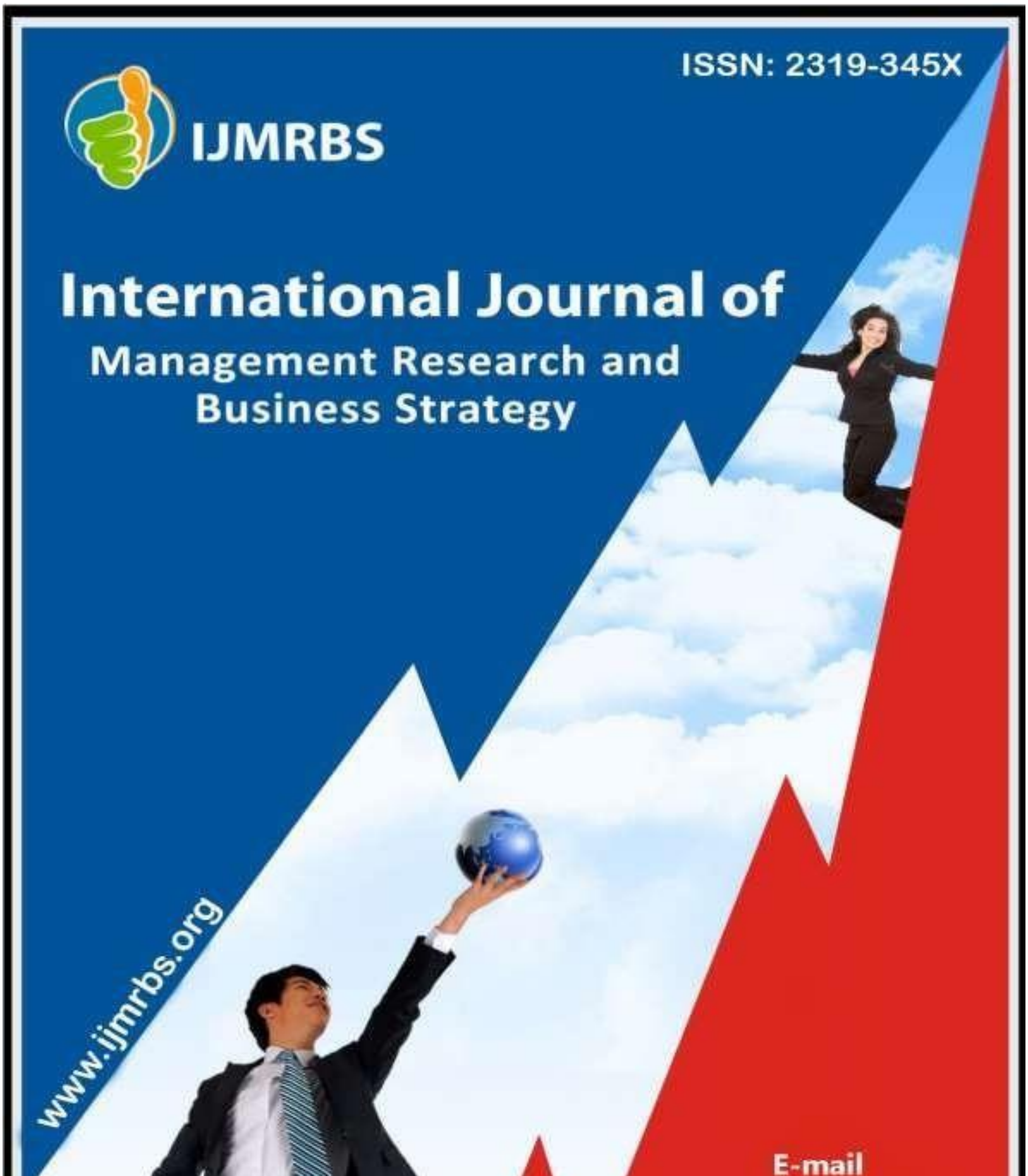
ISSN: 2319-345X
IJMRBS
International Journal of
Management Research and
Business Strategy
www.ijmrbs.org
E-mail
editor@ijmrbs.org
editor.ijmrbs@gmail.com

ISSN 2319-345X
www.ijmrbs.com
Vol. 13, Issue 2, 2024

Study On Performance and Evolution of NBFC's in India

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ABSTRACT

India, being a large and diverse country, has been striving to ensure financial access to penetrate growth and entrepreneurship, which is a critical priority. In this regard, the Non-Banking Finance Companies (NBFCs) sector has truly scripted a remarkable story that speaks to the entrepreneurial spirit of India. From large infrastructure financing to small microfinance, the sector has innovated over time and found ways to address the debt requirements of every segment of the economy. The NBFCs sector has played a significant role in the economic development of India and has emerged as an essential player in the financial sector. These companies provide financial services to individuals, small and medium-sized enterprises (SMEs), and large corporations, thereby contributing to the growth of the economy. The study will provide insights into the functioning of the NBFCs sector and how it contributes to the growth of the Indian economy. It will also examine the challenges faced by the sector and suggest ways to address them.

KEYWORDS: NBFC,Risk Management,Microfinance,Entrepreneurship,Penetrate Growth, Performance Analysis, Liquidity Risk, Small and Medium Size Enterprises.

1.Introduction

Non-Banking Financial Companies (NBFCs) are financial institutions which provide banking services while not having a full-fledged banking license. In India, they play a crucial role in providing financial products and services to individuals and small businesses who may not have access to traditional banking channels. NBFCs offer a wide range of services that includes loan financing, leasing, hire-purchase, insurance, mutual funds, and pension services. NBFCs

ISSN 2319-345X
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are regulated by the Reserve Bank of India (RBI) under the Reserve Bank of India Act, 1934. A few of the prominent NBFCs in India are Housing Development Finance Corporation (HDFC), Bajaj Finserv, Cholamandalam Investment and Finance Company Limited, Mahindra & Mahindra Financial Services Limited,etc.

2.Objectives

- To analyse the performance of selected non-banking financial companies and to present the information collected
- To contribute to the academic literature on financing and banking, particularly in emerging markets.

3. Review Of Literature

1. Kantawala, (1997), in his study "Financial Performance of Non-Banking Finance Companies in India", examined the performance of non-banking financial companies for the period from 1985-86 to 1994-95. Based on secondary data collected from different RBI bulletins regarding financial and investment companies, the study concluded that there was a significant difference in the profitability ratios, leverage ratios, and liquidity ratios of various categories of NBFCs. When two categories were compared, the selected ratios were not statistically different from each other in majority of the cases.

2. Basu, (1961), in his paper "Non-Banking Financial Intermediaries and Monetary Policy" explains that in India, the NBFC comprises a variety of institutions, which are defined under section 45 I (a) of the Reserve Bank of India Act, 1934.

3.The author has discussed about the nature of activities of the NBFCs. The paper also describes the types, monetary policies and regulatory measures of NBFC.

4. Research Methodology

4.1 Reasearch Design

The study adopts an exploratory research design that employs quantitative statistical tools like trend and ratio analysis.

4.2 Sources of Data

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The study relies on secondary data collected from various credit worthy NBFC's, and trusted internet sources.

5. Industry and Company Profile

Introduction: Non-banking financial companies (NBFCs) are an important component of the Indian financial system. They offer both individuals and companies a wide range of financial services, such as lending, investing, and insurance. In India, NBFCs have expanded quickly in recent years and taken a prominent role in the financial industry. Industry Overview: NBFCs in India can be broadly classified into three categories: asset finance companies, loan companies, and investment companies. Asset finance companies primarily provide finance for the purchase of assets such as vehicles, machinery, and equipment. Loan companies provide loans for a variety of purposes, including personal loans, business loans, and housing loans. Investment companies primarily invest in securities and other financial assets. India's diversified financial sector is undergoing rapid expansion in terms of the growth of existing financial service firms and new entities entering the market. The financial sector comprises various financial entities such as commercial banks, non-banking financial institutions, insurance companies, pension funds, co-operatives, mutual funds and other lesser financial entities. The banking regulator has allowed new entities such as payments banks to be created recently thereby adding to the types of entities operating in the sector. The NBFC sector has been growing rapidly in recent years, with the sector's total assets under management (AUM) growing at a compound annual growth rate (CAGR) of 19% between 2010 and 2020. As of 2020, the sector's AUM stood at around INR 35 lakh crore (approximately USD 466 billion). The international episode in Non-banking Financial Intermediation – The Defects in the international financial architecture, especially in the regulation and the supervision of financial entities and their assessment of risks and uncertainties were exposed during 19 the Great Financial Crisis. In the aftermath of the GFC, as banks started deleveraging and cleaning up their balance sheets, especially in the United States (US) and Europe, NBFIs took up the space vacated by banks (CGFS, 2018). As a result, globally, the sector witnessed an expansion, growing from USD 58 trillion in 2002 to 226 trillion in 2020, providing an alternative to bank financing. Their share in global financial assets increased from 44 per cent in 2002 to 49 per cent in 2020. India is a small player at the global level, accounting for 0.7 per cent of the global NBFI assets in 2020.

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However, the size of the NBFI sector as a share of India's GDP has increased from 18 per cent in 2002 to over 60 per cent in 2020, which highlights the increasing importance of the sector in India's financial landscape. And with the increasing importance the number of NBFCs in India has considerably increased. As on January 31, 2022, there were 9,495 NBFCs registered with the Reserve Bank. Based on liability structure, NBFCs are categorized into deposit-taking NBFCs (NBFCs-D), which are allowed to raise term deposits and non-deposit taking NBFCs (NBFCsND). NBFCs-ND are further categorized as systemically important NBFCs (NBFCs ND-SI) if 20 their asset size exceeds ₹500 crore. In terms of the number of companies, NBFCs ND, with an asset size of less than ₹500 crore, have the largest share.

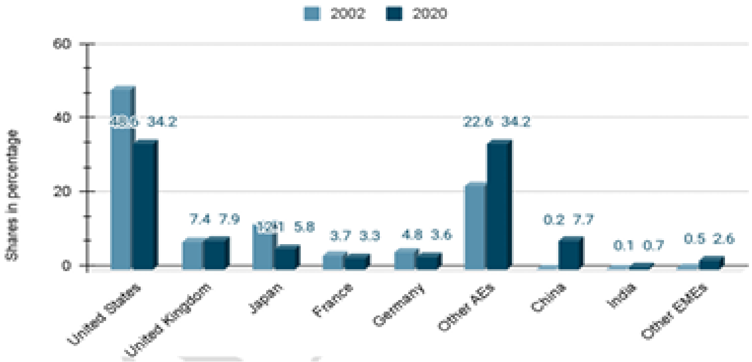

FIGURE 1: Share in Global NBFI Assets

With a legacy rooted in the esteemed Mahindra roup, Mahindra Finance has established itself as a trusted name in the financial services sector. They are committed to serve the needs of underserved segments of people from both rural and semi-urban areas. Mahindra Finance's Asset Under Management has exceed Rs. 82000+ Crores and they have a wide presence all over India with 1386 officies serving a huge customer base of 9 million.Their extensive range of products include Vehicle Loans, SME Finance, Personal Loan, Insurance Broking, Housing Finance, and Mutual Fund Schemes.

History: Mahindra Finance, a subsidiary of the prestigious Mahindra Group, was founded in 1991. They were registered as deposit-taking NBFC since 1998. Since its inception, the institution has been committed to serving the diverse financial needs of individuals and businesses. With a strong foundation and a customer-centric approach, Mahindra Finance has consistently upheld ethical practices and a dedication to fostering financial inclusion.

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NBFC'S	FY 2021-2022	FY 2022-2023
Mahindra Finance	7.66%	4.49%
Muthoot Finance	2.78%	3.67%
Cholamandalam Investment And Finance	2.15%	2.35%
L&T Finance	1.43%	1.25%
Aditya Birla Capital	3.57%	2.99%

Vision and Mission:Mahindra Finance's vision and mission reflect its commitment to redefining financial services that truly transform the lives of customers.

Vision: To be the most admired financial solutions provider, offering a broad range of products and services that enhance the financial well-being of our customers.

Mission: To deliver innovative and customer-centric financial solutions, leveraging technology, while maintaining the highest standards of ethics and integrity. To be the most preferred partner for financial solutions in the emerging India.

6. DATA ANALYSIS AND INTERPRETATION

6.1 TREND ANALSIS OF NBFC'S(GENERAL)

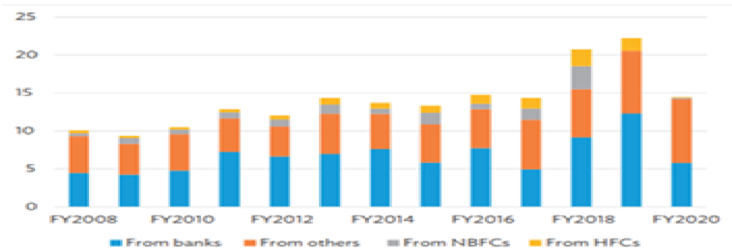

FIGURE 3: Flow of Incremental Commercial Credit in India from Various Sources (₹ trillion).

• The image shows the flow of incremental commercial credit in India from various sources from FY2008 to FY2020. The data is from the Reserve Bank of India's Financial Stability Report: Issue No. 21, Mumbai (July) 2020.

• The sources of credit are shown on the x-axis and the amount of credit in trillions of Indian rupees is shown on the y-axis.

The four sources of credit are: From banks , NBFCs (non-banking financial companies) , HFCs (housing finance companies) and Others. The data shows that the flow of credit from banks has been the most consistent over the time period, with a slight increase from FY2008 to FY2020. The flow of credit from NBFCs and 66 HFCs has been more volatile, with some years seeing a decrease and others seeing an increase. The flow of credit from others has been the least

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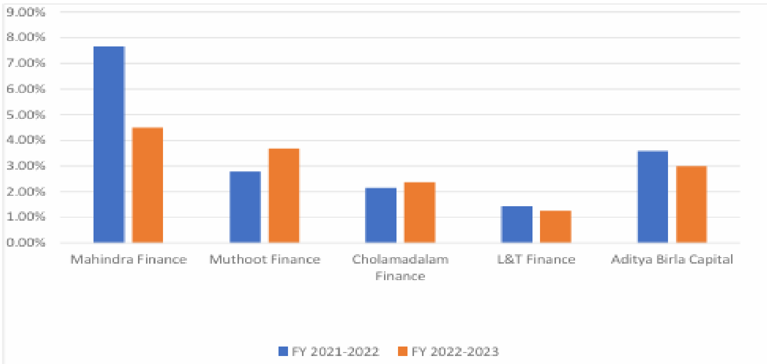
consistent, with a large decrease from FY2008 to FY2010 followed by a large increase from FY2010 to FY2020.Overall, the data shows that the flow of incremental commercial credit in India has been relatively stable over the past decade, with some variation from year to year. The flow of credit from banks has been the most consistent, while the flow of credit from NBFCs and HFCs has been more volatile. The flow of credit from others has been the least consistent.

6.2 COMPARATIVE RATIO ANALYSIS

Asset Quality Ratio:



Comparison of Asset Quality Ratio of Other NBFC's with Mahindra Finance

The above bar graph tells about the Assets Quality Ratio of relevant ratio of five nbfcs for the financial year 21-22 and 22-23.The five nbfcs are Mahindra Finance, Muthoot Finance,Cholamandalam,L&t Finance, Aditya Birla capital.

The Asset Quality Ratio of Mahindra finance for the financial year 21-22 was 7.66% but we can observe a decline in the Asset Quality Ratio in the FY 22-23 the ratio decline from 7.66% to 4.49%. Muthoot finance faced a growth in Asset Quality Ratio for the financial year 21-22 the ratio was 2.78% and FY 22-23 was 3.67% respectively. The Cholamandalam shows an increase in Asset Quality Ratio from FY21-22 & 22-23 the ratio was 2.15% to 2.35% respectively. L&T finance shows the decline in Asset Quality Ratio for the FY21-22,1.43% and for FY 22 23 the ratio was 1.25 The Aditya Birla shows the decline in Asset Quality Ratio for the FY21-22,3.57% and FY 22 23 the ratio was 2.99%. The highest Asset Quality Ratio for the FY21-22 and FY22-23 is of Mahindra Finance. And the lowest Asset Quality Ratio for the financial year 21-22 & 22-23 is of L&T Finance.

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7. FINDINGS:

The data analysis reveals that incremental commercial credit in India has remained relatively stable over the past decade, with minor fluctuations in credit flow from different sources. Bank credit exhibits the most consistency, while credit from NBFCs, HFCs, and other sources shows more volatility. This suggests a balanced credit ecosystem with banks being the primary and stable source of credit.

8. CONCLUSION:

The future seems to be very crucial for NBFCs and only those who will be able to face the challenge will be standing the test of time and will survive in the long run. However, to survive and to constantly grow, NBFCs have to focus on their core strengths while improving on weaknesses.

In conclusion, NBFCs are essential to the development of the nation's economic foundation. NBFCs are not allowed to offer services that exceed the purview of bylaws since they are required to follow RBI compliances. When these limitations prevent the NBFC from operating freely, regulating bodies occasionally change the relevant regulation to strike the correct balance between ease of operation and dangers. While banks are chartered by the government to accept deposits and provide credit to the general public, NBFCs are primarily founded to provide loans to the poorer members of society. A bank must adhere to stricter licencing requirements than an NBFC. As the economy grows, there will be a greater need for financial lending, and NBFCs could help the Indian economy expand. Every company's endeavour continues to focus on profitability, but NBFCs do not. NBFCs have emerged as an important component of the Indian financial system. They have played a crucial role in providing credit and finance to various sectors of the economy, including agriculture, infrastructure, and small and medium-sized enterprises (SMEs).

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