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A Study of Performance of NBFCS through Deferent Types of Financial Company in India

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Abstract: The purpose of the study is to assess the growth of NBFCs in India in term of profit. This is a secondary data based conceptual study. This study is based on the Convenience sampling as a sample, HDFC, Bajaj Finserv, Power Finance Corporation Limited; India bulls Home Loan And LIC Housing Finance Limited are selected as these are main leading non-banking finance company in India. The sample size which is taken in the research study is the financial statement of last eight years (April 2008 to March 2016) of related concern from the Annual Reports of these companies. the findings of the present study are showing that earning per share of HDFC companies is high as compared to other companies, compounded average growth rate showing that INDIABULLS growth rate is highest whereas Bajaj Finserv growth rate is very low it showing the negative growth rate by -0.1965 as well as INDIABULLS growth rate is .02379.and etc.

Keywords: NBFC, AAGR, CAGR.

I. Introduction

India has a diversified financial sector sustaining accelerated development both in terms of steady growth of existing financial services firms and new entities entering the market. The sector constitute commercial banks, insurance companies, non-banking financial companies, co-operatives, pension funds, mutual funds and other smaller financial entities. However, the financial sector in India is leading in banking sector with commercial banks accounting for more than 64 per cent of the total assets held by the financial system. A banking institution's widely engage in different types of financing activities such as corporate finance, housing, project finance, retail, short-term finance, small-medium enterprises, trade, and others. Alternatively, the core of a banking institution may be only on specific transactions with clients that meet certain requirements and within certain industry sectors. The Government of India has purposed certain reforms to liberalize regulate and enhance this industry. The Government and Reserve Bank of India (RBI) have taken different dimension to facilitate easy access to finance for Micro, Small and Medium Enterprises (MSMEs).

We studied about banks, apart from banks the Indian Financial system has a large number of privately owned, decentralized and small sized financial institution known as Non-Banking Financial Companies (NBFCs). NBFCs frame significant segment of the financial system. NBFCs are financial intermediaries mainly engaged in the business of accepting deposits and delivering credit. They play a vital role in transmitting the limited financial resources to capital formation. NBFCs helps as a subsidiary of the banking sector in meeting the increasing financial need of the corporate sector, delivering credit to the organized sector and to small local borrowers. NBFCs have more flexible structure as compared to banks. As compared to the banks NBFCs take quick decisions, assume greater risk, and tailor-make their services and charges according to the requirement of their customers. Their flexible structure helps in improving the market by providing the saver and investor a bundle of services on competitive basics. Non- Banking Financial Companies (NBFCs) are those companies that provide banking services without having a banking license. NBFCs are not like banks and have some restrictions. NBFCs play a crucialrole in the country's economy by providing financial services in rural areas, it is very important because 70% part of Indian population lives in rural areas. These NBFCs contribute a broad range of financial services like loans, chit-funds, etc. Recently, the non-banking financial companies have contributed to the Indian economics growth by providing deposit facilities and specialized credit to certain segments of the society such as unorganized sector and small borrowers. In the Indian Financial system, the NBFCs play a very crucial role in converting services and provide credit to the unorganized sector and small borrowers. Non-banking Financial Institutions perform different kinds of financial operation but these Non Banking Financial Institutions cannot collect funds directly from the savers as debt. Rather than these Institutions organize their funds from the public savings for rendering other financial services including investment. All such Institutions are financial intermediaries and when they grant loan, they are known as Non-Banking Financial Intermediaries (NBFIs) or Investment Institutions. Apart from these NBFIs, another part of Indian financial system consists of a large number of privately owned, decentralized, and relatively small-sized financial intermediaries. Non-Banking Financial Companies playvery significant and desperate role in improving financial services, boost competition and diversification of the financial sector. There are many other institutions associates in financial services in India. These include commercial banks, financial institutions (FIs) and non-banking finance companies (NBFCs). Due to the financial sector reforms, NBFCs have been developed as an essential part of the Indian financial system. Non-banking finance companies generally act as suppliers of loans & credit facilities and accept deposits, operating mutual funds and similar other activities. They are competitive and complimentary to banks and financial institutions. Many steps were taken in 1995-96 to reduce controls and remove operational constraints in the banking system. These include interest rate decontrol; liberalization and selective removal of Cash Reserve Ratio (CRR) stipulation, improved refinance facilities against government and other approved securities.

II. Research Methodology

Research methodology include objective of the study, sampling design, source of data collection and procedure of interpretation.

III. Objective of the Study

Every study behind the objective to find out the solution of some problem the objective is: To determine the market share of these NBFCs.

IV. Sampling Design

This study is based on the "Convenience Sampling". As a sample, HDFC, BAJAJ FINSERV, POWER FINANCE CORPORATION LIMITED, INDIABULLS HOME LOAN and LIC HOUSING

FINANCE LIMITED is selected as these are main leading non-banking finance company in India. The sample size which is taken in the research study is the financial statement of last eight years (April 2008to march 2016) of related concern from the Annual Reports of these companies.

V. Tools and Techniques

The tools will be used to achieve the objective "To evaluate the performance of selected NBFCs in India in term of profit". The tools are as follows:

- Earnings Per Share
- Growth Rate
- AAGR
- CAGR

- Compounded Annual Growth Rate

Source of data collection

In present study the data would be used secondary base. The data collected from the publishedand unpublished source (website, related research papers, etc).

Interpretation

All types of ratios can't be calculated because of nature of related concern's business. Thus in thisresearch study limited ratios (which are feasible) the related concern i.e. are used to evaluate financial positions of HDFC, BAJAJ FINSERV, POWER FINANE CORPORATION, INDIABULLS AND LIC HOUSING FINANCE. The ratios which are used to analyse financial performance of the concern are as follows

To check the contribution of NBFCs in Indian Economy

India's financial sector is very huge. It just not limited with commercial banks but Non-Banking Financial Companies also gives great contribution in this sector. These Non-banking Financial Companies offered a wide variety of services such as: Chit Funds, Loans and are different from banks. NBFCs offered services in those areas which may be unnoticed by commercial banks. NBFCs are more important in developing countries like India, because in developing countries 705 of the population leaves in rural areas where banks are not able to provide all services. NBFCs work as a small players and gives great contribution in services sector. NBFCs sector has growing in last few years despite slowdown in economy. NBFCs has growth by 18.8% in june 2015 which is almost doubled in last 20 years whereas banking sector has low on growth by 8.8%. This results is gain in the share of NBFCs 10% to 13% from 2005 to 2015. Many organisations like RBI, CRISIL, ICRA etc. also published reports about NBFCs growth which show the contribution of NBFCs in economy. Some of these reports presents as below.

RBI's financial stability report says NBFC loans expanded 16.6% in the year, twice as fast as the 8.8% credit growth across the banking sector. Non-banking financial companies (NBFCs) improved their performance on most metrics in the last fiscal year, as the banking industry struggled under the weight ofa growing pile of bad loans.

According to the financial stability report (FSR) released by the Reserve Bank of India (RBI) on Tuesday, NBFC loans expanded 16.6% in the year, twice as fast as the 8.8% credit growth across the bankingsector on an aggregate level.

The aggregate balance sheet of the NBFC sector expanded 15.5% in fiscal 2016 compared with 15.7% theprevious year, the report said. NBFCs also performed better in terms of asset quality, even though the bad loan norms for these firms are not as stringent as those for full-fledged commercial banks.

The gross non-performing assets (GNPA) ratio for the NBFC sector declined to 4.6% of total advances in March 2016 from 5.1% in September 2015, according to the FSR. "While the regulatory norms for the NBFC sector are sought to be brought closer to those applicable to banks, the performance of this sector (return on equity and return on assets) seems to be much better as compared to that of banks," the report said. In November 2014, RBI revised the regulatory rules for NBFCs and said prudential norms would be brought on par with those for banks over a period of time. As a result, bad loan recognition rules were tightened and NBFCs were asked to label all loans on which repayment was overdue beyond 90 days as non-performing by 2018, in stages. RBI's study covered the 11,682 NBFCs that were operating as of March 2016. (source: RBI FSR Reports released on 29 June, 2016, Mint Report)

In old era, institutional investors give high preferences to banking sectors for investment purpose. Banking sector works under the guidelines of RBI. RBI formed rules and regulations for banks time to time. So, investors show more faith in banking sector. But now days, NBFCs performed very well.

NBFCs emerging with high market share. Market share of NBFCs total credit has increased to 13% in 2015 from 10% in 2005, while banking sector share have fallen and showing decline trend. Some categories of NBFCs such as Housing Finance share increase even high than other categories. According to CRISIL reports, NBFCs share in housing industry has increase 12%. It had only 26% but now it has reach on 38% thus, banking sector share has decreased by 12%. It has only 62% which was 74% in last year's. Growth rate of NBFCs is also batter than banks. Return on Equity of NBFCs is better than banks and NPA of NBFCs is lower than banks. In home financing, HDFC home loan, LIC housing finance and India bulls home loan is in batter positions and in transport financing, BAJAJ FINSERV done batter in last one years than banks. The growth trajectory looks strong given that the penetration of NBFC credit in India is lower as compared to the total credit penetration. Also, NBFC credit-to-GDP ratio in Indian when compared with other emerging countries is much lower. (Source: ET Markets).

VI. Finding

The following are the findings of the present study:

1. Compounded annual growth rate on the basic of sales of PFC, INDIABULLS and LIC is on an average .21%. HDFC Compounded Annual Growth Rate is around 0.15% but BAJAJ FINSERV growth rate showing negative growth this is -0.19.
2. Compounded annual average growth rate on the basic of profits of HDFC, PFC and LIC is around on an average is 0.17% and INDIABULLS growth rate is very high this is on an average is 0.40% but BAJAJ FINSERV growth rate showing negative balance it is around on an average -0.12%
3. NBFCs loan percentage share increase by 12% in last three financial years whereas banks share decrease by 12% in last three financial years. NBFCs share increase 26 to 38% on the other hand banks share decrease 74 to 62%.
4. CV market share of NBFCs also increase by 4% in last three financial years whereas banks CV share decrease by 4% in same years. NBFCs share increase 42 to 46% on the other hand Banks share decrease 58 to 54%.
5. Overall Return on Investment of NBFCs decrease in last six financial years from 2010 to 2015 and banks overall Return on Investment also decrease in same years but in case of banks decrement rate is much more then NBFCs. NBFCs ROI decrease 15.5% to 15.1% whereas banks ROI decrease 14.3 to 10.6%.
6. Last finding of this study is contribution of NBFCs in GDP of the country. In India, NBFCs contribution in GDP is very low as compared to other countries. In India this contribution is only 13% whereas in UK this contribution is 2645 of their GDP and in USA this contribution is 130% in their GDP.

VII. Conclusion

Banks and Non-Bank Financial Companies are both key elements of a sound and stable financial system. Banks usually dominate the financial system in most countries because business, households and the public sector all rely on the banking system for a wide range of financial products to meet their financial needs. However, by providing additional and alternative financial services, NBFC's have already gained considerable popularity both in developed and developing countries. In one hand these companies help to facilitate long-term investment and financing, which is often a challenge to the banking sector and on the other, the growth of Non-Banking Financial Companies widens the range of products available for individuals and institutions with resources to invest. Through their operation NBFC's can mobilize long-term funds necessary for the development of equity and corporate debt markets, housing financing factoring and venture capital. Another important role which NBFC's play in an economy is to act as a buffer, especially in the moments of economic distress. An efficient NBFC's sector also acts as a systemic risk mitigate and contributes to the overall goal of financial stability in the economy.

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