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PERFORMANCE EVALUATION OF NON BANKING FINANCIAL COMPANIES

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ABSTRACT

India has a diversified financial sector sustaining accelerated development both in terms of steady growth of existing financial services firms and new entities. Entering the market. The sector constitute commercial banks, insurance companies, non-banking financial companies, co-operatives, pension funds, mutual funds and other smaller financial entities. ***Non-bank financial companies*** *(**NBFCs**) are financial institutions that offer banking services without meeting the legal requirement of a bank, that prescribed in* ***Banking Act 1949*** *i.e. one that does not hold a banking license. The specific banking products that can be offered by NBFCs depend on authority which regulate the banking activity and may include services such as loans and credit facilities, savings products, investments and money transfer services".*

Keywords: Finance, Profitability, Ratios.

INTRODUCTION:

India has a diversified financial sector sustaining accelerated development both in terms of steady growth of existing financial services firms and new entities. entering the market. The sector constitute commercial banks, insurance companies, non-banking financial companies, co-operatives, pension funds, mutual funds and other smaller financial entities. However, the financial sector in India is leading in banking sector with commercial banks accounting for more than 64 per cent of the total assets held by the financial system. A banking institution's widely engage in different types of financing activities such as corporate finance, housing, project finance, retail, short-term finance, small-medium enterprises, trade, and others. Alternatively, the core of a banking institution may be only on specific transactions with clients that meet certain requirements and within certain industry sectors. The Government of India has purposed certain reforms to liberalize regulate and enhance this industry. The Government and Reserve Bank of India (RBI) have taken different dimension to facilitate easy access to finance for Micro, Small and Medium Enterprises (MSMEs).

We studied about banks, apart from banks the Indian Financial system has a large number of privately owned, decentralized and small sized financial institution known as Non-Banking Financial Companies (NBFCs). NBFCs frame significant segment of the financial system. NBFCs are financial intermediaries mainly engaged in the business of accepting deposits and delivering credit. They play a vital role in transmitting the limited financial resources to capital formation. NBFCs helps as a subsidiary of the banking sector in meeting the increasing financial need of the corporate sector, delivering credit to the organized sector and to small local borrowers. NBFCs have more flexible structure as compared to banks. As compared to the banks NBFCs take quick decisions, assume greater risk, and tailor-make their services and charges according to the requirement of their customers. Their flexible structure helps in improving the market by providing the saver and investor a bundle of services on competitive basics. Non- Banking Financial Companies (NBFCs) are those companies that provide banking services without having a banking license. NBFCs are not like banks and have some restrictions. NBFCs play a crucial role in the country's economy by providing financial services in rural areas, it is very important because 70% part of Indian population lives in rural areas.

In the Indian Financial system, the NBFCs play a very crucial role in converting services and provide credit to the unorganized sector and small borrowers. Non-banking Financial Institutions perform different kinds of financial operation but these Non Banking Financial Institutions cannot collect funds directly from the savers as debt. Rather than these Institutions organize their funds from the public savings for rendering other financial services including investment. . Non-Banking Financial Companies play very significant and desperate role in improving financial services, boost competition and diversification of the financial sector. There are many other institutions associates in financial services in India. These include commercial banks, financial institutions (FIs) and non-banking finance companies (NBFCs). Due to the financial sector reforms, NBFCs have been developed as an essential part of the Indian financial system. Non-banking finance companies generally act as suppliers of loans & credit facilities and accept deposits, operating mutual funds and similar other activities.

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"Non-bank financial companies (**NBFCs**) are financial institutions that offer banking services without meeting the legal requirement of a bank, that prescribed in **Banking Act 1949** i.e. one that does not hold a banking license. The specific banking products that can be offered by NBFCs depends on authority which regulate the banking activity and may include services such as loans and credit facilities, savings products, investments and money transfer services".

Meaning of Non-Banking Financial Companies

A Non-Banking Financial Company (NBFC) is a company registered under **the Companies Act, 1956** and is engaged in the business of loans and advances, acquisition of shares/stock/bonds/debentures/securities issued by Government or local authority or other securities of like marketable nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, sale/purchase/construction of immovable property. A non-banking institution which is a company and which has its primary business of accepting deposits under any scheme or arrangement or any other manner, or lending in any manner is also a non-banking financial company.

NBFCs are performing activities similar to that of banks; despite there are a slightly differences in their activities:

(I) An NBFC cannot accept demand deposits;

(ii) An NBFC is not a part of the payment and settlement system and as such an NBFC cannot issue cheques drawn on itself; and

(iii) Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation (DICGC) is not available for NBFC depositors unlike in case of banks.

Different types of NBFCs

- **Assets Finance Company (AFC):** This means any company which is a financial institution carrying on as its principal business the financing or physical assets supporting production/ economics activity such as automobiles, tractors, lathe machine, generator sets, earth moving and material handling equipments, moving on own power and general purpose industrial machines. Principal business means that the aggregate of financing real/ physical assets supporting economics activities and income arising there from is not less than 60% of its total assets and total income respectively.
- **Investment Company (IC):** A company that is financial institution carrying on its principal business, the acquisitions of securities.
- **Loan Company (LC):** This means any company that is financial institution whose principal business is providing finance, either by making loans or advances or otherwise for any activity other than its own , but does not include an assets finance company.
- **Infrastructure Finance Company (IFC)** means NBFCs which deploy at least 75% of its total assets in infrastructure loan.
    1. an IFC should not accept public deposits.
    2. An IFC have NOFs at least rs.300 cr. and
    3. An IFC have a minimum credit rating **A or equivalent** and a CRAR or 15% (with a minimum 10% Tier-1 capital.)
- Infrastructure Debt company
- Micro Finance Institution
- Core Investment Company
- Non Operating Holding Financial Company
- Factoring Company
- Chit Fund Company
- Equipment Leasing Company
- Miscellaneous Non-Banking Financial Companies

Literature review

Amardeep (2014)[1] in his study entitled "Growth prospects of Non Banking Financial Companies in India- An appraisal of selected companies" analysed that Non Banking Financial Companies spread over the country and Non Banking Financial companies plays very significant role as a intermediary by providing loan to end consumer particular for transportation and infrastructure. Researcher had been founded problem that faced by these companies in their growth which was strict regulation policy, high cost of funds and unfair competition and suggest to overcome these problem. Researcher had been given these suggestion speeding up the certification of registration, submission of return, provision for cheaper finance and relaxation in prudential norms.

Bharwad. & Devabhai, V. (2016)[4] in their research entitled "An Analytical Study of Non Banking Financial Institutions" Non-Banking Finance Companies (NBFCs) are one of the major institutional purveyors of credit in India. Traditionally, both banks and NBFCs have extended short-term/medium-term credit. On the basis of the above study they concluded that NBFCs are major financial institutions in the Indian economy and play important role in development of Indian financial system. People of India have less trust on NBFCs with compare to banking sector but it provides high return to the depositors.

Hanamantrya, Mahendrakumar (2015)[8] in their research entitled "Performance Evaluation of Non-Banking Financial Companies in India" financial arrangement constitute an integral part of the process of economic development. After evaluation of these techniques it had been concluded that Banks and Non Banking Financial companies are both the key element of sound and stable financial system. However banks usually dominate the financial system because banks fulfill all the requirement of Households and Public Sector. Although NBFCs providing additional and alternative financial services to different sector and had gained more popularity in developed and developing countries.

Kamalaveni, S. (2016)[9] paper presented entitled "A study on Selected Non-Banking Financial Companies in India" analyzed that In India, the term "non-banking financial companies" acquires a new meaning, and a huge significance. The meaning of the term is such entities which are not banks, and yet carry lending activities almost at par with banks. Researcher had concluded from this study that Non-banking financial companies (NBFCs) are fast emerging as an important segment of Indian

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financial system. It is an heterogeneous group of institutions (other than commercial and co-operative banks) performing financial intermediation in a variety of ways, like accepting deposits, making loans and advances, leasing, hire purchase, etc. They raise funds from the public, directly or indirectly, and lend them to ultimate spenders.

Deasi, B.D., Patel, M. H., et.al. (2014)[11] Project entitled "Analysis of Banking v/s Non-banking Financial Companies" studied that Financial doesn't mean money in fact it is the source of providing funds for a particular activity. Providing finance by itself is a distinct activity which results in financial management, financial services and Financial Institution. On the basis of the above study they concluded that expected ROE of all banks was similar that of NBFCs in term of EPS and stock return. Banks ROE was greater than NBFCs and also concluded that investor feel more protecting in banking sector as compared to NBFCs.

OBJECTIVES OF THE ABOVE STUDY:

I. To evaluate the performance of selected NBFCs in India in term of profit.
II. To assess the growth of NBFCs in India.

DATA ANALYSIS AND INTERPRETATION:

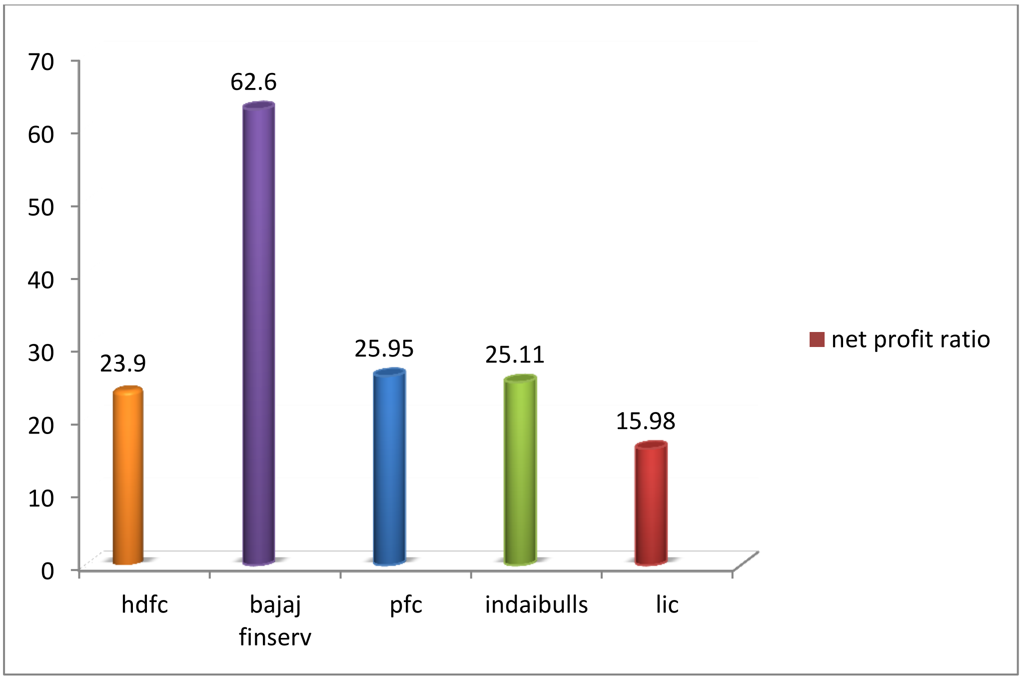
Profitability of select non banking financial companies these ratio has been calculated as under:

Net profit ratio = net profit/revenue from operation*100

Table no. 1 shows the net profit ratio of different non banking financial companies studied period 2008 to 2016.

Year	HDFC	BAJAJ FINSERV	PFC	INDIABULLS	LIC
2008-09	20.8	36.92	30.04	10.68	18.45
2009-10	25.4	26.73	29.47	18.59	19.16
2010-11	28.3	157.19	25.86	29.70	21.09
2011-12	24.16	56.40	23.29	24.71	14.95
2012-13	23.31	35.94	25.60	27.66	13.5
2013-14	22.77	57.8	27.17	28.9	14.34
2014-15	22.22	62.5	23.97	31.74	12.99
2015-16	24.24	67.32	22.25	28.92	13.39
Average	23.9	62.6	25.95	25.11	15.98

Chart 1.1 showing the net profit ratio of selected non-banking financial companies in India from 2008-09 to 2015-16.



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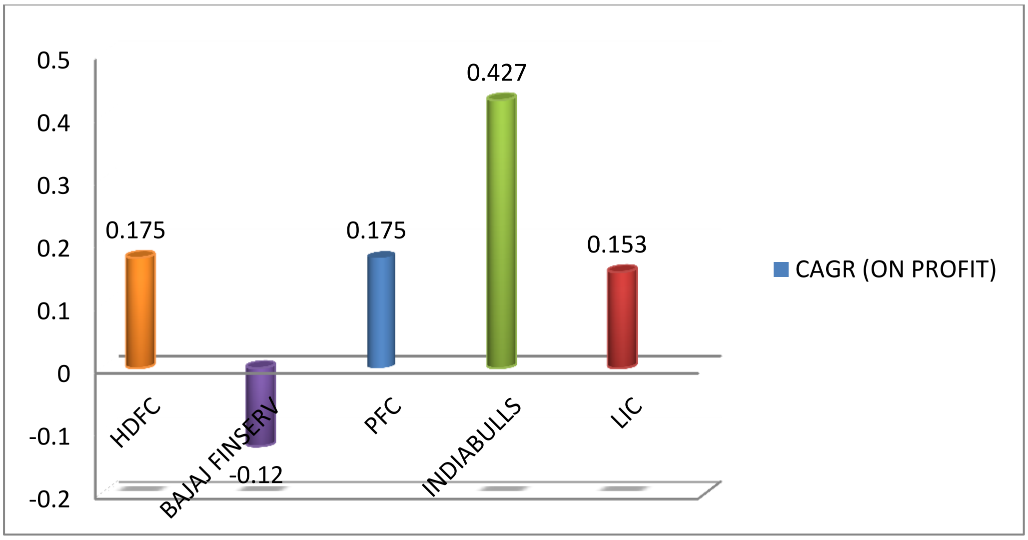
2. GROWTH OF NBFCS IN INDIA:-

- **COMPOUNDED ANNUAL GROWTH RATE ON THE BASIC OF PROFIT**

Table no. 6 showing the average growth rate on the basic of profit of selected non banking finance companies studied period during 2008-16.

year	HDFC	BAJAJ FINSERV	PFC	INDIABULLS	LIC
2008-09	0.238313	-0.17843	0.196598	0.389058	0.245579
2009-10	0.250649	-0.44573	0.111286	1.304251	0.471642
2010-11	0.166242	-0.59345	0.157338	0.189093	-0.06187
2011-12	0.176034	-0.33603	0.457777	0.696496	0.119242
2012-13	0.122083	0.642604	0.225846	0.229733	0.287289
2013-14	0.10108	0.498383	0.099964	0.310086	0.052405
2014-15	0.184129	0.303684	0.025867	0.159687	0.198099
2015-16	-1	-1	-1	-1	-1
CAGR	0.175832	-0.12445	0.175605	0.427236	0.153026

Chart no. 6.1 showing the Compounded Annual growth rate on the basic of net profits of selected Non-Banking Financial Companies in India from 2008-09 to 2015-16.



CONCLUSION:
On the basis of the above study researcher has founded that Net profit ratio of HDFC, Indiabulls and PFC is around 25% in last eight years. Bajaj Finserv company net profit ratio is average 65% because in 2010-11 profit of this company had increased due to some exceptional items. LIC net profit ratio is low as compare to other companies it is only 15%. It was also founded that Compounded annual average growth rate on the basic of profits of HDFC, PFC and LIC is around on an average is 0.17% and INDIABULLS growth rate is very high this is on an average is 0.40% but BAJAJ FINSERV growth rate showing negative balance it is around on an average -0.12%.

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