Financial Performance Analysis on Non Banking Financial Companies - A Comparative study

Dr. R. Padmanaban, Associate Professor, PG & Research Department of Commerce with IB

Princy Epsiba A, Ph.D(Finance) - Full Time Research Scholar, PG & Research Department of Commerce

Hindusthan College of Arts and Science, Coimbatore -28.

Abstract

Non-banking financial companies, or NBFCs, are financial institutions that provide banking services, but do not hold a banking license. These institutions are not allowed to take deposits from the public. Nonetheless, all operations of these institutions are still covered under banking regulations. NBFCs do offer all sorts of banking services, such as loans and credit facilities, retirement planning, money markets, underwriting, and merger activities. The number of non-banking financial companies has expanded greatly in the last several years as venture capital companies, retail and industrial companies have entered the lending business. It has been revealed by some research studies that economic development and growth of NBFCs are positively related. In this regard the World Development Report has observed that in the developing counties banks hold a major share of financial assets than they do in the industrially developed countries. While analyzing the financial performance of NBFC's in this comparative study we can come to know the performance

Keywords: Non Banking Financial Institutions, Non Banking Financial Companies, Banking Sector, Share Trading

Introduction

A non-banking financial company, or NBFC, does not hold a banking license, yet it still provides many banking services. NBFCs typically do not take deposits from the general public, but they do provide loans, retirement planning, underwriting and other services that are covered under banking regulations. The number of NBFCs has expanded rapidly in recent years as venture capital, retail, and industrial companies have entered the lucrative lending industry. NBFCs include insurance firms, currency exchanges, check-cashing locations, payday lenders, even pawnshops. NBFCs make it easier to secure a loan. They provide an alternative to, and competition for, banks, which means more access to finance. Some NBFCs specialize in certain sectors or groups. They are especially valuable for borrowers who need money quickly, but aren't able to secure a more traditional loan from a bank. But NBFCs also pose greater risk than traditional financial institutions, since in some ways, their regulation and reporting requirements are diminished. And their loans come at a high cost. As with any loan, borrowers should understand what they're agreeing to before they sign on with an NBFC.

Over a period of time they are successful in rendering a wide range of services. Initially intended to cater to the needs of savers and investors, NBFCs later on developed into institutions that can provide services similar to banks. In India several factors have contributed to the growth of NBFCs. They provide tailor made services to their clients. Comprehensive regulation of the banking system and absence or relatively lower degree of regulation over NBFCs has been some of the main reasons for the growth momentum of the latter. It has been revealed by some research studies that economic development and growth of NBFCs are positively related. In this regard the World Development Report has observed that in the developing counties banks hold a major share of financial assets than they do in the industrially developed countries. As the demand for financial services grow, countries need to encourage the development NBFCs and securities market in order to broaden the range of services and stimulate competition and efficiency.

To encourage the NBFCs that are run on sound business principles, on July 24, 1996 NBFCs were divided into two classes: a) equipment leasing and hire purchase companies (finance companies) and b) loan and investment companies. However, the NBFCs segment of finance was less regulated over a period of time. On account of the CRB scam and the inability of some of the NBFCs to meet with the investors demand for return of the deposits the need was felt by the Reserve Bank of India to increase the regulations for the NBFCs. According to the guideline issued on 8/4/99 the company is to be classified as NBFCs if its financial assets account for more than 50% of its total assets i.e. net of intangible assets and the income from financial assets should be more than 50% of the total income. By June 1999 RBI had removed the ceiling on bank credit to all registered NBFCs which are engaged in the principle business of equipment leasing, hire purchase, loan and investment activities. The steps taken by RBI for managing NBFC is apparent that RBI assigns the regarding steps taken by RBI for managing NBFC it is apparent that RBI assigns the priority for proper management of NBFCs keeping in view the investor's protection. In the light of the above regulatory frame work one should like to examine various parameters of different groups of NBFCs.

Review of Literature

A brief summary of the previous research works relating to NBFCs are presented here.

Jafor Ali Akhan (2010) writes on **"Non-Banking Financial Companies (NBFCs) in India".** The book discussed the financial system in India. It covers the financial intermediaries including commercial banks, regional rural banks, cooperative banks and Non-Banking Financial Companies in India. The book is good source in getting information on businesses, classification, management of assets, risk coverage, etc of the NBFCs in India.

Taxmann's (2013) published **"Statutory Guide for Non-Banking Financial Companies"** is published by Taxmann's Publications, New Delhi. The book listed the laws relating to Non-Banking

Financial Companies. The rules and laws governing the kinds of businesses undertaken by different types of NBFCs are also discussed.

Subina Syal and **Menka Goswami (2012)** writes on **"Financial Evaluation of Non-Banking Financial Institutions: An Insight"** in **'Indian Journal of Applied Research'.** The Indian financial system consists of the various financial institutions, financial instruments and the financial markets that facilitate and ensure effective channelization of payment and credit of funds from the potential investors of the economy. Non-banking financial institutions in India are one of the major stakeholders of financial system and cater to the diversified needs by providing specialized financial services like investment advisory, leasing, asset management, etc. Non-banking financial sector in India has been a considerable growth in the recent years.

Objectives of the Study

The aim of the present study is to analyze the financial performance and growth of non-banking financial institutions in India in the last 5 years. The study is helpful for the potential investors to get the knowledge about the financial performance of the non-banking financial institutions and be helpful in taking effective long-term investment decisions. The objectives of this study are to provide a awareness towards two NBFC's. Specifically, on the basis of available literature and data, the study seeks to provide:

- To know the financial performance of two NBFC's and market behaviour.
- An account of how NBFIs have interacted with the banking sector.
- Details of how and via which channels NBFIs were affected by the crisis, and whether and how they contributed to the crisis.

In India considerable growth has taken place in the Nonbanking financial sector in last two decades. Since the activities of NBFCs have undergone the qualitative change in the recent years, there is a need to look at the salient issues like liquidity, profitability, interest margins etc. The primary objective of the study is to evaluate the overall financial performance of NBFCs. The present study attempts to examine the relative financial performance of different groups of NBFCs in terms of profitability, leverage and liquidity.

Methodology of the Study

For the purpose of this study the data relating to NBFCs were collected from the various data's from RBI Bulletin regarding Financial and Investment companies. This article analyses the performance of non-government financial and investment companies (other than banking, insurance and chit-fund companies) during the year 2016 - 2020. The study is based on the audited annual accounts of two major NBFCs, which closed their accounts at the end of financial year. The segment of financial and investment companies in the private corporate sector is highly skewed.

For the purpose of analysis, for various ratios mentioned below, average of five years ratio i.e. 2015-16 to 2019-20 is found for each group separately. To examine whether these ratios differ significantly differ between different categories of NBFCs, One way Analysis of Variance (ANOVA) is applied. Financial ratios were used in the study to examine the profitability, efficiency and turnover aspects. The selected financial ratios were divided into 4 broad groups: viz. Investment Valuation ratios, Profitability ratios, Liquidity ratio, Debt Coverage Ratio and Indicator ratios.

HYPOTHESIS

The following hypothesis has been framed to test the differences in the ratios between the NBFCs during the study period.

H0- There is no significant difference between the selected NBFCs in terms of selected Profitability Ratio, Leverage Ratio, Liquidity Ratio, Interest Coverage Ratio and the Risk Indicator Ratio.

FINDINGS

The average ratios of various categories of NBFC's are presented in Table: 1

	Manappuram						Muthoot				
Particulars	***Mar-20***	***Mar-19***	***Mar-18***	***Mar-17***	***Mar-16***		***Mar-20***	***Mar-19***	***Mar-18***	***Mar-17***	***Mar-16***
Liquidity Ratios											
Current Ratio	1.03	0.99	25.70	1.07	0.82		0.88	0.96	16.65	0.93	1.16
Quick Ratio	23.46	31.77	25.58	7.74	8.79		27.74	25.54	16.65	4.19	3.42
Debt Equity Ratio	3.27	2.90	2.69	2.48	2.88		3.21	2.74	2.71	2.61	2.43
Long Term Debt Equity Ratio	1.35	1.09	2.69	0.59	0.41		0.89	0.86	2.71	0.65	0.94
Investment Valuation Ratio											
Face Value	2.00	2.00	2.00	2.00	2.00		10.00	10.00	10.00	10.00	10.00
Dividend Per Share	2.75	2.15	2.00	1.50	1.80		15.00	12.00	10.00	6.00	6.00
Operating Profit Per Share (Rs)	37.69	27.23	22.36	25.83	17.25		171.64	133.61	118.82	106.26	93.31
Net Operating Profit Per Share (Rs)	51.02	40.56	34.74	35.72	26.31		217.30	171.67	156.65	143.40	121.84
Free Reserves Per Share (Rs)	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00
Bonus in Equity Capital	72.73	72.91	72.94	72.99	73.05		62.83	62.89	62.99	63.08	63.15
Profitability Ratios											
Operating Profit Margin (%)	73.86	67.14	64.37	72.30	65.58		78.98	77.83	75.85	74.10	76.58
Profit Before Interest And Tax Margin (%)	69.62	64.96	61.73	70.33	63.06		78.41	77.19	74.36	73.02	73.04
Gross Profit Margin (%)	70.28	65.13	62.29	70.36	63.18		78.49	77.21	75.15	73.25	73.24
Cash Profit Margin	31.80	25.06	25.39	26.06	17.60		35.09	29.27	28.75	21.37	19.93

(%)										
Adjusted Cash Margin (%)	31.80	25.06	25.39	26.06	17.60	35.09	29.27	28.75	21.37	19.93
Net Profit Margin (%)	28.53	23.12	23.54	24.14	15.23	34.63	28.67	28.36	20.59	16.65
Adjusted Net Profit Margin (%)	28.26	23.06	23.33	24.13	15.20	34.60	28.66	28.06	20.53	16.60
Return On Capital Employed (%)	13.43	13.04	13.16	18.38	13.20	14.06	14.50	16.48	17.93	18.55
Return On Net Worth (%)	22.97	17.99	18.07	21.92	12.32	26.11	20.17	22.75	18.10	14.40
Adjusted Return on Net Worth (%)	22.97	17.99	18.07	21.92	12.32	26.11	20.17	22.75	18.10	14.40
Return on Assets Excluding Revaluations	63.38	52.11	45.25	39.32	32.53	288.22	244.00	195.28	163.12	140.83
Return on Assets Including Revaluations	63.38	52.11	45.25	39.32	32.53	288.22	244.00	195.28	163.12	140.83
Return on Long Term Funds (%)	24.35	24.33	13.16	40.22	36.41	31.38	29.20	16.48	39.21	32.80
Debt Coverage Ratios										
Interest Cover	2.21	2.20	2.33	2.11	1.59	2.45	2.38	2.47	1.84	1.58
Total Debt to Owners Fund	3.27	2.90	2.69	2.48	2.88	3.21	2.74	2.71	2.61	2.43
Financial Charges Coverage Ratio	2.32	2.26	2.41	2.17	1.65	2.47	2.39	2.50	1.86	1.66
Financial Charges Coverage Ratio Post Tax	2.00	1.84	1.94	1.78	1.44	2.10	1.90	1.94	1.54	1.43
Cash Flow Indictor Ratio										
Dividend Payout Ratio Net Profit	22.75	22.92	24.43	17.38	56.12	19.93	0.00	22.49	20.31	29.52
Dividend payout Ratio Cash Profit	20.21	21.09	22.45	16.09	48.49	19.64	0.00	21.95	19.51	24.59
Earning Retention Ratio	77.25	77.08	75.57	82.62	43.88	80.07	100.00	77.51	79.69	70.48
Cash Earning Retention Ratio	79.79	78.91	77.55	83.91	51.51	80.36	100.00	78.05	80.49	75.41
Adjusted Cash flow Times	12.65	14.84	13.65	10.47	20.19	12.13	13.32	11.62	13.83	14.03

INTERPERATION

From the final analysis of comparison of financial ratios, it can be interpreted that:

1. For the sake of Liquidity is concerned with the comparison between Muthoot & Mannapuram, Quick ratio is leading in comparison with Manappuram for Muthoot, with respect to other ratio.
2. Talking about the Investment Valuation ratio, its well said clear that the Face Value for both the NBFCs has been remained to constant, with a slight increment in Operating Profit per share in Muthoot as compared to Manappuram resulting in decline for free reserves & bonus capital.
3. For looking at the profitability status, it can be well said that Muthoot is leading in comparison with Manappuram, with a slight higher difference.
4. Coverage ratios indicates the significant changes of decline in Financial Charges coverage ratios for the very first year, i.e., for March 16 with a gradual increment in Muthoot financial ratios.
5. And lastly talking about Indicator ratios, from the above status its clear that there is slight decline for the year of March 16 with the effect on Dividend Payout Ratio in relation with Cash Profit & Net Profit, showing a corresponding chances of Increment in all other ratios with comparison of Muthoot in relation with Manappuram.

SUGESSTIONS

The NBFCs play an important role in channelizing these savings into investments. NBFCs have made great strides in recent years and are meeting the diverse financial needs of the economy. They have greatly influenced the direction of savings and investments. They have broadened and diversified the range of products and services offered by a financial sector. They are being recognized as complementary to the banking sector due to their customer-oriented services, simplified procedures, and attractive rates of returns on deposits, flexibility and timeliness in meeting the credit needs of specified sectors. NBFCs are particularly important for facilitating storage of value and inter-mediation of risk. Moreover, like other financial institutions, they are sensitive to runs and herding behaviour. If the financial sector does not work smoothly, high transaction costs, lack of confidence and shortsightedness of economic actors, as well as a culture of corruption may result.

CONCLUSION

NBFCs have been playing a crucial role both form the macroeconomic perspective & the structure of Indian Financial System. They are seen as a perfect or even a better alternative to conventional banks for meeting various financial requirements of a business enterprise. The services offered are faster & efficient services without making one to go through the complex procedures of conventional banking formalities. However to survive & to constantly grow, NBFCs have their focus on their core strength while improving in weakness. Besides they have to be very dynamic & constantly endeavour to search for new products and services in order to survive in this ever competitive financial market. It is highlighted that due to the regulations of the Reserve Bank of India, still the NBFCs are not extending more credit. It is suggested to the NBFC credit policy to reduce rate of interests, which helps to small enterprises to get loans for their different capital requirements. The ratios for all the selected NBFCs are differing significantly from one another. From this it is observed that the ratios of NBFCs are generally different from each other. The analysis of variance along with details about average ratios may become a useful guide to the NBFCs in their financial decisions making.

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