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Financial Evaluation of Non-Banking Financial Institutions: An Insight

KEYWORDS Non-banking financial institutions, financial system, financial services, India, potential investors

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ABSTRACT *The Indian financial system consists of the various financial institutions, financial instruments and the financial markets that facilitate and ensure effective channelization of payment and credit of funds from the potential investors of the economy. Non-banking financial institutions in India are one of the major stakeholders of financial system and cater to the diversified needs by providing specialized financial services like investment advisory, leasing, asset management etc. Non-banking financial sector in India has seen a considerable growth in the recent years. The aim of the present study is to analyze the financial performance and growth of the non-banking financial institutions in India in the last 5 years. This study can be helpful for the potential investors to get the knowledge about the financial performance of the non-banking financial institutions and be helpful in taking effective long-term investment decisions.*

Introduction
Non-Banking Financial Institutions play a very important and significant role in the development of the financial system of any country. They play a role similar to the banks by facilitating financial support to the people by offering a range of products and services. They compete with the commercial banks by providing the similar services and hence put pressure on the commercial banks to become more efficient and responsive to the needs and requirements of their customers.

The services and facilities being provided by the non-banking financial institutions (NBFIs) in India have widened and substantial changes have been brought in over the years through their functional specialization in various areas. The NBFIs play an effective role as sources of finance and have gained considerable importance due to their inherent ability to take decisions in lesser time, take greater risks, customize their services and bring in changes directly in accordance with the needs of their clients. These specialties of the NBFIs, their flexibilities to cater to the changing needs and give tough competition to the banks, have lead to the enhancement in the important of these sources of finance in the economy. The preference for the non-banks over the banks has been gradually increasing since both of these sources provide similar types of activities and an easy platform for the customers to obtain finance.

STATUTORY DEFINITION UNDER THE RBI ACT, NBFI is defined under Sec. 45-I(f) as under:
Sec. 45-I(f): "Non-banking financial institution" means:
(i) a financial institution which is a company;
(ii) a non banking institution which is a company and which has as its principal business the receiving of deposits, under any scheme or arrangement or in any other manner or lending in any manner;
(iii) such other non-banking institution or class of such institutions, as the bank may, with the previous approval of the Central Government and by notification in the Official Gazette, specify.

All the institutions, other than the commercial banks and the cooperative banks that facilitate funds and act as intermediaries between the investors and savers are the non banking financial institutions. The NBFIs mainly include the mutual funds, non-banking finance companies, development banks.

Data and Methodology
For the present study data has been collected from various issues of RBI publications regarding the non banking financial institutions. This article analyses the financial performance of the non-banking financial institutions during the last 5 years, from 2007-2011. The study is based on the audited annual accounts of the non banking financial institutions in the country that comprises of the major non-banks and the institutions, which closed their accounts during the accounting period April to March for the last 5 years i.e. from 2007-2011. It is observed that the results of these non-banking financial institutions show the significant growth in the presence of the non-banking financial institutions in the economy. The present analysis is confined the institutions providing the non-banking financial services in India. The study presents comparable data for the preceding 5 years for the same set of companies, based on the analysis of their accounts for the respective years.

Review of Literature
Kantawala (2002) in her study revealed that financial system comprises of many financial institutions. The financial markets and instruments play a very important role in development of an economy. The presence of the non-banking institutions is a great medium for the movement of the funds from savers to investors. Seema Saggar (1995) studied the financial performance of 10 leasing companies at the disaggregate level and compared it with other groups of NBFCs for a period of 5 years from 1985-90. Her study being limited to only 10 companies did not reflect the correct status of performance of NBFCs on the whole. T.S. Harihar (1998) in his paper highlighted the performance of all NBFCs on the basis of terms of cost of debt, operating margin, net profit margin, return on net worth, asset turn over ratio etc. Due to the limited parameters, the study could not reveal much about the performance of all the NBFCs. Raghuvanshi (1997) in his article highlighted the complexities involved in the business of NBFCs, it further brought to light the laws governing the NBFCs and the actions available against the NBFCs in noncompliance with the norms prescribed by different regulators.

Table 1:

Financial Assistance Sanctioned and Disbursed by Financial Institutions (As on end march)										
CATEGORY	(Amount in Crores)									
	2006-07		2007-08		2008-09		2009-10		2010-11	
	S	D	S	D	S	D	S	D	S	D
All India term lending institutions	12,234	10,679	18,696	17,379	33,660	31,604	42,532	37,987	55432	47,224
Specialized financial institutions	245	120	366	189	597	283	590	320	882	509

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Investment institutions	18,759	27,857	39,670	28,460	65,731	57,086	63,637	53,762	45,155	40,237
Total assistance by FIs (1+2+3)	31,238	48,656	58,732	46,028	99,988	88,973	1,06,779	92,069	1,01,469	87,964

Table number 1 shows the financial assistance sanctioned and disbursed by financial institutions in the last five years (2007-2011). From the above table it can be ascertained that the amount of financial assistance sanctioned to all India term lending institutions and the specialized financial institutions in all the five years has been more in comparison to the amount disbursed by them in all the last 5 years. In case of the investment institutions in 2006-07 the amount disbursed by them was greater than the amount sanctioned to them but gradually in the following years they too have disbursed lesser amount in comparison to the amount sanctioned to them. When we consider the total financial assistance of the financial institutions we can see that in all they have disbursed lesser amount of the sanctioned amount except in the year 2006-07. This shows that the financial institutions are not making use of the amount being sanctioned to them and are not able to provide the level of financial assistance as is expected from them.

Table 2:

Liabilities and Assets of Financial Institutions (As on end march)					
(Amount in Crores)					
Items	2007	2008	2009	2010	2011
Liabilities					
1. Capital	4,888	4,000	4,300	4,600	4900
2. Reserves	15,886	17,137	19,069	39,556	42,612
3. Bonds & Debentures	72,766	57,741	52,390	71,011	90,097
4. Deposits	21,998	36,298	65,591	79,472	92,782
5. Borrowing	22,401	33,716	40,443	35,307	42,681
6. Other Liabilities	291,78	31,020	35,579	19,307	17,544
Total Liabilities	1,67,117	1,79,912	2,17,372	2,48,983	2,09,616
Assets	2007	2008	2009	2010	2011
1. Cash & Bank balance	10,125	15,835	19,430	3,694	5,814
1. Investments	8,922	6,694	8155	8,676	11,882
2. Loans & Advances	1,32,424	1,47,008	1,78,595	2,14,671	2,50,328
3. Bills & Discounts	1,922	2,044	2,145	2,668	3,542
4. Fixed Assets	1,489	539	570	553	537
5. Other Assets	12,235	7,792	8,477	18,722	18,682
Total Assets	1,67,117	1,79,912	2,17,372	2,48,983	2,09,616

Table number 2 shows the status of assets and liabilities of financial institutions in last the five years (2007-2011). On the liability side bonds and debentures along with deposits act as major source of financing in year 2011. The amount of borrowing has increased with high pace in the year 2011 as compared to year 2007. The amount of deposits in the last five years is increasing in an increasing trend. The amount of the miscellaneous or other liabilities has fallen down in the last year. On the asset side, loans and advances act as the major element, which is contributing more than fourth-fifth of the total assets of the FIs. In case of cash and bank balance the amount got reduced to a large extent in the years 2010 and 2011 as compared to the preceding years which shows that the cash and bank balances of these institutions are not being utilized efficiently and are decreasing due to the inefficiency. The fixed assets of the financial institutions are also declining as we can see that in each year the assets are reducing showing the inefficiency. Thus it can be seen that the liabilities of the FIs are increasing whereas the assets saw a decreasing trend but in the last two year it has improved and is increasing. But still in comparison to the liabilities the assets were very less again highlighting the inefficiencies and low performance of the FIs.

Table 3:

Resources Mobilized by Financial Institutions					
(Amount in Crores)					
Institution	Total Resources Raised (As on end march)				
	2006-07	2007-08	2008-09	2009-2010	2010-11
EXIM BANK	10,620	14,558	15,902	18,395	23,752
NABARD	10,879	13,620	7,746	12,346	28,273
NHB	12,761	11,116	20,005	17,824	30,996
SIDBI	2,176	5,084	15,797	25,740	13,489
Total	36,450	44,378	59,450	74,305	10,2510

Table number 3 shows the amount of total resources mobilized by financial institutions. The above table reflects that the total resources mobilized by EXIM bank are very high in year 2011 as compared to year 2006-07. The amount of resources mobilized by the EXIM Bank has being increasing every year. Resources mobilized by both NABARD and NHB have been fluctuating but in the last year ie 2010-11, both institutions mobilized a huge number of resources in comparison to 2009-10. The resources mobilized by SIDBI were considerably low in the year 2011 as compared to the year 2010. In case of all the financial institutions except SIDBI, resources mobilized were higher in the year 2011 as compared to year 2010, which shows their improved performance and higher growth.

Table 4:

Net Non-performing assets of Financial Institutions (As on end march)					
Net NPAs (Amount in Crores)					
Institution	2007	2008	2009	2010	2011
EXIM BANK	115	83	79	78	93
NABARD	23	19	30	33	30
NHB	-	-	-	-	-
SIDBI	22	49	26	69	132
ALL FIs	160	151	135	180	255

Table number 4 shows the position of net non-performing assets of financial institutions in the last five years (2007-2011). The EXIM bank followed the path of high growth and quite good performance as the amount of non-performing asset goes on decreasing in the last five years (2007- 2011). NABARD had the lowest amount of non-performing assets, which reflected the growth and performance of this institution as compared to the other financial institutions. NHB was not in the race in the last five years. SIDBI experienced the variations in the amount of net non-performing assets of financial institutions in the last five years. In the year 2011 the amount was around two times more than the amount of net non-performing assets in 2010, which again emphasizes the inefficiencies in the NBFIs.

Table 5:

Selection of Financial Parameters of Financial Institutions (As on end march)					
Operating Profits/ Average Working Fund (Percent)					
Institution	2007	2008	2009	2010	2011
IFCI	10.2	-	-	-	-
TFCI	3.9	-	-	-	-
EXIM BANK	1.7	2.3	2.4	1.75	2.21
NABARD	1.8	2.0	1.9	1.80	1.25
NHB	0.9	1.1	1.7	2.14	1.72
SIDBI	3.8	3.1	5.3	4.32	3.00

Table number 5 shows the ratio obtained from Operating Profits/ Average Working Fund as a selection of the financial parameters of financial institution in the last five years. IFCI and TFCI had 10.2 percent and 3.9 percent of operating profit in the year 2007 respectively. There were fluctuations in the ratios in all 5 years in case of EXIM bank and SIDBI. But in case of NABARD the ratio rose in the year 2008 and declined in the last 3 years. In the case of NHB the ratios increased up to 2010 but in the last year the percentage decreased to 1.72 percent.

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Table 6:

Capital Adequacy Ratio (As on end march)					
(Percentage)					
Institution	2007	2008	2009	2010	2011
EXIM BANK	16.4	15.1	16.8	18.5	17.2
NABARD	27.0	26.6	25.9	24.9	21.8
NHB	21.7	24.7	17.7	19.6	20.5
SIDBI	37.5	41.8	34.2	30.2	31.6

Table number 6 shows the capital adequacy ratio of NBFIs in the last five years (2007-2011). In the year 2010, EXIM bank had a steady capital adequacy ratio with a marginal fall in its percentage the last year. NABARD had the highest capital adequacy ratio in the year 2007 and the ratio went on decreasing every year. NHB had the highest capital adequacy ratio in the year 2008 and the ratio kept falling in all the next three years. SIDBI shows the fluctuations in the capital adequacy ratio in the last five year (2007-2011). In the year 2008, SIDBI had the highest capital adequacy ratio that was 41.8, and it had the highest percentage in comparison to all other institutions showing the strength of SIDBI over all other institutions.

Conclusion

From the above tables it is very clear that the overall performance of the NBFIs shows a favorable trend in the working of the NBFIs, which emphasizes the important role they are playing in the growth and development of our economy. The growth of NBFIs has been mainly due to their strength over the banks because of their effective customer orientation that is a result of the tailor made services they provide to their clients, the speedy and simplified service procedures adopted by them and high rate of interests on their deposits. Also the NBFIs are not under the strict regulations as are imposed on the banking institutions, which provide them greater flexibility. Thus it can be concluded that the NBFIs play a very dominant role in our economy and are one of the major sources of finance for the customers. Hence, the growth of the NBFIs not only helps our economy develop but also help in catering to the varied needs of the customers thereby contributing in the development and personal growth of the potential individuals.

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