A Study of Non-Banking Financial Companies in Financial Markets in India

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Abstract

Investment, risk sharing, contractual savings, and market brokering are just a few of the banking-related financial services that NBFCs make possible. Businesses like this, which are not banks, play a crucial role in capital creation and the expansion of the Indian economy by taking deposits and creating credit. When comparing the contribution of NBFCs and banks to India's GDP, the former stands at about 24.3% and the latter at 21.4%. Credit to the unorganized sector and small local borrowers has been made available by non-banking financial organizations as a complement to the function of the organized banking sector in meeting the rising financial demands of the corporate sector. Non-banking financial companies (NBFCs) and their organizational structure from 2014–15 through 2018–19 is the focus of this analysis. Useful NBFC industry ratios for assessing asset quality and capital sufficiency NBFC industry ratios One of the most pressing issues in contemporary socioeconomic research is the wide range of NBFC performance in India on a variety of measures. For this study, the authors aimed to objectively investigate the discrepancies in PBDIT performance across the five largest NBFCs..

Keywords: non-banking financial companies, financial performance, efficiency, economy.

1. INTRODUCTION

Any financial organization that is not fully licensed as a bank or overseen by a national or international banking regulatory body is considered a non-banking financial institution (NBFI) or non-bank financial corporation (NBFC). Investment, risk sharing, contractual savings, and market brokering are just a few of the banking-related financial services that NBFCs make possible. Insurance companies, pawn shops, check cashing establishments, check issuers, short-term lenders, foreign exchange bureaus, and microlending institutions are all examples. To paraphrase Alan Greenspan, NBFIs serve as a backstop in case the principal form of intermediation fails by providing "several choices to turn an economy's deposits into capital investment."

Most likely, the phrase "non-bank" originally referred to a financial institution that did not accept deposits. The adoption of English-based financial legislation in non-English speaking nations led to the singularization of the term "non-bank" in those regions. This is probably[vague] due to the fact that the term "bank" is generally accepted in English-speaking countries to be synonymous with "financial institution," whereas the term "bank" is narrowly defined in non-English-speaking countries, especially developing countries, as deposit-taking institutions only, and all other providers of financial services must not be called banks. Perhaps[maybe] this is related to linguistic variations. However, this is also significant since it's probable [vague] those emerging nations embraced the western banking system considerably later than the West. In the process of adopting or learning the financial system from English-speaking nations, emerging countries have placed more emphasis on regulatory terminology like bank and non-bank without realizing that non-bank is a condensed form of non-deposit taking bank. In English-speaking nations, financial institutions are often referred to by their generic name, "bank," both by the general public and by regulatory bodies.

In India, a firm may qualify as an NBFC if it is in compliance with the requirements of the Companies Act, 1956. Financial firms that provide banking services but lack a banking licence are known as non-banking financial businesses (NBFCs). Demand deposits (i.e., monies kept on hand in a checking or savings account) from the public are often prohibited in these establishments. Due to this restriction, they are not subject to the typical monitoring of government financial agencies. The non-bank financial companies (NBFCs) in India are very important. Loans, credit lines, foreign exchange, annuities, money markets, underwriting, and even mergers are among services that NBFCs may provide. A non-bank financial institution (NBFC) works in tandem with banks by providing the necessary infrastructure for the distribution of excess funds to deficit-stricken people and businesses. Furthermore, it fosters rivalry in the financial services market.

As a result, NBFCs are able to tailor their services to the requirements of each individual customer. NBFCs might potentially gain an informational edge by specializing on a single market. Through enabling more precise and targeted advertising, it boosts competitiveness. Within the context of the Reserve Bank of India Act, 1934 (Chapter III-B) and the orders issued by it, the RBI governs the functioning and activities of NBFCs. The Reserve Bank of India (RBI) published guidelines for the outsourcing of non-bank financial institution tasks and services on November 9, 2017. (NBFCs). Internal audit, investment portfolio management, strategy and compliance operations for know your customer (KYC) regulations, and loan sanctioning are all fundamental management services that NBFCs may no longer outsource under the new rules. Service providers should limit access to consumer data to what is necessary for the service they are providing. A code of conduct for direct sales and recovery agents should be approved by NBFC boards. No kind of intimidation or harassment, including legal action, shall be used by NBFCs or their contracted debt collectors. All NBFCs have been instructed to institute a system for resolving customer complaints, which should be capable of handling problems with outsourced services as well.

As the business sector's need for financial services rises, NBFCs provide a complementary function to the banking industry. The majority of NBFCs are privately owned financial companies that provide a wide range of services to their customers, including physical asset finance, commercial vehicle financing, and infrastructure loans. Companies whose primary business is not banking are subject to the Reserve Bank's regulatory perimeter, which includes activities like lending, investing, and accepting deposits. The Reserve Bank does not have authority over some types of organizations engaged in NBFI operations since they are already subject to the authority of other regulatory bodies. Mutual funds, insurance agencies, stock brokers, merchant banks, venture capital firms, and housing finance corporations (HFCs) are all examples (VCFs)

2. LITERATURE REVIEW

Deepak Kumar et.al (2017) The purpose of this piece is to provide a high-level introduction to the world of Indian NBFCs. This article has covered topics like the total number of NFCs, the types of NFCs, the sizes of their assets and businesses, where they are located, what kind of restrictions they are subject to, and so on. There is a discussion about the issue and future potential of NBFCs in India.

Erik Feyen, et.al (2021) Financial intermediaries are a result of market imperfections like information asymmetry and market forces like economies of scale and scope. Market structure is also affected by frictions and tensions. While technical progress is nothing new to the world of finance, digital innovation has brought about significant advancements in system connection, processing power and cost, and freshly produced and useful data. These developments have reduced transaction costs and opened the door for new types of businesses to compete. As the cost of sharing information and conducting transactions has decreased because to technological advancements, financial services production has become amenable to decentralization. Since financial services are now provided by a variety of specialists, customers may pick and choose the options that best fit their needs. But even in this era of digital manufacturing, the same economic dynamics hold true. Customer acquisition, financing, compliance activities, data, and capital are just some of the numerous areas of financial services production that benefit from economies of scale and scope and network effects (including trust capital). In spite of technological advancements, consumers still have to spend a lot of money on searching and putting things together. These factors favour re-bundling and provide an edge to major multi-product providers such as technology (big tech) companies who have recently expanded into the financial services industry from adjacent areas. Policy concerns over competitiveness, regulatory boundaries, and equal playing fields have arisen in response to the digitalization of the financial services industry. A "barbell" result, with a few major suppliers and numerous specialized businesses, is one possible conclusion in terms of competition, concentration, and market composition. Authorities need to work together across financial regulation, competition, and industry regulating agencies to handle trade-offs between stability and integrity, competition and efficiency, consumer protection and privacy.

Prof. Chetan jaikishan bhutada et.al (2022) In this context, "financial system" refers to the whole ecosystem of financial institutions, technologies, and services. The aforementioned financial organizations play a pivotal part in this system, which is focused on the marketing, distribution, and promotion of financial commodities among the general populace. Banks and non-banking financial institutions are the two most common forms of financial institutions in the nation. Financial institutions that are not banks serve a narrower clientele than banks do. The stability of the international financial system was historically dependent on banks. However, the non-banking sector has gained prominence with the spread of liberalization, privatization, and globalization. To that end, the present research expands upon earlier attempts to look into many areas of the international non-banking business.

Chakrabarti et.al (2018) This chapter aims to do two things: (1) shed light on some of the key features and changes in the Indian financial system, and (2) attempt to draw some broad connections between these two topics by reviewing the existing literature and summarizing and outlining the broad contours of the work around monetary transmission channels in India. The Indian financial markets have come a long way since 1991, but they are still not a reliable channel for monetary policy. Because of this, they do not provide adequate competition to banks. This may shift with more liberalization, such as the amendments recommended by the FSLRC.

3. RESEARCH METHODOLOGY

Non-banking financial companies' ability to fill the rising financial market's need for financial services is increasing fast in light of the recent decline in consumers' faith in the banking sector. Now is a good moment to learn all you can about the factors affecting NBFC performance. Descriptive research methods were used for this investigation. The paper's findings are based on secondary sources, such as scholarly works, government documents, and popular media. Statistics are gathered from other sources, such as RBI websites.

4. DATA ANALYSIS:

Table: 1: - Yearly PBDIT of Top Five NBFCs (in Rs. Crore)

Years Companies	MAR,19	MAR,1 8	MAR,1 7	MAR,16	MAR,15
POWER FIN. CORP. LTD.	28816.3 1	22815.6 9	21549.5 1	25538.5 1	23820.3 4
SHRIRAM TRANSPORT FIN CO. LTD.	11332.5 2	10206.7 1	7145.25	6875.66	6272.88
BAJAJ FIN. LTD.	12102.6 5	8743.06	6692.05	4947.77	3640.84
MAHINDRA & MAHINDRA FIN. SERVICES	6378.6	4780.34	3523.52	3718.36	3792.9
MUTHOOT FIN. LTD.	5355.75	4819.95	4263.04	3736.88	3218.32

The results of the foregoing calculation show that F = 67.7190, which is much more than the F critical value of 2.8661 at the 95% confidence level and a P value of 0.0000.

Table: 2: - Yearly Secured Loan Advances of Top Five NBFCs (in Rs. Crore)

Years Companies	MAR,19	MAR,1 8	MAR,1 7	MAR,16	MAR,15
POWER FIN. CORP. LTD.	295238. 7	236784. 7	22506.9 6	21786.6 6	24703.8 3
SHRIRAM TRANSPORT FIN CO. LTD.	87914.4	82130.8 5	15963.0 3	24333.5 8	26001.9 1
BAJAJ FIN. LTD.	86351.7 2	38867.1 6	29590.5 2	30445.1 3	18691.1 2
MAHINDRA & MAHINDRA FIN. SERVICES	51862.3	39422.9 1	18394.8 1	14278.2 6	11682.7 6
MUTHOOT FIN. LTD.	26833.1 5	21167.0 4	16986.1	10417.7	11299.8 3

With a P-value of 0.5022, the foregoing analysis shows that F = 0.8643 is less than the F critical value of 2.8661 at the 95% confidence level.

Table: 3: - Yearly Unsecured Loan Advances of Top Five NBFCs (in Rs. Crore)

Years Companies	MAR,19	MAR,18	MAR,17	MAR,16	MAR,15
POWER FIN. CORP. LTD.	-	-	154735.2	178697.8	163068.3
SHRIRAM TRANSPORT FIN CO. LTD.	-	-	22750.29	9266.45	8230.26
BAJAJ FIN. LTD.	-	14872.04	12447.85	6579.58	3896.39
MAHINDRA & MAHINDRA FIN. SERVICES	984.64	670.25	8807.8	7400.31	7975.37
MUTHOOT FIN. LTD.	-	-	-	3222.08	3173.38

The above analysis shows that the F value is 5.2358, which is more than the F critical value of 2.8661 at the 95% level of confidence with a P value of 0.0047.

We have used charts, tables, and other statistical analysis techniques to show and interpret the data. For the previous two fiscal years, we have collected and studied a wide range of indicators of the financial performance of NBFCs' total assets. In addition, certain ratios are examined. The following table compares key financial metrics between FY2014–15 and FY2018–19.

Table 4: Number of different types of NBFCs in IndiaEnd-march

Year	**NBFC-D**	**NBFC-ND-SI**	**NBFC-ND**	**Total**
2014-15	220	420	11202	11842
2015-16	202	209	11271	11682
2016-17	178	220	11124	11522
2017-18	156	249	10997	11402
2018-19	88	263	9308	9659

Table No.4 shows the cumulative number of NBFCs during the previous five years. Over time, there was a dramatic drop in the overall number of NBFCs. Licenses for 1,701 NBFCs were revoked by the Reserve Bank of India (RBI) for the fiscal year ending 31 March 2019.

Chart No.1 Number Of Different Type Of NBFCs In India

5. THE FINANCIAL POSITION OF NON-BANKING FINANCIAL COMPANIES

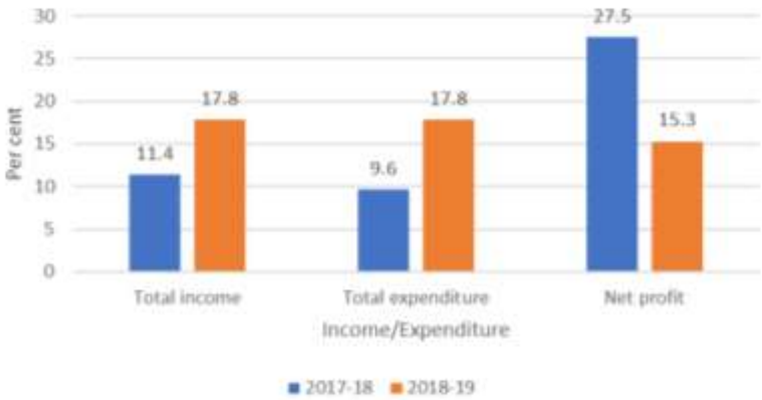
Table No.5: Aggregated balance sheet of the NBFC sector: y-o-y growth (Percent)

Particulars	2017-18	2018-19
Share capital	6.0	6.3
Reserves and surplus	18.7	14.6
Total borrowings	19.6	19.6
1) Debentures	13.1	5.2
2) Bank borrowings	34.4	47.9
3) Commercial paper	13.3	4.0
Current liabilities and provisions	22.4	48.7
Total Liabilities / Assets	17.9	20.6
Loans and advances	21.1	18.6
Investments	12.9	24.4
Others	26.7	-2.0
Income/Expenditure		
Total income	11.4	17.8
Total expenditure	9.6	17.8
Net profit	27.5	15.3

The NBFC industry's consolidated balance sheet size increased by 20.6% during 2018-2019, reaching 28.8 trillion. This compares to a 17.9% growth, when the sector's balance sheet size reached 24.5 trillion. Share capital in the NBFC industry rose by 6.3% in 2018-2019, up from a 6.0% rise the previous year. Reserves and surplus fell by 14.6%, total borrowings remained unchanged at 19.6%, debentures fell by 5.2%, bank borrowings rose by 47.9% from 2017-18 to 2018-19, and commercial paper fell by 4.0%.

Loans and advances in the NBFC Total Assets sector fell by 18.6 percent in 2018–19, compared to a decline of 21.1 percent in the previous fiscal year, 2017–18. In 2018-2019, investment growth was 24.4%, up from 12.9% the previous year. The 2018-2019 fiscal year had a decline of 2.0% in Other Assets, compared to the previous fiscal year's growth of 26.7%.

Charts no. 2 NBFCs Income /Expenditure In Per Cent



A breakdown of income and expenditures for NBFCs is shown above. In 2018-2019, overall revenue rose by 17.8% compared to 2017-18's gain of 11.4%. Expenditures as a whole rose by 17.8% in 2018-2019, up from an increase of 9.6% the previous year. After rising by 27.5% from 2017-18 to 2018-19, net earnings have fallen by 15.3% in the current fiscal year.

Table No.6: Select ratios of the NBFC sector

Particulars	2017-18	2018- 19
Capital market exposure to total assets	10.5	9.5
Real estate exposure to total assets	6.7	6.0
Leverage ratio	3.2	3.4
Net profit to total income	14.1	15.3
RoA	1.7	1.7

Data from Table No. 6 shows that the proportion of NBFCs' total assets exposed to the capital market fell to 9.5% in 2018-2019 from 10.5% in 2017—2018. The proportion of real estate to total assets is now 6.0%, down from 6.7% in 2017/18. The leverage ratio was up to 3.4% in 2018-2019 from 3.2% the year before. In 2018-2019, the ratio of net profit to total revenue was 15.3%, up from 14.1% the previous year. The Return on Assets for 2018-2019 was 1.7%.

Charts no. 3 select ratio of the NBFCs sector

Table No.7: Asset quality and capital adequacy Ratios of the NBFCs sector

	GNP Ratio	NNPA Ratio	CRAR
2014-15	4.1	2.5	26.2
2015-16	4.5	2.5	24.3
2016-17	6.1	4.4	22.1
2017-18	5.8	3.8	22.8
2018-19	6.6	3.7	19.3

Financial Institutions That Are Not Banks Integrity of assets and sufficiency of capital The NBFC industry's gross nonperforming assets (NPAs) as a proportion of total loans rose from 5.8 percent in 2017–18 to 6.6 percent in 2018–19. Nonetheless, the Net NPA ratio fell from 3.8% in 2017-18 to 3.7% in 2018-19. The CRAR of the NBFC industry decreased to 19.3 percent in March 2019 from 22.8 percent a year earlier.

Charts no. 4 asset quality and capital adequacy ratios of the NBFCs sector

6. CONCLUSION

The non-bank financial companies (NBFCs) in India are very important. Loans, credit lines, currency exchange, retirement accounts, money markets, underwriting, and even mergers are among services that NBFCs may provide. Non-Banking Finance Companies (NBFCs) in India have developed greatly and are now an integral part of the country's financial infrastructure. The Role of Non-Banking Financial Companies in India NBFCs are altering the business credit environment in the nation, playing an essential part in the growth of infrastructure, transportation, and the creation of new jobs. The industrial sector is the primary borrower from NBFCs. The asset quality of NBFCs has declined in recent years, although it is still higher than that of banks. Profitability and liquidity were also up for NBFCs. The Reserve Bank of India (RBI) is persistent in its efforts to introduce required regulatory adjustments in the NBFC to guarantee long-term financial stability. The goals of financial stability, increased access to formal financial services, and the effective use of specialized subject knowledge have inspired these efforts. There is a wide range in median PBDIT across the five organizations studied. This discrepancy is most likely attributable to disparities in market share and operational efficiency.

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