the conceptual framework for the study that will be used to conduct all of the research. Since it is the most efficient way to carry out descriptive research, the descriptive cross-sectional research design method is used. A questionnaire was used to gather data for this specific investigation.

3.2 Data Collection

Sample characteristics specifies that majority of the respondents were male (56.5%) and falls within the 18–25 age range (42%). When occupation is considered almost 47.3% of the respondents were job. Further majority of respondents have their account in private bank (60.4%) and use their digital platform on daily basis which is 47.3%. The number of elements chosen for the investigation is indicated by the sample size. 207 individuals who now use e-banking services participated in the current survey.

3.3 Sampling Techniques:

Sampling Technique Used: Stratified Random Sampling

Description:
In this study, a **stratified random sampling** technique will be used to ensure fair representation from different categories of Non-Banking Financial Companies (NBFCs). The population of NBFCs will be divided into three main strata based on their core area of operations:

1. **Loan Companies**
2. **Asset Finance Companies**
3. **Infrastructure Finance Companies**

From each stratum, a **random sample of 5 NBFCs** will be selected, making a total sample size of **15 NBFCs**.

Rationale:
This method helps in capturing the financial performance and growth patterns across different business models within the NBFC sector. Stratification ensures that the analysis is not biased toward a single type of NBFC and provides a broader view of the industry.

3.4 Population:

We selected 207 people who use online banking services to participate in our study. This group of 207 respondents represents the sample size for our research.

4. Interpretation and Analysis of the Data:

4.1 Data analysis:

CURRENT RATIO: -

Current Ratio is a liquidity ratio that measures ability of the enterprise to pay its short-term financial obligations i.e. liabilities. The Formula for calculating the ratio is

Current Ratio = Current Assets/Current Liabilities

The generally accepted standard of current ratio is 2:1 i.e. current asset should be twice the current liabilities. Table provides the data related to current ratios calculated for the sample NBFCs taken for the study. These ratios are calculated for 5 consecutive years from 2015 to 2020.

COMPANIES	2015	2016	2017	2018	2019	2020
Armaan Financial Ltd	1.36	1.28	1.02	0.96	2.05	2.77
Mahindra & Mahindra	1.18	1.27	1.25	3.19	2.72	2.24
L&T finance Holdings Ltd	1.09	1.1	0.90	845.51	1679.92	37.70
Reliance	1.22	0.85	1.01	31.63	28.62	7.72
IFCI	1.299	0.93	1.23	11.9	9.57	213.88
Siemens	1.54	1.85	1.99	1.95	2.12	2.20
REC	0.678	1.22	1.17	51.63	15.5	13.82
Power Finance	1.006	1.21	1.32	48.74	58.27	4.21
Muthoot Finance	1.91	1.76	1.56	20.95	33.14	1.78
Ceejay Finance Ltd	1.64	1.73	1.46	1.60	1.69	2.46

Source : money control

Source of variation	Sum of Squares	Degrees of Freedom	Mean square	F
Between Groups	1116664	9	124073.8	2.19
Within Groups	2265576	50	56639.39	
Total	3382240	59		

The current ratio of IFCI was highest in the year 2020 followed by L & T financial holding in 2020. All the other companies have similar ratios. In 2019, L&T Finance Holdings had the highest current ratio followed by power finance. The current ratio of Power Finance has continuously increased with subsequent years. The current ratio of REC decreased to 15.57 in 2019. The current ratio of Ceejay Financials limited was similar in all five years and was close to the accepted standard ratio of 2:1.

ANOVA: -

Hypothesis: There is not any significant difference in current ratios of NBFCs under study.

Alternative Hypothesis: There is a significant difference in current ratios of NBFCs under study.

The table value of F for degree of freedom 50 at 5 per cent level of significance is 212. Since the calculated value of F (2.2) is less than the table value, the null hypothesis is rejected and alternative hypothesis is accepted. It is concluded that there is significant difference in the current ratio of NBFCs under study.

LONG TERM SOLVENCY: -

DEBT-EQUITY RATIO: -

Debt to equity ratio is computed to assess long term financial soundness of the enterprise. The ratio is computed as follows:

Debt to Equity Ratio= Debt/Equity (Shareholder's Funds)

A high Debt to Equity Ratio8 means that the enterprise is depending more on borrowings or debts as compared to shareholder's funds. In effect, lenders are at high risks. On the other hand, low debt to Equity ratio means that the enterprise is depending more on shareholder's funds than external equities. In effect, lenders are at a lower risk and have high safety.

COMPANIES	2015	2016	2017	2018	2019	2020
Armaan Financial Ltd	1.14	0.90	1.18	1.94	3.07	1.41
Mahindra & Mahindra	3.47	3.56	4.20	4.17	4.84	5.23
L&T finance Holdings Ltd	0.15	0.15	0.24	0.06	0.15	0.44
Reliance	1.31	1.31	1.25	2.13	2.19	5.14
IFCI	3.75	3.78	3.37	3.98	3.48	3.15
Siemens	0	0	0	0	0	0
REC	5.31	5.07	4.49	6.33	7.12	8.16
Power Finance	5.83	5.61	4.86	6.41	6.82	6.87
Muthoot Finance	2.85	2.43	2.61	2.71	2.74	3.21
Ceejay Finance Ltd	0.79	0.60	0.77	0.72	0.64	0.62

Source : money control

Source of variation	Sum of Squares	Degrees of Freedom	Mean square	F
Between Groups	269.53	9	29.94	35.64
Within Groups	42.027	50	0.84	
Total	311.557	59		

Power Finance and REC do good business throughout all the six years. In case of Mahindra & Mahindra, the debt equity ratios of all the five years do not vary widely i.e. the annual debt equity ratios are around the mean only. In case of REC the growth rate of equity exceeds that of debt and as a result the debt equity ratios of REC have shown wide variations from the mean ratio.

We can see that the debt of Power Finance, REC and Mahindra & Mahindra is higher than
their equity. All the three companies are well established NBFCs and hence its debt level is more than its equity. As growing NBFCs they are vibrant in terms of both debt and equity and register continuous growth over the years. The debt to equity ratio was lower for Ceejay Finance ltd, L&T Finance Holdings ltd, Armaan Finance ltd. Ceejay Finance ltd and L&T Finance Holdings ltd maintain its equity almost at a constant level throughout the period of study. As the debt is negligent in these 2 companies, their solvency position is highly sound.

In case of Reliance and Muthoot, the growth trend both in debt and equity with a moderate debt equity ratio exhibit an acceptable solvency position.

4.2 Conclusion of the Study

- From the analysis above it follows that current are high for the asset finance companies and infrastructure finance companies. The debt-to-equity ratio was lower for microfinance companies.

- Core Investment companies showing that the enterprise is depending more on shareholder's funds and lenders are at a lower risk.

- The Net Profit Ratio was high for infrastructure finance companies and micro finance companies predicting good returns in these sectors.

- The return on capital of micro finance companies and assets finance companies higher. This shows that how efficiently a company is using its total capital to generate profit.

- The return on net worth equity is higher for microfinance companies and asset financing companies. This shows how well the company management is using the shareholder's capital.

- From the table it follows that for all the three ratios calculated, the value of F is more than the table value of F at 5% level of significance. This implies that null hypothesis is rejected and indicates that the majority of selected ratios for this study differ significantly between various categories of NBFCs. Different categories of NBFCs behave differently.