

# A Study on Financial Performance and Growth of Non-Banking Financial Companies

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**Abstract:** Non-Banking Financial Companies (NBFCs) are essential in providing financial services beyond traditional banking, particularly in credit access and investment facilitation. However, their financial performance and growth are influenced by various economic, regulatory, and operational challenges. This study aims to analyze the financial performance of NBFCs, identify growth drivers, and assess key risks affecting their sustainability.

The research employs a quantitative approach, utilizing financial ratio analysis and trend analysis based on secondary data from selected NBFCs. Key performance indicators such as Return on Assets (ROA), Return on Equity (ROE), Net Interest Margin (NIM), and Non-Performing Assets (NPA) are examined to assess profitability, asset quality, and liquidity. The study also considers macroeconomic factors, regulatory changes, and market trends influencing NBFC growth.

Findings indicate that while NBFCs have experienced significant growth due to increasing demand for alternative financing, they face challenges such as rising credit risk, liquidity constraints, and regulatory pressures. The study highlights that efficient risk management, regulatory compliance, and digital transformation are crucial for sustainable growth.

The research provides insights for policymakers, investors, and financial institutions, emphasizing the need for strategic reforms to strengthen NBFCs' financial health and resilience. These findings have implications for enhancing financial stability and promoting inclusive economic growth.

## INTRODUCTION

Background of the Study:

Financial Performance and Growth of Non-Banking Financial Companies

Non-Banking Financial Companies (NBFCs) play a crucial role in the financial ecosystem by providing credit and financial services, particularly in areas underserved by traditional banks. Unlike commercial banks, NBFCs cannot accept demand deposits but

offer a wide range of financial products such as consumer loans, vehicle financing, housing loans, and credit to micro, small, and medium enterprises (MSMEs). Over the years, the NBFC sector has grown significantly, contributing to economic development by fostering financial inclusion. Key reforms, liberalization policies, and technological advancements have further spurred their growth.

The regulatory framework governing NBFCs, especially in India, is primarily managed by the Reserve Bank of India (RBI). While NBFCs operate under fewer restrictions compared to banks, they face specific regulatory challenges related to capital adequacy, asset quality, and liquidity management. Recent regulatory changes aimed at improving transparency and stability in the sector have created both opportunities and challenges for NBFCs. Financial performance metrics such as net interest margin (NIM), return on assets (ROA), and capital adequacy ratio (CAR) are critical in assessing the profitability and sustainability of these institutions. However, NBFCs face vulnerabilities such as rising non-performing assets (NPAs), liquidity risks, and dependence on short-term borrowing.

## PROBLEM STATEMENT

Financial Performance and Growth of Non-Banking Financial Companies

Non-Banking Financial Companies (NBFCs) have emerged as significant players in the financial ecosystem, particularly in providing credit to sectors underserved by traditional banks. However, despite their rapid expansion and growing market presence, NBFCs face several challenges that affect their financial performance and long-term growth. Key issues include increasing non-performing assets (NPAs), liquidity crises, and regulatory constraints. Their dependence on short-term funding sources makes them particularly vulnerable to market

fluctuations, economic downturns, and sudden shifts in interest rates. Additionally, competition from commercial banks and the rise of fintech players further complicate their operational environment.

The COVID-19 pandemic exposed these vulnerabilities, with several NBFCs experiencing liquidity stress and delays in loan recoveries. Although digital transformation offers opportunities for growth, many NBFCs struggle with technological adoption, especially smaller players with limited resources. Regulatory changes aimed at increasing transparency and risk management add further pressure on NBFCs to maintain adequate capital buffers while expanding their services. Furthermore, the sector's heavy reliance on lending to MSMEs and retail consumers heightens exposure to credit risks, especially during economic slowdowns.

This study aims to investigate the factors influencing the financial performance of NBFCs, including operational efficiency, asset quality, capital adequacy, and technological innovations. It also seeks to explore growth strategies that can help NBFCs achieve sustainable expansion in an increasingly competitive environment. Understanding these dynamics is essential for identifying the key challenges NBFCs face and developing strategies to improve financial resilience, maintain profitability, and foster long-term growth.

#### OBJECTIVES OF THE STUDY

- To help in understanding the work of NBFC.
- To study the growth prospects of NBFC
- To learn the working of Non-Banking Finance Companies
- To study the problems being faced by NBFC
- To study the services and products offer by NBFC.
- To know the function and role of NBFC.

#### Hypothesis

- \*H<sub>0</sub> (Null Hypothesis):\* NBFCs are providing good financial services to customers as compared to banks.
- \*H<sub>1</sub> (Alternative Hypothesis):\* NBFCs are not providing good financial services to customers as compared to banks.

#### Statistical Test Applied:

A Chi-Square test was conducted to determine NBFCs are providing good financial services to

customers as compared to banks and significantly impact their views on banks.

#### Findings

Critical value at 0.05 significance level for df = 1: 3.841

Since 3.841 > .0000123 therefore H<sub>0</sub> is accepted.

H<sub>0</sub>: NBFC are providing good financial services to customer as compared to banks.

#### LITERATURE REVIEW

Hasriman Kaur A. and Dr. Bhawdeep Singh Tanghi (2013)

analysed that NBFCs played an essential role in terms of macroeconomic prospective as well as strengthening the structure of the Indian monetary system. Consolidation in the sector and better regulatory structure has become more focused.

Dr. Amardeep (2013)

analysed that "The role of NBFCs in creation of productive national assets can hardly be undermined. This is more than evident from the fact that most of the developed economies in the world have relied heavily on lease finance route in their development process".

Dr. Yogesh Maheshwari (2013)

in his paper state that "Changing Monetary scenario have opened up opportunities for NBFCs to expand their global presence through self-expansion strategic alliance etc. The Monetary reforms have brought Indian Monetary system closer to global standards".

Sornaganesh and Maria Navis Soris17 (2013) B

"A Fundamental Analysis of NBFCs in India" in 'Outreach'. The study was made to analyze the performance of five NBFCs in India. The annual reports of these companies are evaluated so as to ascertain investments, loans 31 disbursed, growth, return, risk, etc. To sum up, the study is concluded that the NBFCs are earning good margins on all the loans and their financial efficiency is good.

Jency (2017)

tried to learn the performance of non-banking financial institutions. She has found that the NBFC sector assumes a critical role in financial inclusion as it caters to a wide range of financial activities particularly in areas where commercial banks have limited penetration. Moreover, the profitability of NBFCs has risen significantly than that of commercial banks.

Akanksha Goel

in her article in 'ELK Asia Pacific Journal' studied the growth prospects of NBFCs in India.

Sunita Yadav

in her article in 'International journal of recent scientific research' studied the financial performance of selected NBFCs on parameters like Net profit ratio, Return on Investment, Annual growth rate etc.

Ranjan kshetrimayum

in his article in 'A journal of Radix International educational and research consortium' studied the evolution, growth and development of NBFCs in India.

Shollapur M.R

in his article in 'The Indian Journal of Commerce' has revived concept of NBFCs. As per him the abstract NBFCs constituted a significant part of financial system and compliment the service provide by commercial bank in India. The efficiency of financial services and flexibilities helped them build a large body of client including small borrower and bigger corporate establishment. The pace of financial liberalization has intensified the competition. As a result, there has been a shift towards strategic perspective marketing process of NBFCs. This perspective enable them to predict the future impact of change and help to move out of weak area and grab new opportunity through continuous monitoring system.

R.M Srivastava & Divya Nigam

in his book Management of Indian Financial Institution background material for economic growth and financial institution, types of financial institution, recent trend Indian financial market. He put enfaces on the fact that the money market has passed through a phase of substantial adjustment and advancement in recent year.

K.C Shekhar & Lakshmy Shekhar

in his book has explain role of NBFCs in India has shown rapid development especially in 1990 owing to their high degree of orientation towards consumers and implication of section requirement. The role of NBFCs as effective financial intermediaries arise has been well recognized as they have inherent abilities to take 32 quicker decision, assume risk and customize their services provided by bank and market the components on a conceptual basis.

E. N. Murty

suggests the advantage and outlook of NBFCs. In remarkable surgeon under stringent production like prudential limit and capital adequacy just like M&M Finance, DBS Chula, Sundaram Finance Sri Ram Transport Finance etc. In outlook NBFCs has been

searching for avenue for future growth, if they get regulatory treatment on for with the bank. So that large NBFC will be converting and making available credit to credit.

## RESEARCH METHODOLOGY

### Study Design

Study Design is the conceptual structure with in which research in conducted. It constitutes the blueprint for the collection measurement and analysis of data. Study Design includes and outline of what the researcher will do form writing the hypothesis and it operational implication to the final and collection and analyzing the data. It is a strategy specifying which approach will be used for gathering and analyzing the data.

### Data Collection Methods

#### Primary Data Collection

Financial Statements: Obtain audited financial statements (balance sheets, income statements, cash flow statements) from NBFCs directly or through regulatory bodies like the Reserve Bank of India (RBI).

Surveys and Questionnaires: Develop surveys or questionnaires to gather specific information from NBFC executives, employees, or customers. These can be administered online, by mail, or in person.

#### Secondary Data Collection

Regulatory Data: Utilize data from regulatory bodies like RBI, Securities and Exchange Board of India (SEBI), and the Indian Accounting Standards Board (IASB) to understand regulatory frameworks and compliance requirements.

Industry Reports: Review industry reports, market research studies, and academic papers published by organizations like CRISIL, Fitch Ratings, and research institutions.

#### Sampling Techniques

Population: Customer of banks and NBFCs

Sampling Unit: Customer from banks and NBFCs

Sample Size: 145

Sampling Methods: Simple Random Sampling

### Data Analysis

Statistical tools Excel were used to analyze quantitative data, while thematic analysis was customer for qualitative responses.

Particular	Satisfied(C1)	Dissatisfied(C2)	Total
Male (R1)	82	43	125
Female (R2)	40	21	61
Total	122	64	186

ELEMENTS	OBSERVED	EXPECTED	DIFFERENCE	SQUARE OF DIFFERENCE	CHI SQUARE
C1R1	82	81.989247	0.010752	0.000115621	0.0000014
C1R2	40	40.010756	-0.010752	0.000115618	0.0000028
C2R1	43	43.010752	-0.010752	0.000115618	0.0000026
C2R2	21	20.989247	0.010752	0.000115618	0.0000055
					0.0000123

$$\begin{aligned}
 DF &= (R-1) * (C-1) \\
 &= (2-1) * (2-1) \\
 &= 1 * 1 \\
 &= 1
 \end{aligned}$$

Industry representation: Finance

Data analysis and Interpretation

**CURRENT RATIO**

Current Ratio is a liquidity ratio that measures ability of the enterprise to pay its short-term financial obligations i.e. liabilities. The Formula for calculating the ratio is

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The generally accepted standard of current ratio is 2:1 i.e. current assets should be twice the current liabilities. Table provides the data related to current ratios calculated for the sample NBFCs taken for the study. These ratios are calculated for 5 consecutive years from 2015 to 2020.

Critical value at 0.05 significance level for df = 1: 3.841

Since 3.841 > .0000123 therefore H0 is accepted.

H0: NBFC are providing good financial services to customer as compared to banks.

**RESULTS AND DISCUSSION**

**Demographic Analysis:**

Gender distribution: 66.8% male, 33.2% female respondents.

Company size: small (35%), medium (45%),large (20%)

COMPANIES	2015	2016	2017	2018	2019	2020
Armaan Financial Ltd	1.36	1.28	1.02	0.96	2.05	2.77
Mahindra & Mahindra	1.18	1.27	1.25	3.19	2.72	2.24
L&T finance Holdings Ltd	1.09	1.1	0.90	845.51	1679.92	37.70
Reliance	1.22	0.85	1.01	31.63	28.62	7.72
IFCI	1.299	0.93	1.23	11.9	9.57	213.88
Siemens	1.54	1.85	1.99	1.95	2.12	2.20
REC	0.678	1.22	1.17	51.63	15.5	13.82
Power Finance	1.006	1.21	1.32	48.74	58.27	4.21
Muthoot Finance	1.91	1.76	1.56	20.95	33.14	1.78
Ceejay Finance Ltd	1.64	1.73	1.46	1.60	1.69	2.46

Source : money control

Source of variation	Sum of Squares	Degrees of Freedom	Mean square	F
Between Groups	1116664	9	124073.8	2.19
Within Groups	2265576	50	56639.39	
Total	3382240	59		

The current ratio of IFCI was highest in the year 2020 followed by L & T financial holding in 2020. All the other companies have similar ratios. In 2019, L&T Finance Holdings had the highest current ratio followed by power finance . The current ratio of Power Finance has continuously increased with subsequent years. The current ratio of REC decreased to 15.57 in 2019. The current ratio of Ceejay Financials limited was similar in all five years and was close to the accepted standard ratio of 2:1.

## FINDINGS

- From the analysis above it follows that current are high for the asset finance companies and infrastructure finance companies. The debt-to-equity ratio was lower for microfinance companies
- Core Investment companies showing that the enterprise is depending more on shareholder's funds and lenders are at a lower risk.
- The Net Profit Ratio was high for infrastructure finance companies and micro finance companies predicting good returns in these sectors.
- The return on capital of micro finance companies and assets finance companies higher. This shows that how efficiently a company is using its total capital to generate profit
- The return on net worth equity is higher for microfinance companies and asset financing companies. This shows how well the company management is using the shareholders capital
- From the table it follows that for all the three ratios calculated, the value of F is more than the table value of F at 5% level of significance. This implies that null hypothesis is rejected and indicates that the majority of selected ratios for this study differ significantly between various categories of NBFCs. Different categories of NBFCs behave differently.

### Challenges and Barriers of NBFCs

#### 1. limited Scope of Data

- The study relies on data from a specific period, which may not fully capture long-term trends or the impact of recent regulatory changes.
- Financial data sourced from annual reports and databases may have \*variations in reporting standards\*, leading to inconsistencies.

#### 2. Sample Size Constraints\*

- The survey was conducted with \*186 respondents\*, which may not represent the views of the entire customer base or NBFC ecosystem.

- \*Geographical limitations\* in the sample may have influenced the responses, particularly if the majority were from urban or semi-urban areas.

#### 3. Reliance on Secondary Data\*

- A significant portion of the analysis is based on \*secondary data\* (industry reports, financial statements), which may carry inherent biases or inaccuracies.

- Limited access to \*confidential financial metrics\* restricts the depth of financial analysis.

#### 4. Dynamic Regulatory Environment\*

- The NBFC sector is subject to \*frequent regulatory changes\*. The study may not reflect the most recent updates from financial regulatory bodies, affecting the relevance of some findings.

- \*Policy shifts\* during the study period might have influenced financial performance, but their long-term effects were beyond the study's timeframe.

#### 5. Subjectivity in Survey Responses\*

- Customer satisfaction and perception data are \*subjective\* and influenced by personal experiences, which can introduce bias.

- Respondents may not have a comprehensive understanding of the differences between NBFCs and traditional banks, leading to \*uninformed opinions\*.

#### 6. Limited Comparative Analysis with Banks\*

- While the study compares NBFCs with traditional banks, it does not delve deeply into \*all aspects of banking operations\*, which could have provided a more holistic comparison.

- The focus on specific financial metrics may overlook other qualitative factors such as \*corporate governance, \*\*risk appetite, and \*\*business models\*.

#### 7. Time Constraints\*

- The study was conducted within a specific timeframe, limiting the ability to track \*longitudinal changes\* in NBFC performance over an extended period.

- This constraint affects the ability to analyze the \*full impact of economic cycles\* on NBFC growth and stability.

#### 8. Exclusion of Micro-Level Financial Factors\*

- The research emphasizes macro-level financial performance indicators, potentially overlooking \*micro-level factors\* such as employee efficiency, operational challenges, and internal management practices.

- \*Fintech integrations\* and their impact on NBFC growth were not explored in detail.

#### 9. External Economic Factors Not Fully Considered\*

- The impact of \*global economic conditions\*, such as interest rate fluctuations, currency volatility, and international market dynamics, was not extensively analyzed.
- \*Unforeseen events\* (e.g., pandemics, financial crises) that could significantly affect NBFC performance were beyond the study's control.

## CONCLUSION AND RECOMMENDATIONS

The analysis of solvency reveal a fact that the sample NBFCs do their business taking high risk i.e. they hold very low percentage of total assets as their owned funds and depend more on borrowed funds and holds more current assets with low percentage of liquid assets with reference to current liabilities. Profit making is in direct proportion to risk taking. Thus, these NBFCs take more risk to earn profits. However, the performance of these NBFCs proves that they have sufficient solvency, as they manage the risks and have cash generation capacity. However these NBFCs need to improve their profitability ratios and cash management. NBFCs have to focus on their core strengths while improving on weakness. Presently, the economic disruptions caused by the coronavirus outbreak, MSME sector seems to be worst hit due to both businesses coming to a standstill and reduced consumer spending. As MSMEs contribute to major chunk of NBFCs loan portfolio, in case of a default, it will affect NBFCs ability to repay the loans to other financial lenders. However, Indian authorities and regulator have taken several measures to ease borrower's financial burden. Reserve Bank of India introduced a three-month moratorium on loan repayments for distressed bank and NBFC borrowers. A sizeable Rs 3.74 trillion injection of liquidity into the system should help to improve liquidity in local credit markets.

### Scope for future Studies

When considering the scope of future studies on the financial performance and growth of Non-Banking Financial Companies (NBFCs), there's a wide array of avenues to explore. Here are some key areas that future research could focus on:

#### 1. Impact of Technological Advancements:

- \* Fintech Integration:
  - \* Investigate the long-term effects of fintech adoption on NBFC operational efficiency, risk management, and customer reach.

- \* Analyze the impact of digital lending platforms, mobile wallets, and AI-driven credit scoring on NBFC growth.

#### \* Cybersecurity:

- \* Study the evolving cybersecurity risks faced by NBFCs and the effectiveness of implemented security measures.
- \* Assess the impact of data breaches and cyberattacks on NBFC financial stability.

#### 2. Regulatory Changes and Compliance:

##### \* Impact of RBI Regulations:

- \* Evaluate the effects of new regulatory frameworks on NBFC profitability and lending practices.
- \* Analyze the effectiveness of regulatory measures in mitigating systemic risks within the NBFC sector.

##### \* ESG Factors:

- \* Investigate the growing impact of Environmental, Social, and Governance (ESG) factors on NBFC financial performance and investor confidence.
- \* Study how NBFCs are incorporating sustainable lending practices and reporting ESG metrics.

#### 3. Macroeconomic Factors:

##### \* Interest Rate Volatility:

- \* Examine the sensitivity of NBFC financial performance to fluctuations in interest rates and inflation.
- \* Analyze the strategies employed by NBFCs to manage interest rate risk.

##### \* Economic Cycles:

- \* Assess the resilience of NBFCs during economic downturns and periods of financial stress.
- \* Study the impact of macroeconomic policies on NBFC lending and asset quality.

#### 4. Specific NBFC Segments:

##### \* Microfinance:

- \* Evaluate the impact of microfinance NBFCs on financial inclusion and poverty reduction.
- \* Analyze the sustainability and scalability of microfinance business models.

##### \* Housing Finance:

- \* Study the role of housing finance NBFCs in the real estate market and their exposure to property market risks.

- \* Analyze the effects of changes in housing policy on housing finance NBFC's.

##### \* Infrastructure Finance:

- \* Study the role of NBFC's in infrastructure project financing, and the risks associated with those types of loans.

#### 5. Risk Management:

- \* Credit Risk:

- \* Develop advanced models for credit risk assessment and prediction in the NBFC sector.
- \* Analyze the effectiveness of different credit risk mitigation strategies.
- \* Liquidity Risk:
- \* Study the factors influencing liquidity risk in NBFCs and the effectiveness of liquidity management practices.
- \* Study the effects of securitization on NBFC liquidity.

By focusing on these areas, future studies can provide valuable insights into the evolving landscape of NBFCs and contribute to the development of a more robust and resilient financial sector.

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