A Study of Performance Enactment of Non-Banking Financial & Economic Organizations in India

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Abstract

The Reserve Bank of India has taken steps to bring the non-banking financial sector (NBFC) sector of the Indian economy within the purview of its regulation in response to the Bank of India Act, 1934, which assigns the Bank limited authority to control deposit taking businesses. Numerous nations' domestic household, agricultural, and small business sectors have been reliably served by non-bank financial institutions (NBFCs). NBFCs play a crucial role in the economy by meeting the loan needs of a wide range of industries, from massive infrastructure financing to small microfinance. In order to better understand risks and detect them, the Credit industry has reacted favorably to regulatory measures to this end. The Sector has been dispersed throughout time, but it now embraces cutting-edge innovations in management, regulation, and oversight. The study has been done from the aforementioned vantage points to better understand the function of NBFCs in the growth of the Indian economy and the difficulties it faces now.

Keywords: Non-banking Finance Companies, Lease and Hire Purchase, Assets Growth.

1. INTRODUCTION

It was not until the 1960s that India's non-banking financial companies (NBFCs) emerged to fill the gap left by the country's traditional banking system. The NBFCs started to accept fixed deposits from investors and negotiate lease agreements with major manufacturing companies. At first, their operations were too small to have a major effect on the economy. Yet, during the decades of the 1980s and 1990s, NBFCs flourished, attracting a large number of investors thanks to their hospitable attitude toward their clients. In India, a company may register as a non-banking financial company, or NBFC, and then do business in a manner similar to that of a bank.

Their services include the provision of consumer and commercial loans and advances, the purchase of marketable securities, the leasing of tangible assets like vehicles, hire-buy, and insurance, and the management of investment and retirement accounts. The similarities to banks are obvious, but there are also some key differences. Deposits with NBFCs are not covered by DICGC insurance, and the company is not allowed to make demand deposits or checks (Deposit Insurance and Credit Guarantee Corporation). NBFCs are regulated by the Reserve Bank of India (RBI), the Securities and Exchange Board of India (SEBI), or both. Although it has seen considerable upheaval in recent years, India's non-bank financial company (NBFC) industry is now widely acknowledged as a critical cog in the country's overall financial machine. Consolidation has been happening in the NBFC sector, particularly in the NBFCND-SI sector, recently. A growing non-bank financial company (NBFC) sector in India's financial system has pushed traditional financial institutions to up their game in terms of creativity, professionalism, responsiveness, timeliness, and affordability. In many uncharted areas, non-bank financial companies (NBFCs) pioneered market entry and development before traditional financial institutions (FIs) became involved. If an NBFC does not take public deposits, it is not considered a "deposit accepting NBFC," and vice versa (NBFC-ND). In addition, there are only two RNBCs, both of which are deposit-taking organizations with distinct business models. Core Investment Companies are non-bank financial institutions (NBFCs) that specialize in providing funding for infrastructure projects.

Non-banking financial institutions are a global phenomenon that supplement the traditional banking system by mediating monetary transactions. The Financial Stability Board (FSB) defines "entities and activities (fully or partly) outside of the ordinary banking system"1, therefore these specialized intermediaries are considered "shadow banks" and benefit from cheaper transaction costs, financial innovations, and regulatory arbitrage.

They play a significant role in developing economies because (a) they can reach out to underserved communities and (b) they can serve as both complementary and alternative financial institutions to traditional banks when the latter are subject to more regulatory restraints. Customers like non-banking institutions for their agility in making decisions, speed with which they can provide services, and depth of knowledge in specialized areas.

They not only increase the reach and availability of financial services, but also the stability of the monetary system as a whole by serving as fallback institutions for struggling banks. Excess leverage, amplified procyclicality, and an over-reliance on wholesale finance are all risks that come with the territory for NBFCs because of how they operate They may be vulnerable to the hazards of concentration due to their focus on specialized markets. When the central bank acts as a lender of last resort or when depositors turn to deposit protection, they are typically denied the benefit.

2. LITERATURE REVIEW

Dr Sunita Srivastava et.al (2019) Historically, NBFCs have been essential in the growth of the economy's capital base. Non-bank financial companies (NBFCs) have been a useful addition to the banking industry since they help close the credit gap, providing loans to the underserved and small borrowers in their home communities. When compared to banks in the formal economy, NBFCs' organizational structures are more flexible. The Reserve Bank of India and the Central Government of India have made periodic efforts in regulating non-bank financial companies (NBFCs). These regulatory and supervisory duties for NBFCs have been carried out by the Reserve Bank of India's Department of Nonbanking Supervision. An effort is made in this study to analyses the emergence, expansion, and maturation of India's non-banking financial institutions. When compared to the overall credit market's CAGR of 14.45% during the same time period (FY13–FY18), the NBFC sectors' total outstanding borrowing expanded at a CAGR of 14.1%. Credit expansion in the NBFC industry as a whole has been far more rapid in FY18 than the expansion in bank credit.

Shanmuganandavadivel et.al (2020) Indian finance relies heavily on non-banking financial corporations (NBFCs). More and more resource flows destined for the business sector are being mediated by it. When it comes to providing for the growing financial demands of businesses, NBFCs play a complementary function to the banking industry. Companies engaging in non-banking financial activities are subject to the Reserve Bank's regulatory perimeter. There are 12 distinct categories of NBFCs based on their liability structures, the activities they engage in, and the impact they have on the financial system as a whole. This paper's goal is to provide a performance analysis of India's non-bank financial companies. The capital sufficiency, profitability, risk exposure, and overall quality of NBFCs' assets are all part of this category. The analysis concluded that although NBFCs' asset quality has declined in recent years, it still fared better than banks. Profitability and liquidity were also up for NBFCs. The Reserve Bank of India (RBI) is always working to implement new NBFC regulations that would guarantee long-term financial stability.

N.Gopal samy, et.al (2019) Access to financial services, more competition, and a more diversified financial sector were all helped by non-banking financial institutions. In India, the financial sector is made up of a wide variety of different sorts of institutions. As a result of the changes in the financial industry, this category now now includes non-banking financing businesses and commercial banks. Non-banking financial institutions (NBFCs) are becoming a vital element of India's economy. Most often, non-banking financial institutions (NBFCs) provide loans and credit facilities, take deposits, manage a range of mutual funds, and do other comparable activities. They pose a threat to banks and other financial institutions while also supplementing the latter. The primary goal of this research was to examine the health of India's nonbank financial institutions (NBFIs) in the 2016–2017 fiscal year.

Honey Jain, et.al (2021) It's generally agreed that NBFCs were essential in facilitating capital creation with limited available funds. By providing loans to the unorganized sector and small borrowers in the local community, NBFCs have been helping the organized banking sector meet the expanding credit demands of the corporate sector. Compared to banks, NBFCs in the organized sector can adapt to changing market conditions more easily. On occasion, the Reserve Bank of India and the Central Government of India have worked to regulate these NBFCs. The Department of Nonbanking Supervision of the Reserve Bank of India is responsible for regulating and monitoring NBFCs. Some non-bank financial companies (NBFCs) have stolen money from unsuspecting investors, so it's important to keep a tight check on their activities even though they're vital to economic development and providing the credit demands of the economy. Non-banking financial companies (NBFCs) in India are the subject of a new research titled "Growth and Development of Non-Banking Financial

Companies in India," which examines the industry from many angles. The focus of this piece is on the growth and development of non-banking financial institutions in India.

Dr. Vinay Kumar(2020) Companies in the non-banking finance sector provide similar functions to banks. Public deposits are accepted, and a credit facility is made available, both of which contribute to the growth of the credit infrastructure. It aided in the transformation of the public's small-scale, underused resources into a sizable fund for the establishment and growth of the credit mechanism. The capital formed from these hitherto feared financial resources aided the expansion of the Indian economy. Borrowers whose applications for a bank loan have been denied owing to the banks' stringent criteria would find Non-Banking Finance Companies to be far more accommodating. It manages the financial services sector, which is crucial to the Indian economy, and accounts for around 24 percent of GDP, compared to the 21 percent contributed by banks. Credit bridge bridges the gap between micro- and small-scale borrowers and the unorganized sector by meeting their hitherto unmet need for financial services. Conversely, this route is used to meet the smaller demands of the business world as well. The importance of Non-Financial Institutions' Financial and Operational Performance stems from the fact that they are responsible for meeting the financial needs of a sizable proportion of the population. The superior performance of non-banking financial institutions compared to traditional banking institutions is a topic of ongoing research. Therefore, the purpose of the current research is to assess the organization and financial health of non-banking finance organizations. A number of ratios and figures were chosen for the research, and they were studied using statistical methods in order to develop conclusions about their overall effectiveness.

3. RESEARCH METHODOLOGY

Here, we rely on secondary data, compiled from 2016-2018 from a wide range of online and print sources. In order to analyses and explain the data, this study makes use of basic statistical tables and charts.

Role of NBFCs in Development of Indian Economy

By meeting the varying financial demands of those who are unable to use traditional banking services, NBFCs (Non-Banking Financial Companies) are crucial in fostering widespread economic prosperity in the nation. In addition, NBFCs often play a pioneering role in delivering novel financial services to Micro, Small, and Medium Enterprises (MSMEs) that are tailored to their specific needs. There is no doubt that NBFCs play a vital position in contributing to the growth of an economy by boosting transportation, employment, wealth creation, bank credit in rural areas, and assistance for economically vulnerable groups. In the event of an emergency, clients have access to services including financial aid and information about insurance concerns.

Banks and other non-bank financial institutions (NBFCs) play a crucial role in capital creation by taking deposits and extending loans. They help the banking industry provide for the growing credit requirements of the business world by lending to the informal economy and individual consumers. Not included are services involved in farming or manufacturing or the buying or building of real estate. Even though NBFCs operate differently in India than banks do, they are nevertheless subject to the country's banking laws.

Loans and advances, buying stock or bonds or debentures or other securities of a similar marketable character, leasing, hire-purchase, insurance, and chit businesses are all core areas of operation for NBFCs.

Due to its reliability in bolstering manufacturing, infrastructure growth, and even being the backbone for the ordinary man's money, the banking industry will always be the most essential sector in the world of business. Despite this, NBFCs play a vital role, and having them in a nation can only help the economy.

Role of NBFCs in Economic Development

Our country's economic growth and development are greatly aided by the establishment and maintenance of strong financial intermediaries. The expansion of the economy's developmental activity has coincided with the healthy expansion of banking and NBFCs. NBFCs play a number of important roles, including providing financial services that are underserved by the banking sector in our country and facilitating the pooling of risks, liquidity, and divisibility that helps to reduce the overall risk profile. NBFCs also play a role in promoting the idea of risk management by encouraging customers who are either unable to bear risks or only able to take risks to some extent.

See how NBFCs' capital has been doled out in the form of loans to different parts of the Economy in the table and chart below.

Table 1: Credit Distributions of NBFCs

Sectors	Percentage of Credit Distributions
Industry	52.30
Retail loans	22.10
Services	18.00
Agriculture and allied	03.00
Others	04.60

The accompanying graph displays how credit from Non Banking Finance Companies has been doled out to different parts of our economy so far. Contribution percentages are calculated on a cumulative basis, with each individual's portion coming from 100%. Loans from NBFCs are distributed as follows: 52.3% to the manufacturing sector; 22.1% to the wholesale and retail sectors; 3% to the agricultural and related activities sector; 18% to the service sector; and 4.6% to all other sectors.

Table 2: Financial Parameters of the NBFC Sector

(Amount in Rs. Billion)

Items	2016-17 NBFCs	2017-18 NBFCs	2018-19 NBFCs
Income	2310	2515	1395
Expenditure	1822	1958	1069
Net Profit	314	386	230
Total Assets	19797	22760	26019
Financial Ratios (As percent to total assets)			
Income	11.7	11.00	5.4
Expenditure	9.2	8.6	4.1
Net Profit	1.6	1.7	0.9
Cost to Income Ratio (Percent)	78.9	77.9	72.1

The data in the table above show NBFCs' financial parameters from 2016 to 2018. Here we compute the cost-to-income ratio as a percentage of NBFCs and note that it has reduced in 2018-2019 compared to 2016-2017, which indicates that NBFCs are becoming more profitable as a result of rising costs.

Table 3 Abridged Balance Sheet of NBFCS

(Amount in Rs. billion)

Items	At the End of 31.03.2017	At the End of 31.03.2018	At the End of 31.09.2018
Share Capital and Reserves	4,527	5,153	5,595
Public Deposits	306	319	326
Debentures	6,481	7,155	7,551
Bank Borrowing	3,134	4,039	4,936
Commercial Papers	1,291	1,406	1,816
Others	4,058	4,688	5,795
Total Liabilities	19,798	22,760	26,019
Loans and Advances	14,800	17,643	19,842
Investment	2,759	3,011	3,352
Cash and Bank Balances	796	649	848
Other Current Assets	1106	1168	1639

Other Assets	336	288	337

Source: RBI Website

The above table displays the financial statements of NBFCs for the years 2017 and 2018, demonstrating how important NBFCs are in contributing to the Economic Development of our country through the provision of loans and advances, the investment of capital in various sectors of our country, the purchase of government bills and papers, and the maintenance of cash resources in a variety of public and private sector banks.

4. OPERATING PROFIT MARGIN (OPM) OF SELECT NON-BANKING HOUSING FINANCIAL COMPANIES

Table No. 4: Showing Operating Profit Margin (OPM) of Select Non-Banking Housing Financial Companies in India for the study period 2004-05 to 2013-14(In Percentage)

Year	DHFL	GIC	Gruh	HDFC	LICHF
2004-05	86.90	79.37	85.75	95.21	84.93
2005-06	87.06	89.18	85.47	95.37	88.23
2006-07	88.96	91.83	86.10	95.98	92.03
2007-08	90.72	91.50	89.74	96.46	92.65
2008-09	89.85	92.76	91.99	97.04	94.64
009-10	88.24	89.82	89.25	96.86	95.73
2010-11	88.01	79.69	91.14	96.63	89.84
2011-12	89.16	88.88	93.52	97.04	93.69
2012-13	90.25	88.13	92.73	96.87	95.33
2013-14	91.12	88.71	93.42	97.11	96.43
Average	89.03	87.99	89.91	96.46	92.35

Source: Annual Reports of the Selected Companies.

Table No. 4 shows that over the research period, the operating profit margin has shown the best trend, averaging just over 80%. So, operational profit was 80 Rupees for every 100 invested, and the operating profit margin ranged from 87.99% to 96.4% on average. Despite the fact that the overall operating profit margin trend was volatile, which naturally would affect the net profit margin, all firms on the list showed top results in regards to profitability of operations, which is a solid indicator of producing value for shareholders.

5. NET PROFIT MARGIN OF SELECT NON-BANKING HOUSING FINANCIAL COMPANIES

Table No- 5: Showing Net Profit Margin of Select Non-Banking Housing Financial Companies in India for the study period 2004-05 to 2013-14 (In Percentage)

Year	DHFL	GIC	Gruh	HDFC	LICHF
2004-05	16.54	14.18	19.91	30.39	13.72
2005-06	18.39	21.12	21.03	29.38	16.52

2006-07	14.56	25.42	20.39	26.63	17.82
2007-08	15.77	20.53	20.97	29.72	17.82
2008-09	13.25	18.32	17.08	20.71	18.37
2009-10	15.31	21.06	22.37	24.87	19.05
2010-11	18.27	33.73	25.49	27.44	21.00
2011-12	12.04	13.53	23.68	23.75	14.89
2012-13	10.91	15.35	22.42	22.92	13.35
2013-14	10.64	15.06	20.91	22.48	14.11
Average	14.57	19.83	21.43	25.83	16.67

Source: Annual Reports of the Selected Companies.

There was significant heterogeneity in the research period's Net profit Margin shown by Non-Banking Housing Financial Companies (see table 5 above). When compared to competitors like Dewan Housing Finance and GIC Housing Finance, HDFC and Gruh Housing Finance have higher net profit margins. As far as Net profit margin is concerned, HDFC and Gruh housing finance have shown the most promising growth. Net profit margins at both Dewan Housing Finance and GIC Housing Finance have been on the decline. In next projects, we may investigate the underlying causes. There was an average disparity between net profit margin and revenue of 14.57% and 25.83%. Among the major banks, HDFC has the highest average margin. While both Dewan and GIC Housing Finance have posted poor margins.

6. GROWTH RATE OF EARNINGS SELECT NON-BANKING HOUSING FINANCIAL COMPANIES

Table No – 6: Showing Sustainable Growth Rate of Earnings Select Non Banking Housing Financial Companies in India for the study period 2004-05 to 2013-14 (In Percentage)

Year	DHFL	GIC	Gruh	HDFC	LICHF
2004-05	8.58	11.36	14.73	15.89	8.49
2005-06	10.59	19.65	17.15	16.88	11.78
2006-07	9.57	11.71	12.02	18.25	13.70
2007-08	15.08	10.69	14.83	14.46	16.54
2008-09	16.81	10.44	15.48	10.86	18.88
2009-10	14.42	10.83	17.58	11.76	15.35
2010-11	14.72	18.00	16.60	12.76	19.48
2011-12	13.04	7.01	20.65	13.16	12.86
2012-13	11.96	10.61	20.43	11.57	12.78
2013-14	11.90	10.65	20.40	11.68	14.45
Average	12.67	12.10	16.99	13.73	14.43

Source: Annual Reports of the Selected Companies.

We can see that the profits growth rate is sustainable within a range of 12.10% to 16.99% in table No. 6 above. GIC and LIC Housing Finance Companies' sustainable growth rate of profits is quite volatile. Both GIC Housing Finance and LIC Housing Finance are subject to a rate of volatility of 180% and 129%, respectively. HDFC and Gruh Housing Finance, on the other hand, have little volatility in maintaining profits growth. Their respective rates of expansion were 71% and 68%. Earnings growth was higher for Gruh Housing Finance and lower for Dewan Housing Finance Ltd on average, according to a study. Gruh Housing Finance has a higher reputation for future growth potential than Dewan Housing Finance since its average sustainable growth rate is 16.99%. It was thus recommended that the enterprises improve their incremental performance in terms of Return on Equity and cost reductions. If you want to maximise your company's development potential, choose the one that consistently outperforms competitors and has the highest savings rate.

7. CONCLUSIONS

They not only increase the reach and availability of financial services, but also the stability of the monetary system as a whole by serving as fallback institutions for struggling banks. They're also helping to bridge the gap between retail and rural underdeveloped clients' credit needs and the bank's ability to provide to those needs.. Effective risk managers and the central bank of the country must keep an eye on how these dangers are handled. Researchers concluded that NBFCs in India would benefit from adopting risk management strategies or reducing risk-taking incentives if they wanted to see improved performance in their financial operations. It is also advised that regulatory organizations should examine or verify rigorously and enforce new rules and regulations for the better and more efficient performance of NBFCs, all of which may contribute to the healthy and prosperous growth of our Economic sectors. The aforementioned measures should be implemented on an ongoing basis in order to improve the management of NBFCs' financial performance, which in turn will serve to fortify our country's financial systems and propel economic growth.

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