



ISSN: 0976-3031

Available Online at <http://www.recentscientific.com>

CODEN: IJRSFP (USA)

International Journal of Recent Scientific Research
Vol. 8, Issue, 6, pp. 17948-17951, June, 2017

**International Journal of
Recent Scientific
Research**

DOI: 10.24327/IJRSR

Research Article

A STUDY OF PERFORMANCE OF NBFCS IN INDIA

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ARTICLE INFO

Article History:

Received 17th March, 2017
Received in revised form 21th
April, 2017
Accepted 28th May, 2017
Published online 28th June, 2017

Key Words:

NBFC, AAGR, CAGR.

ABSTRACT

The purpose of the study is to evaluate the performance of selected NBFCs in India in term of profit. This is a secondary data based conceptual study. This study is based on the Convenience Sampling As a sample, HDFC, Bajaj Finserv, Power Finance Corporation Limited, Indiabulls Home Loan And Lic Housing Finance Limited are selected as these are main leading non-banking finance company in India. The sample size which is taken in the research study is the financial statement of last eight years (April 2008 to March 2016) of related concern from the Annual Reports of these companies. the findings of the present study are net profit ratio of the related companies are increase time to time, Return on investment is on avrage, Compounded annual growth rate on the basic of sales of related company showing negative growth rate and Compounded annual average growth rate on the basic of profits of related companyis around on an average.

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INTRODUCTION

Non-bank financial companies (NBFCs) are financial institutions that offer banking services without meeting the legal requirement of a bank, that prescribed in Banking Act 1949 i.e. one that does not hold a banking license. The specific banking products that can be offered by NBFCs depends on authority which regulate the banking activity and may include services such as loans and credit facilities, savings products, investments and money transfer services. NBFCs provide different kind of banking services, such as loans and credit facilities, private education funding, retirement planning, trading in money markets, underwriting stocks and shares, TFCs (Term Finance Certificate) and other obligations. NBFCs also indulge in other services wealth management such as managing portfolios of stocks and shares, discounting services e.g. discounting of instruments and advice on merger and acquisition activities. The total number of non-banking financial institution has continuously growing in the last few years. However, these Non Banking Financial Institution cannot accept demand deposits from the general public and have to find another modes of funding in their operations such as issuing debt instruments.

Definition

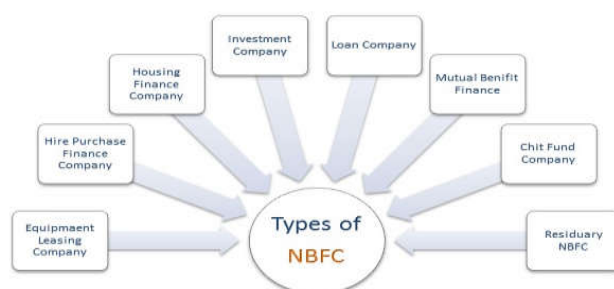
According to the Reserve Bank of India (Amendment Act) 1997, A Non-Banking Finance Company means

(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; and (iii) Such other non-banking institution or class of such institutions as the bank may with the previous approval of the Central Government specify.

Types of NBFCs

The Non-Banking Finance Companies operating in India fall in the following broad ategories



Research methodology

Research methodology include objective of the study, sampling design, source of data collection and procedure of interpartition.

Objective of the study

Every study behind the objective to find out the solution of some problem the objective is:

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To evaluate the performance of selected NBFCs in India in term of profit.

Sampling design

This study is based on the "Convenience Sampling". As a sample, HDFC, Bajaj Finserv, Power Finance Corporation Limited, Indiabulls Home Loan And Lic Housing Finance Limited are selected as these are main leading non-banking finance company in India. The sample size which is taken in the research study is the financial statement of last eight years (april 2008 to march 2016) of related concern from the Annual Reports of these companies.

Tools and techniques

The tools will be used to achieve the objective "To evaluate the performance of selected NBFCs in India in term of profit". The tools are as follows:

Ratio Analysis

- Net Profit Ratio
- Return on Investment
- AAGR
- CAGR

Source of data collection

In present study the data would be used secondary base. The data collected from the published and unpublished source. (website, related research papers, etc)

Interpretation

All types of ratios can't be calculated because of nature of related concern's business. Thus in this research study limited ratios (which are feasible) the related concern i.e. are used to evaluate financial positions of HDFC, BAJAJ Finserv, Power Finance Corporation, Indiabulls and Lic Housing Finance. The ratios which are used to analyse financial performance of the concern are as follows

To check the profitability of selected non banking financial companies these ratio has been calculated

Net profit ratio

Net profit ratio indicates the relationship between net profit earned and revenue from operation during the year by companies. If this ratio is high this will indicate the strong position of the company and if this ratio is low that will indicate the weak position of the companies.

Net profit ratio = net profit/revenue from operation*100

Table no. 1 exhibit the net profit margin of selected non banking finance companies for the studied period 2008-16. Bajaj finserv companies perform very good as compared to other companies. HDFC, PFC and INDIABULLS perform equally whereas LIC performance is very low as compared to all other companies. Highest profit margin of Bajaj Finserv is 62.6%, HDFC, PFC and INDIABULLS are around 23-25%

Table no. 1 shows the net profit ratio of different non banking financial companies studied period 2008 to 2016.

| year | HDFC | BAJAJ FINSERV | PFC | INDIABULLS | LIC |
|---------|-------|---------------|-------|------------|-------|
| 2008-09 | 20.8 | 36.92 | 30.04 | 10.68 | 18.45 |
| 2009-10 | 25.4 | 26.73 | 29.47 | 18.59 | 19.16 |
| 2010-11 | 28.3 | 157.19 | 25.86 | 29.70 | 21.09 |
| 2011-12 | 24.16 | 56.40 | 23.29 | 24.71 | 14.95 |
| 2012-13 | 23.31 | 35.94 | 25.60 | 27.66 | 13.5 |
| 2013-14 | 22.77 | 57.8 | 27.17 | 28.9 | 14.34 |
| 2014-15 | 22.22 | 62.5 | 23.97 | 31.74 | 12.99 |
| 2015-16 | 24.24 | 67.32 | 22.25 | 28.92 | 13.39 |
| Average | 23.9 | 62.6 | 25.95 | 25.11 | 15.98 |

whereas Lic has performed only 15.98%. this will showing that more attention required on LIC.

Chart 1.1 showing the net profit ratio of selected non-banking financial companies in India from 2008-09 to 2015-16.

Roi (Return on Investment)

Return on Investment popularly known as R.O.I. it show the relationship between net profits after interest & taxes and capital employed used in firm. This is the most important ratio to check the overall efficiency of a firm. As this ratio reveal the resources of a firm being used higher the ratio, batter the results. Inter-firm comparisons also possible in this ratio which gives the best result to analyse the firm performance.

R.O.I. = Net Profits (after interest & taxes)/ Capital Employed

Here

Capital Employed = Shareholder Funds + Long Term Loans and Provisions

Table no 2 showing the return on Investment of selected non banking finance companies during studied period 2008-2016.

| year | HDFC | BAJAJ FINSERV | PFC | INDIABULLS | LIC |
|---------|----------|---------------|----------|------------|----------|
| 2008-09 | 11.11606 | 5.240774 | 9.549119 | 12.27452 | 9.921156 |
| 2009-10 | 9.895801 | 4.856649 | 9.868581 | 8.352689 | 8.684645 |
| 2010-11 | 8.563292 | 15.96692 | 9.780975 | 7.387164 | 8.902672 |
| 2011-12 | 17.45475 | 7.403334 | 10.52062 | 16.65026 | 10.95469 |
| 2012-13 | 17.10779 | 3.270507 | 11.69318 | 17.83096 | 11.43367 |
| 2013-14 | 19.61577 | 4.256444 | 11.76292 | 19.8714 | 11.79008 |
| 2014-15 | 19.95233 | 6.133541 | 11.66202 | 17.7207 | 11.56491 |
| 2015-16 | 19.79851 | 7.17445 | 11.91278 | 16.59275 | 11.59383 |
| Average | 15.44 | 6.79 | 10.84 | 14.59 | 10.61 |

Table no. 2 showing return on investment of selected non banking financial companies studied period 2008-16. Return on investment of HDFC is best as compared to other companies. Indaibulls companies also perform good but less than HDFC. Bajaj finserv performance on return on equity is very low it is only 6.79% whereas HDFC return on investment is 15.44%. Performance of PFC and LIC is average as compared to all other companies.

AAGR

Average annual growth rate is the average increase in the value over a specific period of time. It is calculated by taking the arithmetic mean of the growth rate over the time periods in question.

AAGR = (ending value / beginning value)-1
CAGR:-

The compound annual growth rate (CAGR) is the mean annual growth rate of an investment over a specified period of time longer than one year.

To calculate compound annual growth rate, divide the value of an investment at the end of the period in question by its value at the beginning of that period, raise the result to the power of one divided by the period length, and subtract one from the subsequent result.

This can be written as follows:

$$CAGR = ((\text{ending value}/\text{beginning value})^{1/n}) - 1$$

AAGR and CAGR of different companies are shown as below in different years.

Compounded Annual Growth Rate on the Basic of Sales

Table no. 3 showing the average growth rate on the basic of sales of selected non banking finance companies studied period during 2008-16.

Table 3

| year | HDFC | BAJAJ FINSERV | PFC | INDIABULLS | LIC |
|---------|----------|---------------|----------|------------|----------|
| 2008-09 | 0.014352 | 0.134518 | 0.220322 | -0.20219 | 0.199849 |
| 2009-10 | 0.122593 | -0.90574 | 0.265729 | 0.442625 | 0.336825 |
| 2010-11 | 0.36575 | 0.133211 | 0.284974 | 0.429117 | 0.323633 |
| 2011-12 | 0.218863 | 0.041983 | 0.326198 | 0.515387 | 0.238936 |
| 2012-13 | 0.14892 | 0.021347 | 0.246934 | 0.176878 | 0.211916 |
| 2013-14 | 0.12831 | 0.385861 | 0.155185 | 0.192956 | 0.162063 |
| 2014-15 | 0.085217 | 0.21013 | 0.105029 | 0.27291 | 0.161847 |
| 2015-16 | -1 | -1 | -1 | -1 | -1 |
| CAGR | 0.150411 | -0.19646 | 0.227111 | 0.237899 | 0.200145 |

Table no. 3 showing the compounded average growth rate of selected non banking finance companies studied 2008-16. This is showing that INDIABULLS growth rate is highest whereas Bajaj Finserv growth rate is very low it showing the negative growth rate by -0.1965 as well as INDIABULLS growth rate is .02379. All other companies which is PFC, HDFC and LIC growth rate of these companies is average in these companies HDF growth rate is low i.e. 0.1504.

Compounded Annual Growth Rate on the Basic of Profit

Table no. 4 showing the average growth rate on the basic of profit of selected non banking finance companies studied period during 2008-16.

Table no. 4

| year | HDFC | BAJAJ FINSERV | PFC | INDIABULLS | LIC |
|---------|----------|---------------|----------|------------|----------|
| 2008-09 | 0.238313 | -0.17843 | 0.196598 | 0.389058 | 0.245579 |
| 2009-10 | 0.250649 | -0.44573 | 0.111286 | 1.304251 | 0.471642 |
| 2010-11 | 0.166242 | -0.59345 | 0.157338 | 0.189093 | -0.06187 |
| 2011-12 | 0.176034 | -0.33603 | 0.457777 | 0.696496 | 0.119242 |
| 2012-13 | 0.122083 | 0.642604 | 0.225846 | 0.229733 | 0.287289 |
| 2013-14 | 0.10108 | 0.498383 | 0.099964 | 0.310086 | 0.052405 |
| 2014-15 | 0.184129 | 0.303684 | 0.025867 | 0.159687 | 0.198099 |
| 2015-16 | -1 | -1 | -1 | -1 | -1 |
| CAGR | 0.175832 | -0.12445 | 0.175605 | 0.427236 | 0.153026 |

Table no. 4 showing the compounded average growth rate of selected non banking finance companies studied 2008-16. This table showing that compounded growth rate of INDIABULLS is highest whereas Bajaj Finserv growth rate is very low it shows the negative value by -0.1245 whereas INDIABULLS

growth rate is 0.427. All other companies HDFC, PFC and LIC growth rate is average it is 0.1758, 0.1756 and 0.153 respectively.

Findings

The following are the findings of the present study:-

1. Net profit ratio of HDFC, Indiabulls and PFC is around 25% in last eight years. Bajaj Finserv company net profit ratio is average 65% because in 2010-11 profit of this company had increased due to some exceptional items. LIC net profit ratio is low as compare to other companies it is only 15%.
2. Return on investment of HDFC and INDIABULLS is on an average is 15%. Whereas PFC and LIC return on investment is on an average 10%. But BAJAJ FINSERV return on investment is very low it is only 6.79%
3. Compounded annual growth rate on the basic of sales of PFC, INDIABULLS and LIC is on an average .21%. HDFC Compounded Annual Growth Rate is around 0.15% but BAJAJ FINSERV growth rate showing negative growth this is -0.19.
4. Compounded annual average growth rate on the basic of profits of HDFC, PFC and LIC is around on an average is 0.17% and INDIABULLS growth rate is very high this is on an average is 0.40% but BAJAJ FINSERV growth rate showing negative balance it is around on an average -0.12%

CONCLUSION

Banks and Non-Bank Financial Companies are both key elements of a sound and stable financial system. Banks usually dominate the financial system in most countries because business, households and the public sector all rely on the banking system for a wide range of financial products to meet their financial needs. However, by providing additional and alternative financial services, NBFC's have already gained considerable popularity both in developed and developing countries. In one hand these companies help to facilitate long-term investment and financing, which is often a challenge to the banking sector and on the other, the growth of Non-Banking Financial Companies widens the range of products available for individuals and institutions with resources to invest. Through their operation NBFC's can mobilize long-term funds necessary for the development of equity and corporate debt markets, housing financing factoring and venture capital. Another important role which NBFC's play in an economy is to act as a buffer, especially in the moments of economic distress. An efficient NBFC's sector also acts as a systemic risk mitigate and contributes to the overall goal of financial stability in the economy.

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How to cite this article:

Sunita Yadav.2017, A Study of performance of NBFCS in India. *Int J Recent Sci Res.* 8(6), pp. 17948-17951.
