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FINANCIAL PERFORMANCE AND DEVELOPMENT OF NON-BANKING FINANCIAL COMPANIES IN INDIA

*Authors**

DR.N.RAMANJANEYULU, ***HEAD OF THE DEPARTMENT,*** MALLA REDDY ENGINEERING COLLEGE" SECUNDERABAD

&

E.BHANU, MASTER OF BUSINESS ADMINISTRATION FROM "MALLA REDDY ENGINEERING COLLEGE" SECUNDERABAD

Abstract:

It is accepted by everyone that NBFCs have been playing an important role in channelizing the scarce financial resources in capital formation. NBFCs have been supplementing the role of the organised banking sector by bridging the credit gaps, i.e., in meeting the increasing financial needs of the corporate sector, delivering credit to the unorganized sector and to small local borrowers. NBFCs have enjoyed a more flexible structure than banks in the organised sector. From time to time, the Central Government as well as Reserve Bank of India have been working towards regulation of these NBFCs. The Department of Non- Banking Supervision of RBI has been indulged in these activities of regulating as well as supervising the NBFCs.

The contribution made by these NBFCs in the economic growth as well as in meeting the credit needs of the economy is needed to be appreciated and there is also a need to keep an eye on their functioning as some of these NBFCs have looted people's money who were innocent investors to them.

The present paper "Growth and Development of Non-Banking Financial Companies in India" have given focus on areas like defining the term NBFCs, evolution, growth and development of NBFCs, regulatory authorities and supervision of NBFCs. The paper is an attempt to analyse evolution, growth and development of Non-Banking Financial Companies in India.

Keywords: Non-Banking Financial Companies, Organised Banking Sector, Financial Institutions, Financial Supermarkets, Reserve Bank of India, Supervision and Regulation.

FINANCIAL PERFORMANCE OF NON-BANKING FINANCIAL COMPANIES (NBFCs) IN INDIA:

1. INTRODUCTION

Non-banking financial companies (NBFCs) constitute an important segment of the financial system in India. NBFCs are financial intermediaries engaged primarily in the business of accepting deposits and delivering credit. They play an important role in channelizing the scarce financial resources to capital formation. NBFCs supplement the role of the banking sector in meeting the increasing financial needs of the corporatesector, delivering credit to the unorganized sector and to small local borrowers. NBFCs have a more flexiblestructure than banks. As compared to banks, they can take quick decisions, assume greater risks, tailor- make their services and charges according to the needs of the clients. Their flexible structure helps in broadening the market by providing the saver and investor a bundle of services on a competitive basis.

Non-Banking Financial Companies (NBFCs) are the companies involved in financing activities such as giving loans, charging interest and lending etc. So far classification of NBFC is concerned; with effect from December 6, 2006 the above NBFCs, registered with RBI have been classified as Asset Finance Company (AFC), Investment Company (IC), and Loan Company (LC). The scope of the study encompasses with two categories of NBFCs namely AFCs and ICs. The principal objective of the study is to make a comparative analysis of the financial performance of selected investment and assets finance companies. To compare the selected performance indicators (ROA, ROCE, ROE, DE RATIO, NPR and CR) separately between selected ICs (company-wise) and AFCs (company-wise) and to compare selected performance indicators jointly between selected ICs (company-wise) and AFCs (company-

wise) for each individual year, Kruskal-Wallis test have been employed. The study concluded that there is no difference between the financial performances of each category of NBFCs apart from their nature of activities under their respective categories.

A non-banking financial company has been defined vide clause (b) of Section 45-1 of Chapter IIIB of the Reserve Bank of India Act, 1934, as (i) a financial institution, which is a company; (ii) a non-banking institution, which is a company and which has as its principal business the receiving of deposits under any scheme or arrangement or in any other manner or lending in any manner; (iii) such other non-banking institutions or class of such institutions, as the bank may with the previous approval of the central government and by notification in the official gazette, specify.

NBFC has been defined under Clause (xi) of Paragraph 2(1) of Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998, as: 'non-banking financial company' means only the non-banking institution which is a loan company or an investment company or a hire purchase finance company or an equipment leasing company or a mutual benefit finance company.

NBFCs provide a range of services such as hire purchase finance, equipment lease finance, loans, and investments. Due to the rapid growth of NBFCs and a wide variety of services provided by them, there has been a gradual blurring of distinction between banks and NBFCs except that commercial banks have the exclusive privilege in the issuance of cheques.

NBFCs have raised large amount of resources through deposits from public, shareholders, directors, and other companies and borrowings by issue of non-convertible debentures. In the year 1998, a new concept of public deposits meaning deposits received from public, including shareholders in the case of public limited companies and unsecured debentures/bonds other than those issued to companies, banks, and financial institutions, was introduced for the purpose of focused supervision of NBFCs accepting such deposits.

2. EVOLUTION, GROWTH AND DEVELOPMENT OF NBFCS IN INDIA

Till recently NBFCs and Unincorporated Bodies have been competing and complementing the services of commercial banks all over the world. While, the financial system in a country generally develops through a process of gradual evolution, it has been observed that here is a stage in the evolutionary process wherein the growth of NBFCs is more pronounced than other components of the financial system. Further, they take different forms and sizes depending upon the needs of their clientele. Thus, in the United States of America, the growth of NBFCs was more pronounced during the first three decades of this century and twoof the top five commercial lenders are NBFCs and three of the four top providers of consortium finance arenon-bank firms at present. In India such marked growth in the non-bank financial sector was noticed in the last two decades. The NBFCs, as a group, have succeeded in broadening the range of financial services rendered to the public during this period.
NBFCs are mostly private sector institutions that specialize in meeting the credit needs and a variety of financial services which include financing of physical assets, commercial vehicles and infrastructure loans. The Reserve Bank's regulatory perimeter is applicable to companies conducting non-banking financial activity, such as lending, investment or deposit acceptance as their principal business. Certain categories of entities carrying out NBFI activities are exempt from the Reserve Bank's regulation as they are being regulated by other regulators. They include housing finance companies (HFCs), mutual funds, insurance companies, stock broking companies, merchant banking companies and venture capital funds (VCFs). Against this background, this paper aims to present a performance NBFCs in India. It includes assets quality, profitability, exposure to sensitive sector and capital adequacy of NBFCs

The evolution, growth and proliferation of financial intermediaries are essentially the reflection of the different forms of savings (resource) flows and different types of investment (uses) of such funds –whether for current working capital needs or for capital investments and as between different sectors of the economy. They serve different clientele in their role both as repositories of the community's savings and as purveyors of funds for investment needs.

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The nineteenth and early 20^{th} Centuries witnessed rapid urbanization, both in Europe and America. The growth of cities created a tremendous need for mortgage finance. To fill this need, various private groups began to organize building and loan associations (called building societies in England and Canada).

However, instalment credit in the USA took off with the beginning of the mass marketing of automobiles around 1915. Automobile companies set up specialized subsidiaries called finance companies to provide instalment credit to car buyers and to finance the inventories of dealers and suppliers. The automobile companies were soon followed by retailers and manufacturers of consumer and producer durables. The idea spread from the United States to many other countries.

Among the NBFCs, hire-purchase finance companies have been some of the oldest and most prominent institutions. They have played an important role in the finance of the road transport sectors; one estimate puts about 25-30 per cent of all civilian commercial vehicles sales having been financed by hire-purchase companies. Some NBFCs have started out as support companies for industrial houses. Their purpose was to
act as Fixed Deposit Collection front and at best, work out leasing deals for clients of these industrial houses.

The last two decades witnessed a phenomenal growth in the number of NBFCs. Table No. 1 shows the number of NBFCs which stood at 7,063 in 1981, increased to 33,520 in 1991 and further to 55,995 in 1995. The reason for such phenomenal growth of NBFCs was the liberalization led boom. NBFCs entered merchant banking activities in addition to fund-based business. With huge demand for finance and low entry barriers almost everyone wanted to start and own a finance company.

Review of Literature:

Paul (2011) in his study "Financial Performance Evaluation – A Comparative Study of Some selected NBFCs" analysed the financial performance of the selected NBFCs during the period 2004 to 2009. The study was carried out on the secondary data. In the study, five listed NBFCs were taken as a sample for analysing the financial performance of the NBFCs. He concluded that the selected companies were significantly different in terms of their financial performance based on the selected performance indicators during the period under study.

Vadde, Suresh (2011) in his study "Performance of Non-Banking Financial Companies in India - An Evaluation" attempted to analyse the performance of 1211 non-government financial and investment companies (other than banking, insurance and chit-fund companies) during the year 2008-09. The study was based on the audited financial statement of 1,215 companies for the period April 2008 to March 2009. The study found positive growth trends in total income (interest income and other income). Though, growth in total expenditure decreased, the rate was higher than the growth in total income.

OBJECTIVES OF THE STUDY

1. The principal objective of the study is to make a comparative analysis of the financial performance of selected investment and assets finance companies.

2. To study the available tools and techniques of Non-Banking Finance Companies.
3. To study the financial performance of Non-Banking Finance Companies
4. To analyze the liquidity, profitability performance of Non-Banking Finance Companies

HYPOTHESIS:

HO: There is no significant difference in the average financial performance between the selected Investment Companies and Assets Finance Companies.

H1: There is no significant difference in the average financial performance between the selected Investment Companies and Assets Finance Companies.

Table 1 : Test Statistics[a,b] of H Test in respect of performance indicators between selected Investment Companies(Company wise) and Assets Finance Companies (Company wise) forthe year 2020-21

	ROA	ROCE	ROE	DE	NPR	CR
Chi-Square	0.547	0.156	0.411	1.071	1.071	0.877

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df	1	1	1	1	1	1
Asymp. Sig (p value).	0.460	0.693	0.521	0.301	0.301	0.349

a. Kruskal Wallis Test

b. Grouping Variable: GROUP

Source: Computed

It is observed that the p value is more than 0.05 in all cases. So, we accept the null hypothesis (*HO: There is no significant difference in the average financial performance between the selected Investment Companies and Assets Finance Companies*) and conclude that there is no significant variations in respect of selected performance indicators for the year 2020-21 between the Investment Companies (Company-wise) and Assets Finance Companies (Company-wise) considered for the study.

Table:2 Between the selected Investment Companies (Company Wise) and selected Assets Finance Companies (Company Wise)					
(H Test 1)			**(H Test: II)**		
Selected Performance Indicators separately during the period under study	Hypothesis	Interpretation	Selected Performance Indicators jointly for each year	Hypothesis	
ROA	H0 Accepted		2016	H0 Accepted	

ROCE	H0 Accepted	No significant variations in respect of selected performance indicators as a whole during the period under study	2017	H0 Accepted	No significant variations in respect of selected performance indicators for each individual year under study
ROE	H0 Accepted		2018	H0 Accepted	
DE	H0 Accepted		2019	H0 Accepted	
NPR	H0 Accepted		2020	H0 Accepted	
CR	H0 Accepted				

In relation to the main objective of the study, it can be concluded that there is no difference between the financial performances of each category of NBFCs apart from their nature of activities under their respective categories. This is further strengthened by the results as obtained from the Kruskal-Wallis Test (H Test) during the period under study.

RESEARCH METHODOLOGY

The present study is based on secondary data. The analysis is based on liquidity, profitability, turnover ratio which are calculated with the help of data from financial statements of the Non-Banking Finance Companies. All the related to State Bank of India Auditors reports, Internet, Books, Journals, Magazines and the like.

SOURCES OF DATA

Data is the fact, figures and other relevant materials, past and present, serving as basis for the study and analysis. The design of the data collecting method is the backbone of research design. The sources of data are varied. It depends upon the nature of the study. Data can be distinguished as:

Primary Data:

Primary data is the data collected for the first time exclusively for the purpose ofachieving the objects of the project work. In this case the feedback received from the respondent officers through issue of structured questionnaire to the chosen sample is the primary data which is been collected.

Secondary Data:

Secondary data is the data which is already collected. In this case the sources are collected through websites, catalogues of bank, newspapers, magazines etc.

TYPES OF NBFCS

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

1. Equipment Leasing Company: Any company which is carrying on as its principal business as the activity of leasing equipment or the financing of such activity is termed as Equipment Leasing Company.

2. Hire-Purchase Finance Company: Any company, which is carrying as its principal business as hire purchase transaction or the financing of such transactions is known as Hire-purchase Finance Company.

3. Housing Finance Company: Any company which is carrying on as its principal business the financing of acquisition or development of plots of land in connection therewith is called Housing Finance Company.

4. Investment Company: Any company which is carrying on as its principal business the acquisition of securities is termed as Investment Company.

5. Loan Company: It is a company which is carrying on as its principal business the providing of finance whether by making loans or advance or otherwise for any activity other than its own. This category does not include an equipment leasing or hire purchase finance company or a housing finance company.

6. Mutual Benefit Finance Company (Nidhi Company): It is those companies which are notified by the Central Government as a Nidhi Company under section 620-A of the

Companies Act 1956.

7. Mutual Benefit Company (Potential Nidhi Company): A company which is working on the lines of a Nidhi Company but has not yet been declared by the Central Govt. as minimum NOF of Rs. 10 lakh, has applied to the RBI for certificate of Registration (COR) and also to the Department of Companies Affairs (DCA) for being notified as Nidhi Company and has not contravened directions / regulations of RBI / DCA.

8. Non-Banking Financial Company: Any hire purchase finance, housing finance, investment loan, equipment leasing or mutual benefit financial company, but does not include an insurance company or a stock Exchange or a stock broking company.

9. Miscellaneous Non-Banking Company: A company carrying on all or any of the following types of business:

(1) Managing, conducting or supervising as a promoter, foreman or agent of any transaction or arrangement by which the company enters into an agreement with a specified number of subscribers that everyone of them shall subscribe a certain sum in instalments over a definite period and that everyone of such subscribers shall in his turn as determined by lot or by auction or by tender or in such other manner as may be provided for in the agreement be entitled to the prize amount.

(2) Conducting any form of chit or Kuri which is different from the type of business referred to in sub paragraph (9.1) above.

(3) Undertaking / carrying on or engaging on or executing any other business similar to the business referred to in sub paragraph (9.1) and (9.2).

CONCLUSION

NBFCs in India have become prominent in a wide range of activities like hire purchase finance, equipment lease finance, loans, and investments. NBFCs have greater reach and flexibility in tapping resources. In desperate times, NBFCs could survive owing to their aggressive character and customized services. NBFCs are doing more fee-based business than fund-based. They are focusing now on retail sector-housing finance, personal loans and marketing of insurance. The strong NBFCs have successfully emerged as 'financial institutions' in a short span of time and are in the process of converting themselves into 'financial supermarket' – a one-stop financial shop. The growth trend of NBFCs in India is still catching momentum. Their role in the economy cannot be neglected and RBI should also make certain policies which should helpthem to flourish along with care for its investors.

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