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Performance Analysis of Non-Banking Financial Institutions

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Abstract

NBFIs have gained popularity in the recent times. They work to offer upgraded value equity and risk based items and give finance to numerous divisions in the economy. NBFCs are developing as a distinct option for conventional banking. Furthermore, NBFCS are likewise rising as essential part of Indian Financial System and they have admirable commitments to the Government's motivation to money related Inclusion. They have been successful to an extent by offering credit to retail customers in regions where people don't have bank accounts. Many such borrowers take credit from NBFCs and over the years use their performance record with NBFCs and experience to wind up bankable borrowers. They are today going through an extremely pivotal stage where Reserve Bank of India has provided a reviewed regulatory structure with a goal to synchronize it with banks and Financial Institutions and address regulatory gaps and arbitrage. Therefore it gets to be vital to study the performance analysis of NBFCs and analyse it.

Keywords: NBFCs, Banking, Credit, Microfinance, Performance Analysis

Introduction

In our Economy, there are two major Financial Institutions. One is Banking and other is Non-Banking.

A Non-Banking Financial Company (NBFC) is a company enlisted under the Companies Act, 1956. An NBFC indulges in the nosiness of loans and advances, acquisition of shares/ stocks/ bonds/ debentures/ securities which are issued by Government or local authority or other attractive securities of similar nature, leasing, hire-purchase, insurance business, chit business but does it does not include any institution whose main business is that of agriculture, industrial activity, buying and selling of any other goods (goods other than securities) or providing any service or sale/purchase/construction of immovable property.

Evolution of the regulatory framework for NBFCs:

While NBFIs help to boost the economy, they additionally bring dangers too. The best way to control these dangers is through legitimate regulation. Risks will vary depending on the economic functions performed by NBFIs. The challenge for regulation is striking the right harmony between the risks and advantages. From one perspective, too less or no regulation can lead to crisis and seriously affect the vulnerable and the economy. Then again, excessively strict or inappropriate regulation can impede advancement and improvement. The call for "deregulation" in created economies mirrors this. Getting the right adjust is a never-ending challenge for budgetary controllers and bosses in the developing nations, as well as in developed and progressive economies. The regulatory framework for NBFCs has thus evolved over the years.

In 1964, Numerous expert groups like the Narasimham Committee and the Working Group on Financial Companies evaluated and gave suggestions as on their role in the financial sector, the growth potential, and regulatory changes which can be applied to reduce the gaps. A large number of the proposals of these boards were bit by bit interlaced to form regulations for the NBFC part. With NBFCs emerging as a vital segment closely linked with other entities in the financial sector tied with the disappointments of several large NBFCs, a more wide-ranging and improved framework was put into place by the RBI by way of the introduction of prudential norms in 1996. In 2007, the RBI defined deposit accepting and non-deposit accepting NBFCs and separate prudential norms were issued. Currently there are directions with regard to exposure norms, provisioning, capital adequacy requirements for deposit accepting NBFCs and non-deposit accepting NBFCs, different set of regulations for several categories of NBFCs and more. In 2014 the norms were further tightened. The new norms are being implemented in a step by step manner, are now made valid for NBFCs that manage funds worth Rs 500 crore and for those that accept public deposits. A lighter regulatory structure has been placed on NBFCs other than for those with large asset sizes and deposit accepting. For NBFCs with large asset sizes, and for all deposit-accepting NBFCs, regulations have been synchronized across NBFCs with the intent to create a level-playing field that does not unjustifiably favour any institution.

The NBFC area in India has underwent a huge change in the course of latest years and has come to be perceived as a systemically vital part of the finance system. NBFCs are currently firmly interconnected with entities in the monetary sector and may be wide open to risk which could affect the NBFC segment and in addition other different members in the financial sector.

The NBFC section has seen alliance over the later past as demonstrated by the aggregate number of registered NBFCs with the RBI seeing a consistent year on year fall against the overall development in their assets over the same period.

Growth and Profitability:

The NBFCs division has demonstrated a consistent year-by-year development in net benefits in the course of recent couple of years. The impacts of the market recovery are evident particularly in the year 2014. With the Government and RBI's expanded spotlight on financial inclusion, one could expect a proceeded growth run in the coming years. NBFCs have progressively increased in size and market share, signifying the success of the business models followed by them and the

opportunities available in their targeted markets. The total share of NBFCs has gradually risen from 10.7% in 2009 to 14.3% of banking assets in 2014, thus gaining complete significance. If we see the assets side, the share of NBFCs' assets as a fraction of Gross Domestic Product (GDP) at current market prices has increased progressively from 8.4% in 2006 to 12.5% in 2013.

Research Methodology:

- The study uses yearly data of 20 Non-Banking Financial Companies for the period of 2006 to 2015.
- These Companies are classified as asset based companies and core investment companies.
- Secondary data is collected from their annual reports and websites.

Research Objectives:

- To analyze the performance of selected Non-Banking Financial Companies.
- To study the financial structure of Non-Banking Financial Companies in India
- To analyze the profitability of selected Non-Banking Financial Companies

Tools Used:

- Graphical Representations through Microsoft Excel
- Correlation and Regression through SPSS
- Ratios through Microsoft Excel

Data Analysis

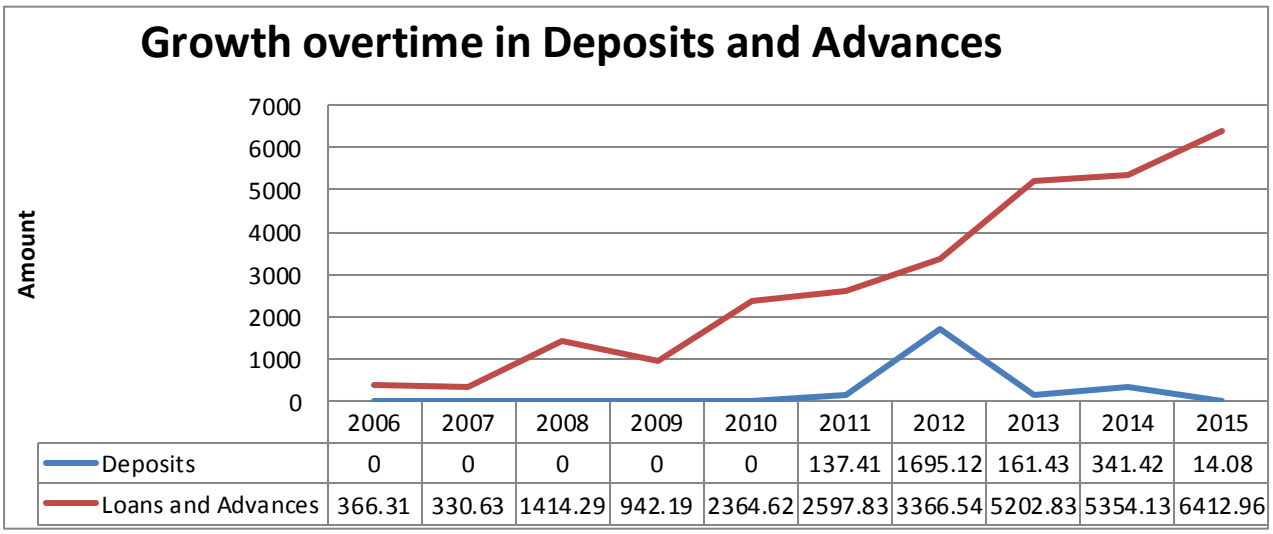
In order to compute the performance of the Non-Banking Financing Institutions graphical analysis is used to ascertain the growth over time in different financial aspects. Table 1 provides a comparative financial position of different years as indicators of growth over mentioned period of time. From the table it is evident that financial aspects of the non-bank financial institution have become better off with the passage of time.

Table 1:

Year	Deposits	Loans & Advances	Assets	Investments	Total income	Total Expenditure
Core Investment NBFCs						
2006	0	366.31	1455.73	989.19	424.48	304.2
2007	0	330.63	3010.19	2124.53	645.8	494.07
2008	0	1414.29	7606.6	5820.01	828.92	593.3
2009	0	942.19	9681.98	6646.88	990.98	714.34
2010	0	2364.62	12165.19	9466.07	1318.62	993.21
2011	137.41	2597.83	13990.41	10728.14	2290.7	1854.59
2012	1695.12	3366.54	14459.49	11267.63	2389.74	2690.38
2013	161.43	5202.83	15975.23	12475.67	2462.06	2546.23
2014	341.42	5354.13	17284.23	15307.88	2896.27	2008.39
2015	14.08	6412.96	18739.23	15128.24	2341.67	1783.78
Asset Financing NBFCs						
2006	0	11150.37	16200.8	1571.27	15255.99	12317.01
2007	0	14579.37	22430.64	1524.5	21178.55	17107.82
2008	0	18941.66	24929.2	3000.45	25943.95	19238.29
2009	0	21385.44	29156.42	3268.72	26005.13	20430.29
2010	0	31860.65	41608.03	3740.71	33352.62	25588.22
2011	4134.02	54971.87	56735.52	5960.77	44259.81	33363.03
2012	3241.52	81891.86	78660.52	5961.76	58583.16	44051.64
2013	1724.47	98780.88	91226.53	7472.86	67063.96	50483.31
2014	1790.77	96969.56	93459.11	8054.19	67564.06	50358.89
2015	1233.24	109532.8	101988.4	7934.49	65405.2	48250.45

From Figure 3 it can be seen that the gap between deposits and loans and advances is widening which shows that Core Investment NBFCs have become efficient in mobilising their deposits to investments. Also their Loans and Advances have increased by 1650% in ten years which shows that the widening their operations and have extended loans and advances to a large number of population.

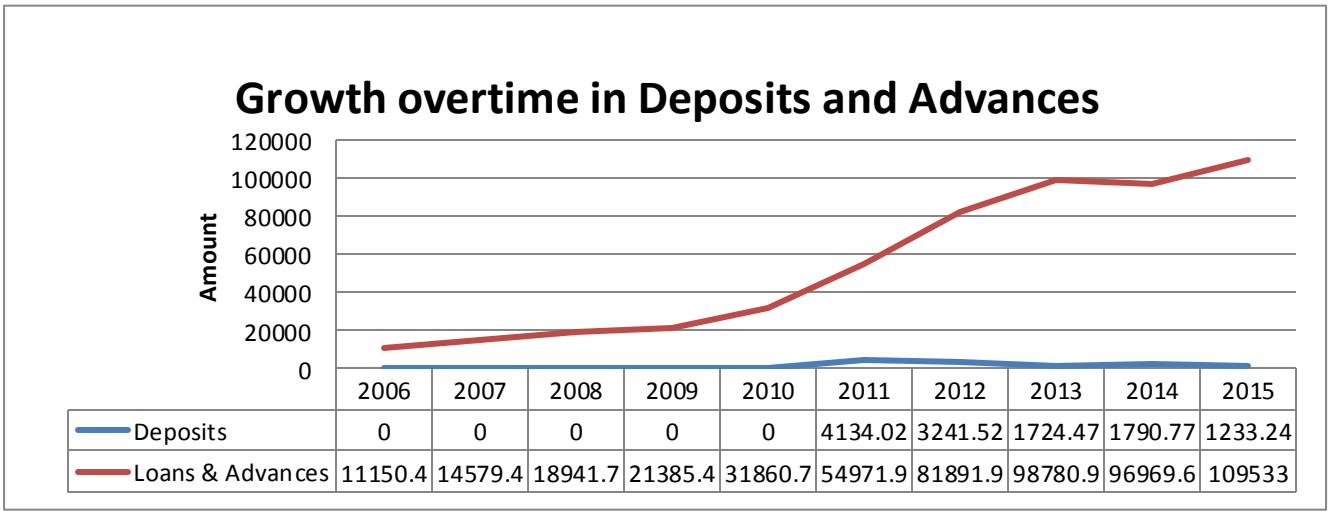
Figure 3:



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Deposits	0	0	0	0	0	137.41	1695.12	161.43	341.42	14.08
Loans and Advances	366.31	330.63	1414.29	942.19	2364.62	2597.83	3366.54	5202.83	5354.13	6412.96

Again in Figure 4 it can be seen that the gap between Deposits and Advances is increasing manifolds. It can be clearly seen that the deposits are very less as compared to the advances and that too is decreasing over the years due to which the gap is further widening as the deposits are reducing and the advances are increasing. There has been an increase in loans by 882.23% over the period of ten years.

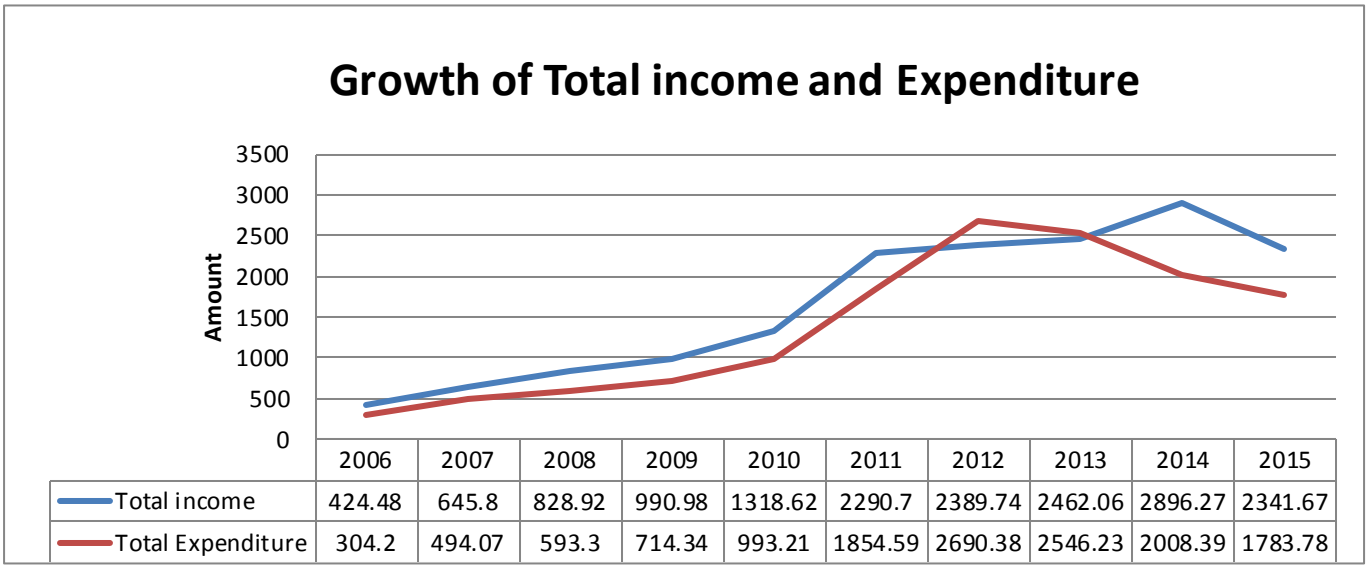
Figure 4:



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Deposits	0	0	0	0	0	4134.02	3241.52	1724.47	1790.77	1233.24
Loans & Advances	11150.4	14579.4	18941.7	21385.4	31860.7	54971.9	81891.9	98780.9	96969.6	109533

Figure 5 depicts the potentiality of the sector over time. The gap between the total income and the total expenditure shows the operational efficiency. This shows that the over the years the operational efficiency has increased except for two years which are 2012 and 2013. This is due the fact that Religare incurred losses in both the years due to which the total income of NBFCs has been affected in these years.

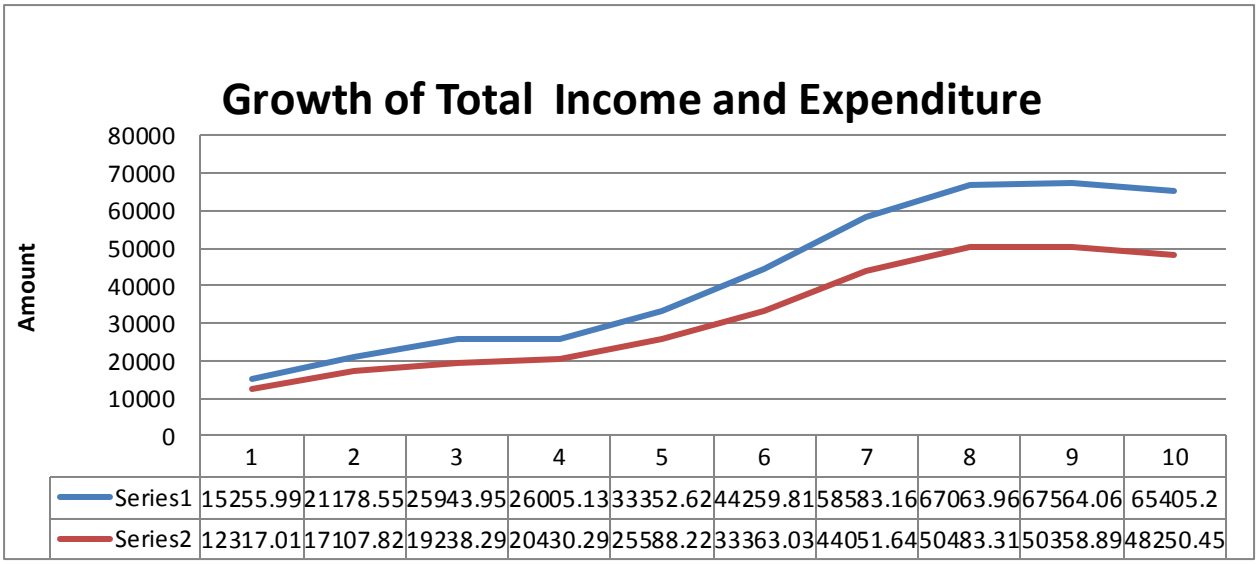
Figure 5:



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total income	424.48	645.8	828.92	990.98	1318.62	2290.7	2389.74	2462.06	2896.27	2341.67
Total Expenditure	304.2	494.07	593.3	714.34	993.21	1854.59	2690.38	2546.23	2008.39	1783.78

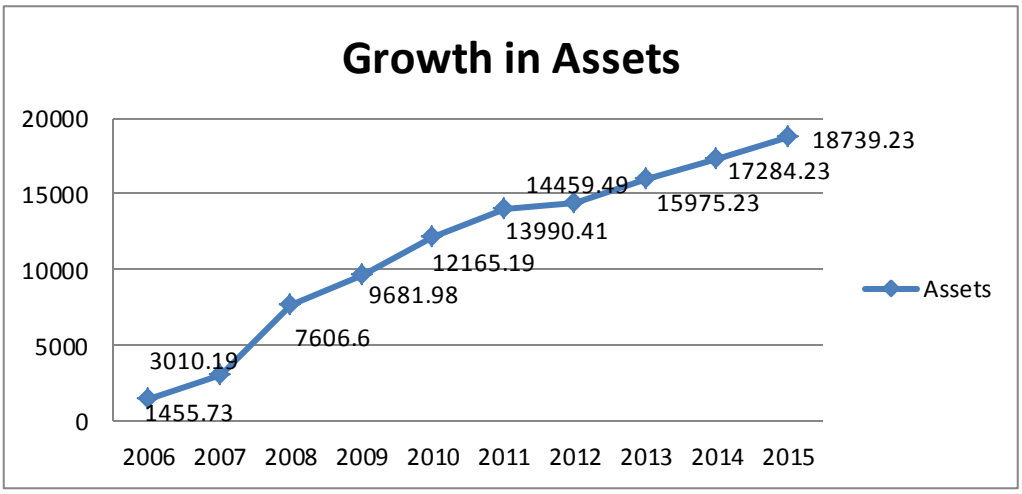
Similarly Figure 6 also depicts the potential efficiency of the sector over time. The gap between the total income and the total expenditure shows the operational efficiency. This shows that the over the years the operational efficiency has increased over the span of ten years. It means that over the years NBFCs have become much more efficient in investing in the profitable sectors and collecting deposits in the least cost manner.

Figure6:

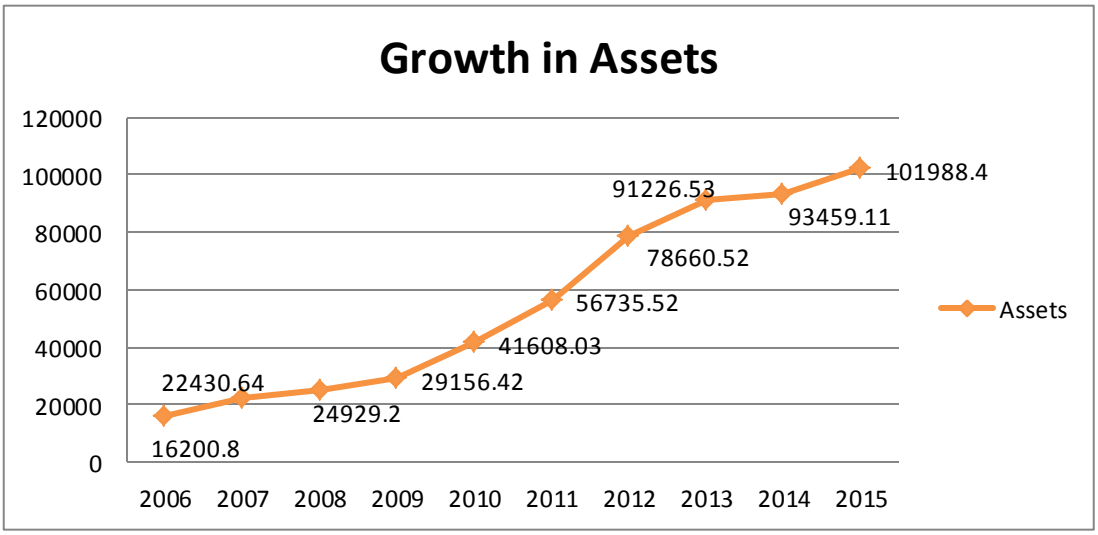


	1	2	3	4	5	6	7	8	9	10
Series1	15255.99	21178.55	25943.95	26005.13	33352.62	44259.81	58583.16	67063.96	67564.06	65405.2
Series2	12317.01	17107.82	19238.29	20430.29	25588.22	33363.03	44051.64	50483.31	50358.89	48250.45

It can be seen from Figure 7 that growth of assets follows a growing trend. The total value for assets increased from 1455.73 Crores to 18,739.23 Crores. This means that NBFCs are contributing to national wealth along with their personal development.



Similarly, It can be seen from Figure 8 that growth of assets follows a growing trend. The total value for assets increased from 16,200.8 Crores to 1,01,988.4 Crores. This means that these NBFCs are also contributing to national wealth along with their personal development. '



Therefore, it can be seen that the growth of NBFCs in the industry is very impressive with significant competitive burdens from banks and other financial institutions, NBFIs have displayed substantial resilience. Here the statistical research of various variables is done to find out the association between company's financial performance projected by Net Profit and various important performance determinants. Correlation has been calculated using SPSS software to find out how strongly the variables are correlated.

The table-2 shows that the independent variables for Core Investment Companies namely Total Assets, Total Equity, Loans and Advances, Deposits and Total Income are not correlated with net profit. As we can see that the correlation of net profit and total expenditure is 0.09 which is less than 0.01 Thus the Total Expenditure is significantly negatively correlated to the dependent variables net profit. This means that as total expenditure increases the net profit also decreases.

		Net Profit	Assets	Total Equity	Loans and Advances	Deposits	Total Income	Total Expenditure
Net Profit	Pearson Correlation	1	-.497	-.533	-.593	-.601	-.543	-.771**
	Sig. (2-tailed)		.144	.113	.071	.066	.105	.009
	N	10	10	10	10	10	10	10
Assets	Pearson Correlation	-.497	1	.975**	.918**	.298	.930**	.846**
	Sig. (2-tailed)	.144		.000	.000	.403	.000	.002
	N	10	10	10	10	10	10	10
Total Equity	Pearson Correlation	-.533	.975**	1	.893**	.321	.896**	.838**
	Sig. (2-tailed)	.113	.000		.001	.365	.000	.002
	N	10	10	10	10	10	10	10
Loans and Advances	Pearson Correlation	-.593	.918**	.893**	1	.208	.889**	.807**
	Sig. (2-tailed)	.071	.000	.001		.563	.001	.005
	N	10	10	10	10	10	10	10
Deposits	Pearson Correlation	-.601	.298	.321	.208	1	.441	.627
	Sig. (2-tailed)	.066	.403	.365	.563		.202	.052
	N	10	10	10	10	10	10	10
Total Income	Pearson Correlation	-.543	.930**	.896**	.889**	.441	1	.935**
	Sig. (2-tailed)	.105	.000	.000	.001	.202		.000
	N	10	10	10	10	10	10	10
Total Expenditure	Pearson Correlation	-.771**	.846**	.838**	.807**	.627	.935**	1
	Sig. (2-tailed)	.009	.002	.002	.005	.052	.000	
	N	10	10	10	10	10	10	10

**. Correlation is significant at the 0.01 level (2-tailed).

Regression: Since R value in Table-3 is 0.994 in the table, it can be said that there is high degree of correlation. Also 96.7% can be explained which is very large.

Table-4 i.e. Anova reports how well the regression equation fits the data. This table indicates that the regression model predicts the dependent variable significantly well. This indicates the statistical significance of the regression model. Here, p = 0.005, which is less than 0.05 which indicates that overall, the regression model statistically significantly predicts the outcome variable i.e., it is a good fit for the data.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	967673.610	6	161278.935	44.680	.005[a]
	Residual	10828.933	3	3609.644		
	Total	978502.543	9			

a. Predictors: (Constant), total equity, Deposits , Loans and Advances , Total Income, Total Expenditure, Assets

b. Dependent Variable: net profit

The **Coefficients** table-5 provides us with the necessary information to predict net profit from various variables, as well as determine whether net profit contributes statistically significantly to the model. Additionally, we can use the values in the "**B**" column under the "**Unstandardized Coefficients**" columnto present the regression equation as:

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
1 (Constant)	-20.538	354.418		-.058	.957	-1148.453	1107.377
Assets	.014	.021	.256	.691	.539	-.052	.080
Deposits	-.034	.066	-.054	-.515	.642	-.243	.175
Loans and Advances	-.144	.026	-.958	-5.581	.011	-.226	-.062
Total Income	.761	.100	2.089	7.592	.005	.442	1.080
Total Expenditure	-.802	.091	-2.158	-8.808	.003	-1.091	-.512
total equity	.095	1.011	.027	.094	.931	-3.122	3.311

a. Dependent Variable: net profit

Net profit = -20.538+0.14(Assets)-.0034(Deposits)-.144(Loans and Advances)+ .761(Total Income)-.802(Total Expenditure)+.095(Total Equity)

Similarly Table 6 shows that the correlation of the independent variables for Asset Financing Companies namely Total Assets, Total Equity, Loans and Advances, Deposits, Total Income and Total Expenditure with net profit. It can be seen that the correlation of net profit and all the independent variables is equal to which is less than 0.01. Thus all the independent variables are positively correlated with the dependant variable net profit.If we try to find the correlation between the Net profit of NBFCs and the GDP of India we can that it is positively correlated to the

GDP. This shows that their performance is in line with the increasing GDP.

		Net Profit	Assets	Total Equity	Loans and Advances	Deposits	Total Income	Total Expenditure
Net Profit	Pearson Correlation	1	.949**	.956**	.940**	.667*	.959**	.953**
	Sig. (2-tailed)		.000	.000	.000	.035	.000	.000
	N	10	10	10	10	10	10	10
Assets	Pearson Correlation	.949**	1	.971**	.998**	.588	.992**	.991**
	Sig. (2-tailed)	.000		.000	.000	.074	.000	.000
	N	10	10	10	10	10	10	10
Total Equity	Pearson Correlation	.956**	.971**	1	.966**	.742*	.976**	.976**
	Sig. (2-tailed)	.000	.000		.000	.014	.000	.000
	N	10	10	10	10	10	10	10
Loans and Advances	Pearson Correlation	.940**	.998**	.966**	1	.593	.989**	.988**
	Sig. (2-tailed)	.000	.000	.000		.071	.000	.000
	N	10	10	10	10	10	10	10
Deposits	Pearson Correlation	.667*	.588	.742*	.593	1	.623	.625
	Sig. (2-tailed)	.035	.074	.014	.071		.054	.053
	N	10	10	10	10	10	10	10
Total Income	Pearson Correlation	.959**	.992**	.976**	.989**	.623	1	1.000**
	Sig. (2-tailed)	.000	.000	.000	.000	.054		.000
	N	10	10	10	10	10	10	10
Total Expenditure	Pearson Correlation	.953**	.991**	.976**	.988**	.625	1.000**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.053	.000	
	N	10	10	10	10	10	10	10

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Regression: Since R value in Table-8 is 0.998 in the table, it can be said that there is high degree of correlation. Also 99.1% can be explained which is very large.

		GDP	Net Profit
GDP	Pearson Correlation	1	.952**
	Sig. (2-tailed)		.000
	N	9	9
Net Profit	Pearson Correlation	.952**	1
	Sig. (2-tailed)	.000	
	N	9	10

**. Correlation is significant at the 0.01 level (2-tailed).

Table-9 i.e. Anova reports how well the regression equation fits the data. This table indicates that the regression model predicts the dependent variable significantly well. This indicates the statistical significance of the regression model. Here, $p = 0.001$, which is less than 0.05 which indicates that overall, the regression model statistically significantly predicts the outcome variable i.e., it is a good fit for the data.

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26502025.879	6	4417004.313	159.708	.001[a]
	Residual	82970.247	3	27656.749		
	Total	26584996.126	9			

a. Predictors: (Constant), Total Equity, Deposits , Loans and Advances, Total Expenditure, Assets, Total Income

b. Dependent Variable: Net Profit

The **Coefficients** table-10 provides us with the necessary information to predict net profit from various variables, as well as determine whether net profit contributes statistically significantly to the model. Furthermore, we can use the values in the "**B**" column under the "**Unstandardized Coefficients**" column

To present the regression equation as:

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
1 (Constant)	1002.231	343.981		2.914	.062	-92.471	2096.933
Assets	.072	.048	1.390	1.511	.228	-.080	.224
Deposits	.126	.128	.111	.984	.398	-.281	.533
Loans and Advances	-.077	.028	-1.756	-2.710	.073	-.167	.013
Total Income	.831	.105	9.990	7.889	.004	.496	1.166
Total Expenditure	-1.017	.136	-8.900	-7.462	.005	-1.450	-.583
Total Equity	.507	1.261	.159	.402	.715	-3.506	4.519

a. Dependent Variable: Net Profit

Net profit = 1002.231 +0.72(Assets) + 0.126(Deposits)-0.077(Loans and Advances)+ 0.831 (Total Income)-1.017(Total Expenditure)+0.507(Total Equity)

Findings and Recommendations

- It is observed that the loan and advances over the 10 years period is increasing according to the deposits. This increased the income for the NBFIs which means with the passage of time NBFIs become more efficient in collecting deposits from least cost sources which increase its gap between the income and expenditure.
- According to our study it is clear that the selected profitability determinants have impact upon net profit, but among the independent variables the Total Asset, Deposit, Total Income, Total Expense significantly manipulate the Profitability of Non-Banking sector in India. As we know that Total asset is considered as one of the most prominent yardstick of financial stability measurement of financial institutions, stakeholders generally perceive the financial institutions to be superior over the others if it total asset is higher than other institutions.
- When an NBFI has huge Total Income and Total Equity the investors feel more secured and approach to this NBFI for their investment. As the number of customers increases it results in more profitable organization. Again we see Total Income is the another variable which has a major impact on net profit. So it is undoubtedly true that if the income increases, ultimately it has a positive effect over the profitability.
- The results of regressions suggest that the selected independent variables explain more than 99% changes in the net profit. All the results are statistically significant and overall provide an idea that liquidity is the basic determinant of profitability in NBFI sector. So it can be inferred that this promising and potential sector in India can flourish very fast and enhance profitability by improving total equity and operating efficiency.

Recommendations:

- Thus it is recommended that the companies should focus on increasing profitability by maintaining total equity and operational efficiency.
- Also, It is important to view NBFIs as a catalyst for economic growth and to provide necessary support for their development. A long term approach by all concerned for the development of NBFIs is necessary. Given appropriate support, NBFIs will be able to play a more significant role in the economic development of the country.

Conclusion

The study gives a simple picture and leaves room for further study in different areas of NBFI functions such as products of productivity analysis.

The activities of non-banking financial companies (NBFCs) in India have undergone qualitative changes over the years through functional specialization. The role of NBFCs as effective financial intermediaries has been well recognized as they have inherent ability to take quicker decisions, assume greater risks, and customize their services and charges more according to the needs of the clients.

The study tells that Performance of NBFCs is improving. Importantly, the results indicate that NBFIs are the dominant market players of the financial sectors through which the financial resources are effectively channelized for savers to the users in the economy.

Limitations of the Study

- Data Availability: Data for very less companies is available for NBFCs therefore only 20 companies have been selected for the study
- The results are affected by extremes because very less number of companies have been chosen due to non-availability of data.
- This analysis cannot be generalized for a vast number of NBFCs institutions in India

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