



A Study on Selected Non-Banking Financial Companies (NBFCs) in India

KEYWORDS

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ABSTRACT *In India, the term "non-banking financial companies" acquires a new meaning, and a huge significance. The meaning of the term is such entities which are not banks, and yet carry lending activities almost at par with banks. They may also accept deposits - however, these deposits are term deposits and not call deposits. The working and operations of NBFCs are regulated by the Reserve Bank of India (RBI) within the framework of the Reserve Bank of India Act, 1934 (Chapter III B) and the directions issued by it. The statistical tools used are arithmetic mean, standard deviation, co-variance and compound annual growth rate. Correlation has been calculated to find out the relationship between loans & advances and borrowings. Profitability ratios are used to find out how far the resources of the companies are used effectively during the study period.*

Introduction

A Non Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 of India, engaged in the business of loans and advances, acquisition of shares, stock, bonds hire-purchase, insurance business or chit business but does not include any institution whose principal business is that includes agriculture or industrial activity or the sale, purchase or construction of immovable property. The working and operations of NBFCs are regulated by the Reserve Bank of India (RBI) within the framework of the Reserve Bank of India Act, 1934 (Chapter III B) and the directions issued by it.

Objectives of the study

- To know the classifications, functions and role of NBFCs in economic development of the country.
- To study the financial performance of selected NBFCs.

Research Methodology

The sample of the NBFCs has been chosen based on convenient sampling technique. The data has been collected from CMIE. The study period covered 2009-10 to 2014-15. The statistical tools used are arithmetic mean, standard deviation, co-variance and compound annual growth rate. Correlation has been calculated to find out the relationship between loans & advances and borrowings. Profitability ratio is used to find out how far the resources of the companies are used effectively during the study period.

The following NBFCs are taken for the study

- Housing Development Finance Corporation (HDFC)
- Infrastructure Development Finance Company (IDFC)
- Bajaj Holdings and Investment Limited
- Reliance Capital Limited
- Sriram Transport Finance Company Limited

Classification of NBFCs

Depending upon their nature of activities, non-banking finance companies can be classified into the following categories:

- Development finance institutions
- Leasing companies
- Investment companies

- Modaraba companies
- House finance companies
- Venture capital companies
- Discount & guarantee houses
- Corporate development companies

Role of Non Banking Financial Company in Economic Development

NBFCs aid in economic development in the following ways:

- Mobilization of Resources – It converts savings into investments
- Capital formation – Aids to increase capital stock of a company
- NBFCs provide long term credit and Specialized credit
- Aid in employment generation
- Help in development of financial markets
- Helps in attracting foreign grants
- Helps in breaking the vicious circle of poverty by serving as government's instrument

Why are Non-Banking Financial Companies important?

India's financial services sector is huge. It is not just comprised of commercial banks, but also non-banking financial companies (NBFCs). These firms offer a wide array of financial services like loans, chit-funds, and are different from banks. NBFCs are often small players that largely go unnoticed. However, they are still important to the economy, especially in a developing country like India where 70% of the population lives in rural areas. NBFC companies are game-changers that are very important to the economy due to the following factors.

- Size of the sector
- Growth
- Profitability
- Infrastructure lending
- Promoting inclusive growth

NBFCs are typically into funding of:

- Construction equipment
- Commercial vehicles and cars
- Gold loans

- Microfinance
- Consumer durables and two wheelers
- Loan against shares, etc.

Loans and Advances (Assets)

From the total assets of the companies the loans and advances are one of the major constituent. The following table shows the loans and advances of the study period.

Table 1
Loans and advances of selected NBFCs

YEAR	HDFC	IDFC	BAJAJ HOLDINGS	RELIANCE CAPITAL	SRIRAM TRANSPORT FIN. COMPANY
2010	102889.04	27561.98	2461.99	11360.1	19746.35
2011	123860.07	38552.5	315.51	15466	20886.51
2012	152923.68	49011.41	354.6	16804	27353.46
2013	181348.04	57122.41	311.93	20168	38751.65
2014	211092.66	60299.76	231.86	22395	45150.55
2015	245036.17	55368.27	166.14	26733	57754.22
Total	1017149.66	287916.33	3842.03	112926.1	209642.74
Mean	169524.94	47986.06	640.34	18,821.02	34940.46
SD	53611.25	12623.66	895.00	5443.84	15001.17
CV	83404.82	17698.69	-981.07	8417.96	22852.47
CAGR	54.32	41.73	-74.02	53.40	71.02

Source : CMIE Database

Table 1 reveals that the average of loans and advances were very high to HDFC and it was very low to Bajaj Holdings and Investment Limited. The growth rate was very high to Sriram Transport Finance Company Limited and it was negative to Bajaj Holdings and Investment Limited, it showed that Sriram Transport Finance Company Limited had considerable increase in its assets.

Borrowings

The following table depicts the borrowings of selected NBFCs for the study period. It holds a major percentage in the total liabilities of companies.

Table 2
Borrowings of selected NBFCs

YEAR	HDFC	IDFC	BAJAJ HOLDINGS	RELIANCE CAPITAL	SRIRAM TRANSPORT FIN. COMPANY
2010	98463.33	26543.87	0	15313.08	18763.56
2011	118086.53	36303.94	0	21012.00	20657.20
2012	142509.92	46435.45	0	19839.00	24443.61

Table 4
Correlation between Loans & Advances and Borrowings

YEAR	HDFC		IDFC		BAJAJ HOLDINGS		RELIANCE CAPITAL		SRIRAM TRANSPORT FIN. COMPANY	
	Loans & Adv.	Borrowings	Loans & Adv.	Borrowings	Loans & Adv.	Borrowings	Loans & Adv.	Borrowings	Loans & Adv.	Borrowings
2010	102889.04	98463.33	27562	26543.87	2461.99	0	11360.1	15313.08	19746.35	18763.56
2011	123860.07	118086.53	38552.5	36303.94	315.51	0	15466	21012.00	20886.51	20657.20
2012	152923.68	142509.92	49011.4	46435.45	354.6	0	16804	19839.00	27353.46	24443.61

2013	163700.86	54228.59	0.04	22944.00	34165.15
2014	190664.58	56565.32	0	26523.00	38671.50
2015	217438.10	66251.53	0	26660.00	46728.87
Total	930863.32	286328.70	0.04	132291.08	183429.89
Mean	155143.89	47721.45	0.01	22048.51	30571.65
SD	44634.20	14452.85	0.02	4322.29	11089.24
CV	69483.25	22259.63	0.00	6364.38	16965.92
CAGR	48.60	57.98	0.00	31.95	57.81

Source : CMIE Database

Table 2 reveals that average of borrowings are very high to HDFC and it was very low to Sriram Transport Finance Company Limited when compared to other NBFCs. The growth rate was very higher to IDFC and it was negative to Bajaj Holdings and Investment Limited, it showed that borrowings were increased to IDFC during the study period followed by Sriram Transport Finance Company Limited.

Profitability ratio of selected NBFCs

The following ratio showed the relationship between profit and total income.. It helps to know the effective usage of resources of the company during the study period.

Table 3
Profit after tax to total income

Year	HDFC	IDFC	BAJAJ HOLDINGS	RELIANCE CAPITAL	SRIRAM TRANSPORT FIN. COMPANY
2010	10.29	25.68	88.2	6.83	19.29
2011	14.35	25.54	90.6	-0.72	22.11
2012	14.82	23.99	63.62	3.75	21.11
2013	15.07	22.5	72.64	9.28	20.79
2014	15.89	19.96	70.42	7.75	14.78
2015	14.16	15.11	75.85	10.76	10.95

Source : CMIE Database

Table 3 showed that the ratios were complimentary to all NBFCs and it was negative to Reliance Capital Limited in the year 2011. And it was very minimum in all the years to the same company. The ratio is significantly changed to HDFC and IDFC during the study period and it was very high to Bajaj Holdings and Investment Limited.

Correlation

The following table shows the correlation between the variables loans & advances and borrowings during the study period.

YEAR	HDFC		IDFC		BAJAJ HOLDINGS		RELIANCE CAPITAL		SRIRAM TRANSPORT FIN. COMPANY	
	Loans & Adv.	Borrowings	Loans & Adv.	Borrowings	Loans & Adv.	Borrowings	Loans & Adv.	Borrowings	Loans & Adv.	Borrowings
2013	181348.04	163700.86	57122.4	54228.59	311.93	0.04	20168	22944.00	38751.65	34165.15
2014	211092.66	190664.58	60299.8	56565.32	231.86	0	22395	26523.00	45150.55	38671.50
2015	245036.17	217438.10	55368.3	66251.53	166.14	0	26733	26660.00	57754.22	46728.87
Correlation (r)	1.00		0.93		-0.18		0.95		1.00	

Source : CMIE Database

Table 6 revealed that correlation was positive to HDFC, IDFC, Reliance Capital and Sriram Transport Finance Company Limited. And it was negative to Bajaj Holdings Limited, it depicts that there was negative relationship between loans & advances and borrowings of that company.

3. Indian Journal of Finance and Bank Management.
4. Hindu Survey of Finance.

Findings

The growth rate was very high to Sriram Transport Finance Company Limited and it was negative to Bajaj Holdings and Investment Limited, it showed that Sriram Transport Finance Company Limited had considerable increase in its assets.

The growth rate was very higher to IDFC and it was negative to Bajaj Holdings and Investment Limited, it showed that borrowings were increased to IDFC during the study period followed by Sriram Transport Finance Company Limited.

The profit after tax to total income ratio is significantly changed to HDFC and IDFC during the study period and it was very high to Bajaj Holdings and Investment Limited.

Correlation was positive to HDFC, IDFC, Reliance Capital and Sriram Transport Finance Company Limited. And it was negative to Bajaj Holdings Limited, it depicts that there was negative relationship between loans & advances and borrowings of that company.

Suggestions

- Bajaj Holdings and Investment Limited has to increase its loans & advances.
- IDFC has to reduce its borrowings in future to improve the financial performance.
- Sriram Transport Finance Company Limited has to increase its total assets in future.

Conclusion

Non-banking financial companies (NBFCs) are fast emerging as an important segment of Indian financial system. It is a heterogeneous group of institutions (other than commercial and co-operative banks) performing financial intermediation in a variety of ways, like accepting deposits, making loans and advances, leasing, hire purchase, etc. They raise funds from the public, directly or indirectly, and lend them to ultimate spenders. They advance loans to the various wholesale and retail traders, small-scale industries and self-employed persons. Thus, they have broadened and diversified the range of products and services offered by a financial sector.

Reference:

1. Kothari C. R. Research Methodology, New Delhi, New Age International Private Limited Publishers, 2004
2. Gupta S.P, Statistical Methods, New Delhi, Sultan Chant & Sons, 2002