

A STUDY OF FINANCIAL PERFORMANCE OF NBFCs

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ABSTRACT

NBFCs (Non-bank financial companies) play a very vital role in participating in the development of an economy by providing a fillip to transportation, employment generation, wealth creation, bank credit in rural segments and to support financially weaker sections of the society. NBFCs are financial intermediaries engaged in the business of accepting deposits delivering credit and play an important role in channelizing the scarce financial resources to capital formation. In India, despite being different from banks, NBFC are bound by the Indian banking industry rules and regulations. Present paper aims at studying the financial performance of NBFCs and its comparison with previous years. Financial performance of NBFCs has been studied from different parameters viz expenses, incomes, taxes, profits, assets etc.

KEYWORDS

NBFCs, intermediaries, capital formation, financial performance, channelizing

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INTRODUCTION

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property. A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).

The different types of NBFCs are as follows:

Asset Finance Company (AFC) : An AFC is a company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipments, moving on own power and general purpose industrial machines. Principal business for this purpose is defined as aggregate of financing real/physical assets supporting economic activity and income arising there from is not less than 60% of its total assets and total income respectively.

Investment Company (IC): IC means any company which is a financial institution carrying on as its principal business the acquisition of securities,

Loan Company (LC): LC means any company which is a financial institution carrying on as its principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company.

Infrastructure Finance Company (IFC): IFC is a non-banking finance company a) which deploys at least 75 per cent of its total assets in infrastructure loans, b) has a minimum Net

Owned Funds of Rs 300 crore, c) has a minimum credit rating of 'A 'or equivalent d) and a CRAR of 15%.

Core Investment Company (CIC-ND-SI): CIC-ND-SI is an NBFC carrying on the business of acquisition of shares and securities.

Infrastructure Debt Fund: Non- Banking Financial Company (IDF-NBFC): IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects. IDF-NBFC raise resources through issue of Rupee or Dollar denominated bonds of minimum 5 year maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.

Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI): NBFC-MFI is a non-deposit taking NBFC having not less than 85% of its assets in the nature of qualifying assets which satisfy the following criteria:

- a. loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding Rs 1,00,000 or urban and semi-urban household income not exceeding Rs 1,60,000;
- Loan amount does not exceed Rs 50,000 in the first cycle and Rs 1, 00,000 in subsequent cycles;
- Total indebtedness of the borrower does not exceed Rs 1, 00,000;
- tenure of the loan not to be less than 24 months for loan amount in excess of Rs 15,000 with prepayment without penalty;
- Loan to be extended without collateral;
- Aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs;
- Loan is repayable on weekly, fortnightly or monthly installments at the choice of the borrower

Non-Banking Financial Company – Factors (NBFC-Factors): NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring. The financial assets in the factoring business should constitute at least 50 percent of its total assets and its income derived from factoring business should not be less than 50 percent of its gross income.

Mortgage Guarantee Companies (MGC) - MGC are financial institutions for which at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business and net owned fund is Rs 100 crore.

NBFC- Non-Operative Financial Holding Company (NOFHC) is financial institution through which promoter / promoter groups will be permitted to set up a new bank .It's a wholly-owned Non-Operative Financial Holding Company (NOFHC) which will hold the bank as well as all other financial services companies regulated by RBI or other financial sector regulators, to the extent permissible under the applicable regulatory prescriptions.

LITERATURE REVIEWs

For the purpose of current study, the following literature is reviewed:

Akanksha Goel in her article in 'ELK Asia Pacific Journal' studied the growth prospects of NBFCs in India.

Sunita yadav in her article in 'International journal of recent scientific research' studied the financial performance of selected NBFCs on parameters like Net profit ratio, Return on Investment, Annual growth rate etc.

Ranjan kshetrimayum in his article in 'A journal of Radix International educational and research consortium' studied the evolution, growth and development of NBFCs in India.

OBJECTIVES OF STUDY

1. To study the financial performance of NBFCs
2. To compare the performance with previous years.

RESEARCH METHODOLOGY

The secondary data has been collected from RBI's data warehouse and other related journals.

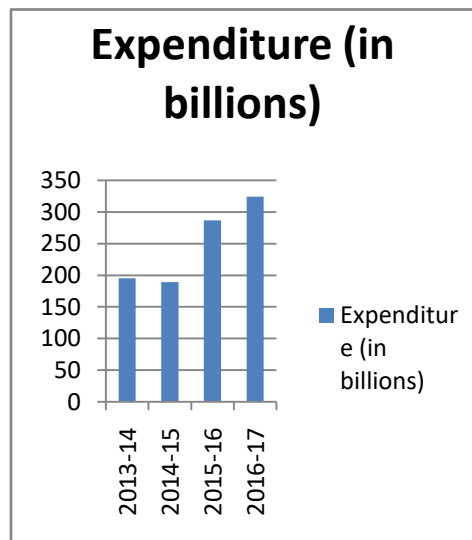
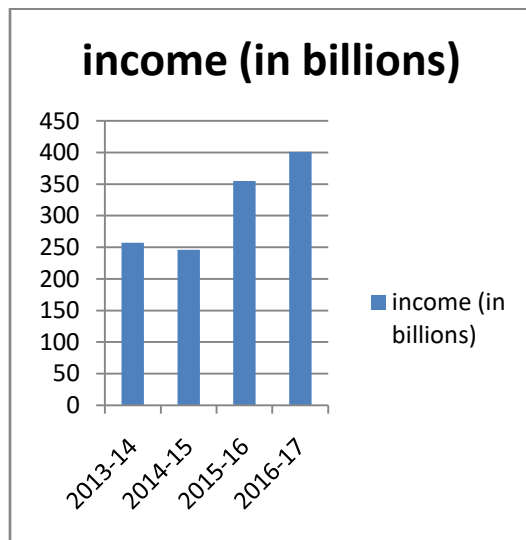
DATA ANALYSIS

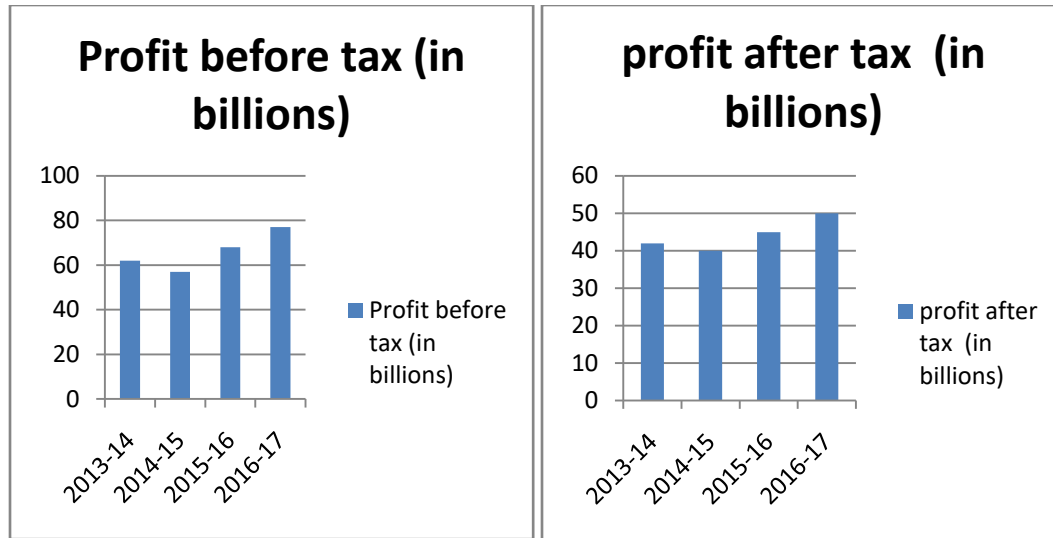
Data has been presented and analyzed using tables, graphs and statistical tools. The various indicators of financial performance of NBFCs viz income, expenses, tax provisions, operating profit, net profit, total assets have been taken and analyzed for last 4 financial years. Apart from this various ratios are also analyzed. The following table shows the various financial indicators from the financial year 2013-14 to financial year 2016-17:

(Amount in Rs. Billions)

| Indicator/year | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|--|---------|---------|---------|---------|
| Income | 257 | 246 | 355 | 401 |
| expenditure | 195 | 189 | 287 | 324 |
| Tax provisions | 20 | 17 | 23 | 27 |
| Operating profit (profit before tax) | 62 | 57 | 68 | 77 |
| Net profit (profit after tax) | 42 | 40 | 45 | 50 |

(Source: RBI database on Indian economy)



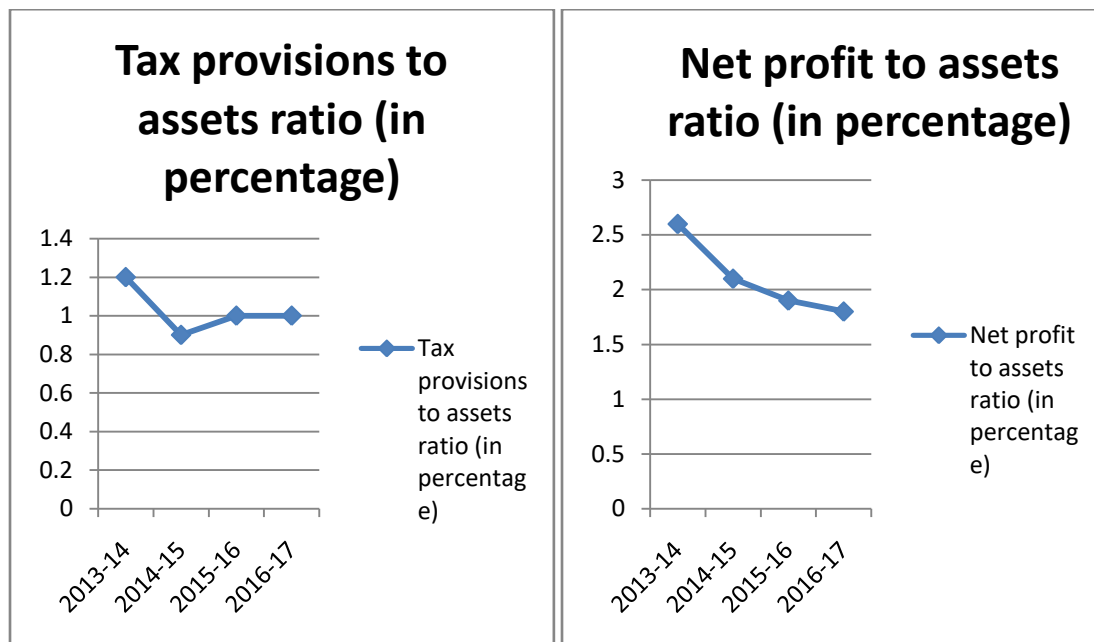
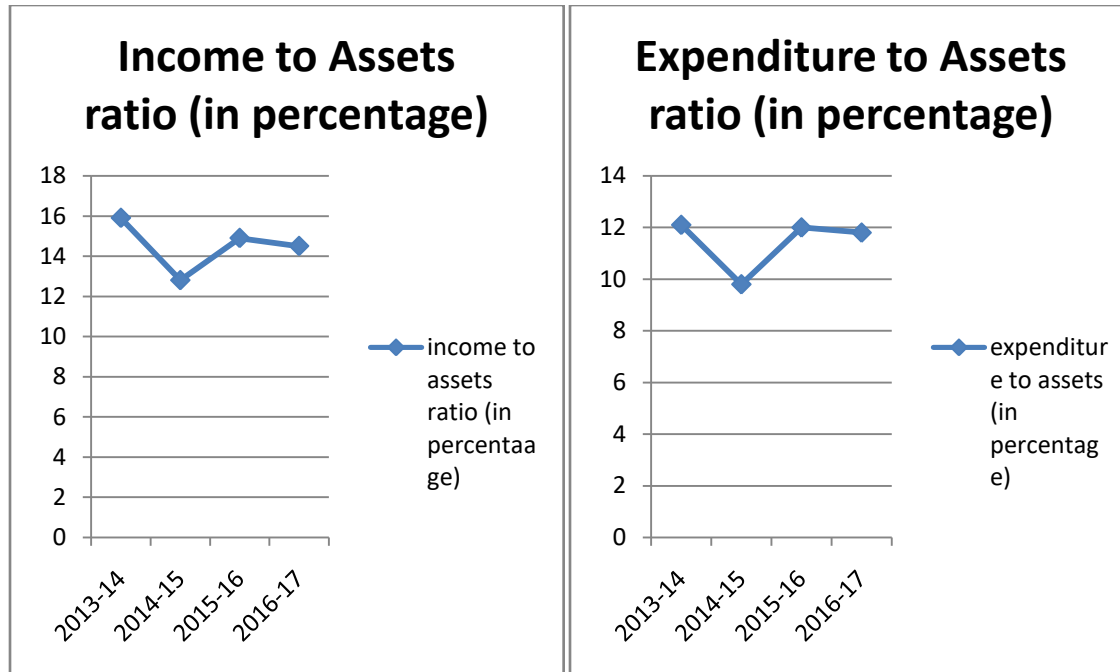


The following table shows the ratio of various financial indicators to total assets:

(Rupees in billions)

| Ratios / Year | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|--------------------------------|---------|---------|---------|---------|
| Total assets | 1615 | 1925 | 2386 | 2755 |
| Income to total assets | 15.9 | 12.8 | 14.9 | 14.5 |
| Expenditure to total assets | 12.1 | 9.8 | 12.0 | 11.8 |
| Tax provisions to total assets | 1.2 | 0.9 | 1.0 | 1.0 |
| Net profit to total assets | 2.6 | 2.1 | 1.9 | 1.8 |

(Source: RBI database on Indian economy)



FINDINGS

- The Income of NBFCs from various sources decreased in the financial year 2014-15 as compared to the year 2013-14 but it is increasing in the year 2015-16 and 2016-17.
- The expenditures of NBFCs also decreased in the financial year 2014-15 as compared to the year 2013-14 but it is increasing in the year 2015-16 and 2016-17.

- NBFCs are contributing in the economic development of country in form of taxes. However their tax provisions fall in the year 2014-15 as compared to the year 2013-14 but tax provisions are increasing in the year 2015-16 and 2016-17.
- Both profit before taxes and profit after taxes fall in the year 2014-15 as compared to 2013-14 but rise in the year 2015 onwards.
- Total Assets of NBFCs are continuously increasing from 2013-14 till 2016-17.
- The ratio of Income to total assets fall in the year 2014-15 as compared to 2013-14, it rises in the year 2015-16 and again fall a bit in the year 2016-17.
- The ratio of expenditure to total assets fall in the year 2014-15 as compared to 2013-14, it rises in the year 2015-16 and again fall in the year 2016-17.
- The ratio of tax provisions to total assets fall in the year 2014-15 as compared to 2013-14, it rises in the year 2015-16 and remain constant in the year 2016-17.
- The ratio of Net profit to total assets is falling from the year 2014-15 onwards

CONCLUSION

To sum up, the financial performance of NBFCs is quiet satisfactory. All the parameters like Incomes, expenditure, taxes, PBT, PAT, various ratios fall in the year 2014-15 but all these parameters are rising from the year 20115-16 onwards. The total assets of NBFCs are also continuously rising which is a good indicator of sound financial position. With this sound financial position and good financial performance NBFCs can and are contributing in the economic growth of country.

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