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FINANCIAL ANALYSIS AND TECHNOLOGY INNOVATIONS IN NON-BANKING COMPANIES IN INDIA

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Abstract:

NBFCs full form is Non-Banking Financial Company and it refers to a company that has been registered under the Companies Act, 1956. These non-banking financial companies engaged in the business of loans and advances, acquisition of shares, stocks, bonds, debentures and securities.

"Nonbank financial companies (NBFCs), also known as nonbank financial institutions (NBFIs) are financial institutions that offer various banking services but do not have a banking license. Generally, these institutions are not allowed to take traditional demand deposits—readily available funds, such as those in checking or savings accounts—from the public."- Investopedia

A Non-Banking Financial Corporation is a company which is registered under the Companies Act, 1956 or the Companies Act, 2013 and is involved in the lending business, hire-purchase, leasing, insurance business, receiving deposits in some cases, chit funds, stocks and shares acquisition, etc. The functions of the NBFCs are managed by both the Ministry of Corporate Affairs and the Reserve Bank of India.

Recently, the Reserve Bank of India has proposed a tighter regulatory framework for Non-Banking Financial Institutions by creating a four-tier structure with a progressive increase in the intensity of regulation. Further information about the Reserve Bank of India is available in detail on the linked page.

- ***It has also proposed the classification of Non-Performing Assets of base layer NBFCs from 180 days to 90 days overdue. Read more on Non Performing Assets – NPA in detail on the linked page.***
- ***Earlier in 2020, the RBI announced a host of measures to provide liquidity support to NBFCs.***

Key words: Non-Banking Financial Corporation, Banking Companies, services, Financial position

INTRODUCTION

Development of accounting standards involves a process, and the implementation of any process requires a few guidelines. Taking this into perspective, the Accounting Standards Board (ASB) of Institute of **Charted Accountants of India** (ICAI), which is the nation's most accomplished accounting body, came up with a framework which provides the fundamental basis for the development of new standards and appraisal of the existing ones. In this article, we review some of the fundamental concepts based on which financial statements are prepared and presented.

Components of Financial Statements

Balance Sheet– A balance sheet depicts the value of economic resources controlled by an enterprise, as well as the liquidity and solvency of an enterprise. This is used to estimate the ability of the enterprise in meeting its financial commitments.

Statement of Profit and Loss- Portrays the outcome of the functioningof the organization.

Cash Flow Statement– Outlines the way of determination of income, as well as its usage.

Notes and Schedules– Provides supplementary information explaining different modules of financial statements. A few examples can be risks and uncertainties affecting an enterprise, accounting policies etc.

Firms are also obligated to provide their financial statements in the annual report that they share with their stakeholders. As financial statements are prepared in order to meet requirements, the second step in the process is to analyze them effectively so that future profitability and cash flows can be forecasted. Therefore, the main purpose of financial statement analysis is to utilize information about the past performance of the company in order to predict how it will fare in the future. Another important purpose of the analysis of financial statements is to identify potential problem areas and troubleshoot those.

Need for the Study:

Financial Statement Analysis is a method of reviewing and analyzing a company's accounting reports (financial statements) in order to gauge its past, present or projected future performance. This process of reviewing the financial statements allows for better economic decision making. Globally, publicly listed companies are required by law to file their financial statements with the relevant authorities. For example, publicly listed firms in America are required to submit their financial statements to the Securities and Exchange Commission (SEC).

Review of Literature:

Dr. Virender Koundal (2012) quantitatively analyzed the profitability of the Indian banks. He divided the banks into strata based on different variables and then conducted the research using various ratios. He found that new banks were more efficient, smaller banks had better global approach and larger ones had good local efficiency. Their research found negative relation between profitability and number of accounts payables days and that of number inventory days while a positive relation between profitability and number of accounts receivables days. They concluded that shorter the cash cycle better is the financial health of an institution.

 Dr. V.P.T. Dhevika, Dr. O.T.V Latasri and H. Gayathri in (2013) used ratio analysis to analyze the financial position of the CITY UNION BANK for a span of 5 years. They concluded that ratio analysis depicts the liquidity of the banks and the financial stability thereon.

OBJECTIVES OF THE STUDY

- To measure Shriram Finance financial results and analysis of the liquidity and solvency status.
- To study the Technology innovations in Shriram Finance in India
- To offer suggestions that is based on study findings.

- Measuring the efficiency of various properties with Shriram Finance turnover.

HYPOTHESIS

NULL HYPOTHESIS:

H_0= Financial statement will not have any significant relationship.

H_1= The relation between the financial statements will be significant.

Research Methodology

Secondary data from the NASSCOM and IBEF are used to serve the purpose of the research.

The opinion of financial performance of the IT sector is formed on the basis of following factors:

- Revenues and Growth rate of the industry
- Export generated by the IT Sector
- Variants like market size, Digital Acceleration, FDI, Automations, emerging challenges

Sources of Data:

Primary Data Primary data refers to that data which has been obtained by the researcher directly from the respondents for specific research work.

Secondary Data Secondary data refers to that data which is already in existence and someone has obtained for specific purpose but reutilize by the researcher. The said research work is based on the secondary Data of published financial statement of selected Indian industries and the selected companies within them.

This study is quantitative in nature, meaning that it deals primarily with the Shriram Finance financial statements over the last five years. This study is based on secondary data and annual reports taken from the website of banks. The data were evaluated through the review of the ratio and the Bank's output for the sample duration was easily clarified.

Technology Advancements:

	Mobile Internet	Inexpensive and increasingly capable mobile devices and Internet connectivity enable services to reach individuals and enterprises anywhere
	Cloud technology	Computing capacity, storage, and applications delivered as a service over a network or the Internet, often at substantially lower cost
	Automation of knowledge	Intelligent software for unstructured analysis, capable of language interpretation and judgment-based tasks; potential to improve decision quality
	Digital payments	Widely accepted and reliable electronic payment systems that can bring millions of unbanked Indians out of the cash economy
	Verifiable digital identity	Digital identity that can be verified using simple methods, enabling secure delivery of payments and access to government services

	Internet of Things	Networks of low-cost sensors and actuators to manage machines and objects, using continuous data collection and analysis
	Intelligent transportation and distribution	Digital services, used in conjunction with the Internet of Things, to increase efficiency and safety of transportation and distribution systems
	Advanced geographic information systems (GIS)	Systems that combine location data with other types of data to manage resources and physical activities across geographic spaces

CURRENT RATIO:

Current ratio establishes relationship between current assets and current liabilities. Current assets

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mean any asset is converted in to cash within a year or 12 months. Current liabilitiesare those liabilities are settled or repay within a year.

Current Ratio = Current Assets/ Current Liabilities.

The standard norm or rule of thumb for current ratio is 2:1. It means that let the total amountof current liabilities. When a bank's current ratio is 2 or more it means that its liquidity position is good.

Table.1 Current Ratio

Year	2018-19	2017-18	2016-17	2015-16	2014-15
Current Ratio	6.74	7.97	4.64	5.52	6.24

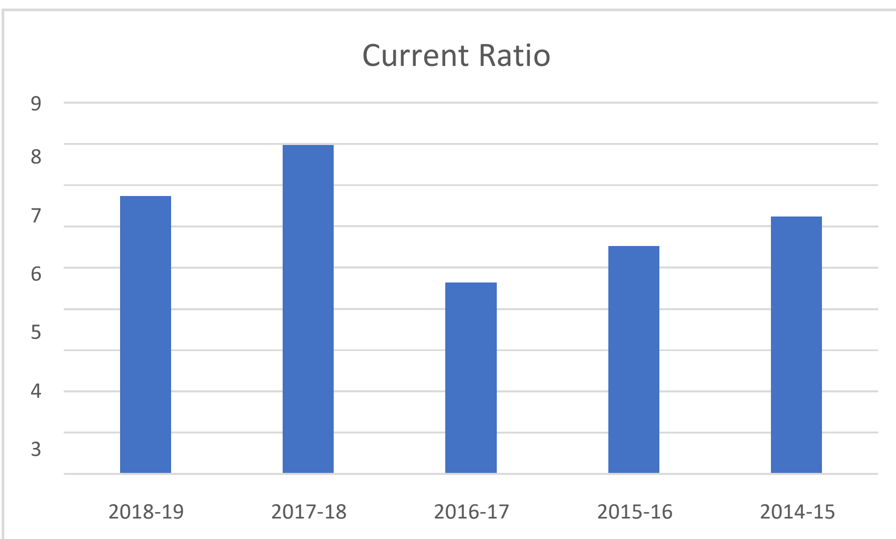
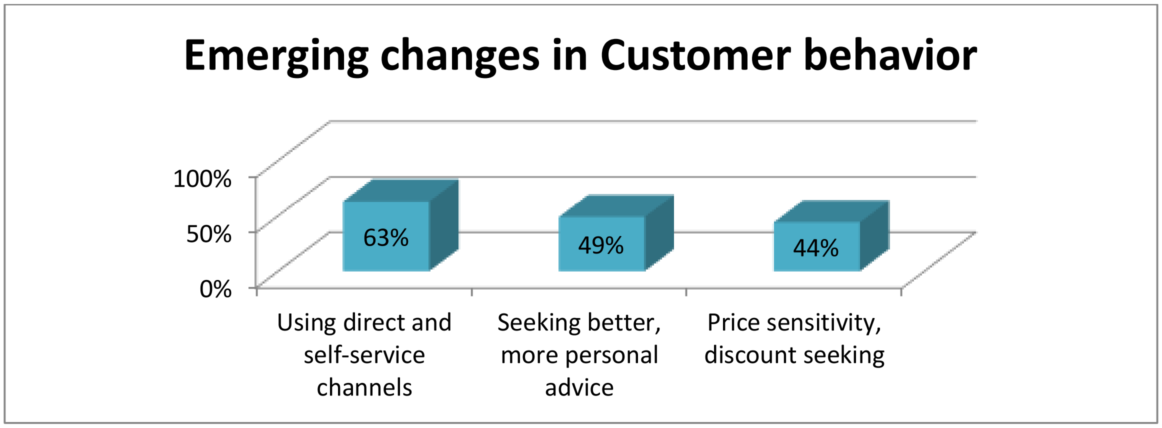


Figure: 1 Current Ratio

Table shows that in 2014-15, the current ratio was 6.24, and increased to 5.52 and 4.64 in2015-16 and 2016-17. The ratio was raised 7.97 in 2017-18 and in 2018-19 year. This suggests that the profitability of banks and their debt repayments are strong throughout the study era.

Fig.2: Top 3 Emerging changes in customer behavior that will impact the banking business over the next three years (in %)



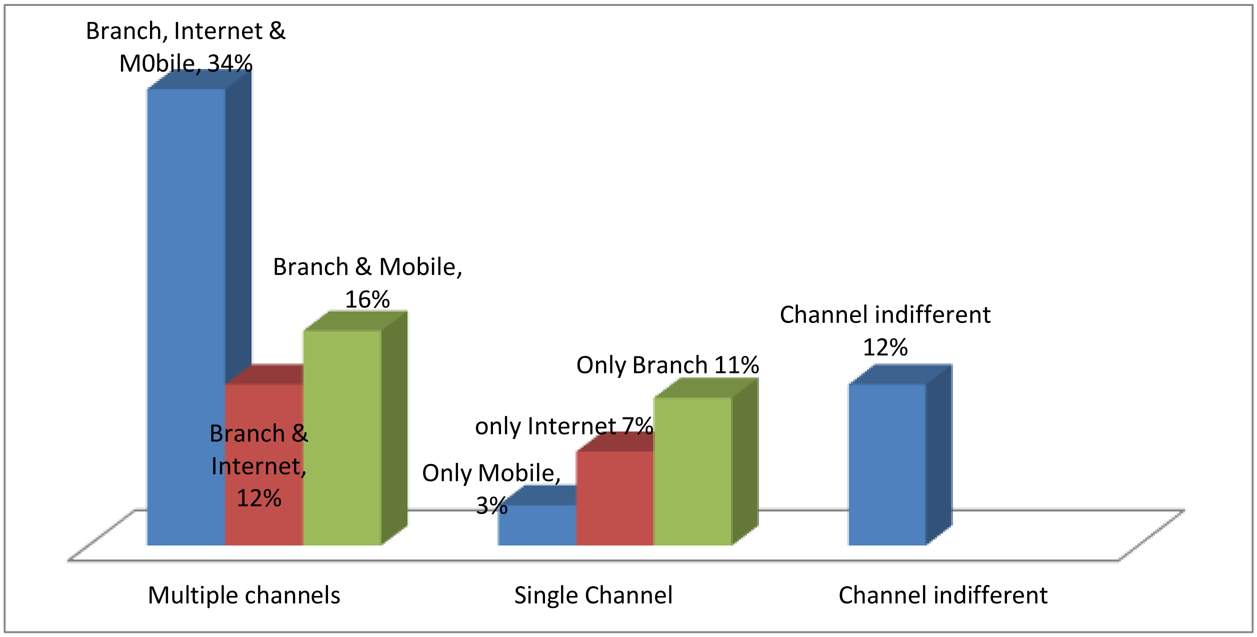
This trend is accompanied by the customers' need for better and more personalized services. In addition, customers have become more price-sensitive as indicated by the change in customer reactions to pricing strategies for banking products and services.

As a result of this changing customer behavior, banks need to offer innovative and more personalized services investing in the digital channels in order to attract and retain customers. Only by doing so can they gain a competitive edge in the fight for new customers and win back the trust of their existing customers.

Multi Channels:

The survey conducted to Shriram Finance customers, out of 200 67% of customers prefer to interact with their bank through multiple channels. Almost one third of customers (34%) rate the availability of banking services through the branch, Internet, and mobile channels are very important. Only 21% of customers still prefer to interact with their bank through a single channel such as through branch, Internet, or mobile banking.

Fig.3: Customer channel preferences for interaction with the Shriram Finance



However, in terms of speedy transactions and empathy from staff members, finance got an edge as stated by the respondents. In terms of overall comparison between public and private bank, performance of private bank seems to be better. However, it is not the financial performance, but performance in day-to-day customer processes. See the following tables:

Table 4: Results of z-test at 0.05 level of significance

Null Hypothesi	**Statement**	**Calculate valu**	**Results of z-test**
H01	No significant difference in reliability Non-Banking and Banking	2.612	H_{01} Rejected
H02	No significant difference in speed of transactions in Non-Banking and Banking.	2.012	H_{02} Rejected

Table 5: Statistics related to variables:

Variable	Type of responden	Mea	Std. deviatic	Std. err mea
Reliability	Non-Banking	3.19	.981	.091
	Banking	3.12	.1215	.054
Speed of transactions	Non-Banking	3.52	.916	.094
	Banking	3.47	1.181	.052
Promptness	Non-Banking	3.36	.942	.087
	Banking	3.27	.986	.052
Empathy	Non-Banking	3.45	.927	.081
	Banking	3.71	.973	.054
Overall performance	Non-Banking	3.61	.923	.093
	Banking	3.54	.97	.051

Source: Compiled from the Survey data

Automation of systems has led to higher speed of processes in Non-banking is leading. Likewise, when it comes to empathy of staff, private bank has got an edge. However, Non-banking companies has an edge in reliability. Reliability has direct relation towards customer loyalty in banking when it comes to trust of common people on bank in India, public sector banks are preferred.

FINDINGS:

1. The current ratio indicates that the liquidity of banks and their debt repayment is sounddurring the study period.
2. Cash status ratio or Total Liquidity Ratio indicates the bank's liquidity situation is strongover the study time.
3. Fixed asset ratio explains the portion of working capital during the study period had been financed by long-term funds.
4. Debt equity ratio explains how safe the creditors are during the period of study.

5. The ownership ratio reveals that the long-term solvency position of the Bank is goodduring

the period of study.

SUGGESTIONS:

1. HDFC Ltd's total liquidity status has fluctuated over the study period but it still retains adequate funds that are more than appropriate to meet the concern's short-term obligations.
2. The chosen unit's long-term solvency is more than satisfactory and HDFC is heavily dependent on funding from outside rather than bond capital**.**
3. This study indicates that HDFC Ltd will offer further housing loans for the nation's growthto the citizens of India.

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