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NON BANKING FINANCE COMPANIES (A SUPPORT TO BANKING INDUSTRY)

Dr. Vinay Kumar*

ABSTRACT

Non Banking Finance companies are those financial Institutions which work on the same lines as of Banking Companies. They Accept deposits from public and provide credit facility for developing the credit platform. It helped in converting the retail unused resourced of public of small amount, into a huge fund for creating and developing the credit mechanism through channelizing these resources. This is how they converted the scared financial resources into capital formation to help growth of Indian economy. Non Banking Finance companies are more helpful to those borrowers whose credit facility is rejected by Banks due to their strict norms. It plays an important role in managing the financial services and contributes around twenty four percent in the GDP if Indian economy, where as Banks contribute only around twenty one percent. This has come out as Credit bridge gap filling between the small scale, small borrowers and unorganized sector by fulfilling the financial needs of this sector which remained unfulfilled. On the other hand the Small needs of corporate also get satisfied through this channel. Since the Non Financial Institutions plays a significant contribution not only in National GDP but also in terms of fulfilling the financial need of a very large portion of country, hence their Financial and Operational Performance matters a lot. This is always a subject matter of study how Non Banking Finance companies perform better than Banks. Hence the present study has been undertaken with the view to evaluate structure and Financial Position of Non banking Finance companies. For the study selected ratios and figures have analyzed using statistical Techniques and conclusion have been drawn regarding their overall performance.

Keywords: *Credit Facility, Credit Creation, Gross Domestic Production, Indian Economy.*

Introduction

As we said that Non Banking Finance companies plays a vital role in the Indian economy and financial Structure and credit system. These Non Banking finance companies do not only provide finance to small scale industries and small borrowers but also channelizes the money of small investors into the credit channel and develops a credit mechanism at Local Level. Hence in the small towns and villages, it becomes an alternate and replacement of Banking System. Also with the increase in total number of Financial Institutions in india, the competition among the financial institution will increase and benefit will pass on to the customers. There is undoubtedly simplification in Credit sanction, their flexibility and timeliness in working with the strict and high level of regulation in Non Banking Finance companies. At the same time the cost of financing in some cases has also been found lower. This is the reason why Non banking Finance companies are getting an edge over the traditional Banking System. The growth of NBFC‟s in the last few years has been exceptional and the overall size of NBFC‟s assets has increased to about 14% of that of the commercial banks excluding RRB‟s. as per guidelines of Reserve Bank of India, Non banking Finance companies can be classified as Asset Finance Company (AFC), Investment and Credit Company (ICC), Investment Company (IC), Loan Company (LC), Infrastructure Finance Companies, Systemically Important Core Investment Company, Core Investment Company (CIC), Infrastructure Debt Fund (IDF-NBFC), Infrastructure Debt Fund- Non- Banking Financial Company (IDF-NBFC), NBFC - Micro Finance Institution (NBFC-MFI),

* Ex. Research Scholar, Department of Commerce, Magadh University, Bodh Gaya, Bihar, India.

Housing Finance Companies, Non-Banking Financial Company – Factors (NBFC-Factors), NBFC-Non-Operative Financial Holding Company (NOFHC) and Mortgage Guarantee Company. Flexibility available in repayment of loans, on time is another factor that attract the customers towards No Banking Finance Companies. However compare to Bank's, the Non Banking Finance companies do not enjoy some privileges as available to Banks, such as:

- Non Banking Finance Companies cannot accept demand deposits like Banks but it can accept time Deposits in form of Fixed Deposits or Recurring Deposits,
- Non Banking Finance Companies are not the part of the payment and settlement system as it do not accept demand deposits, hence Saving or Current Accounts cannot be opened and no cheque book is issued, and also cannot issue cheques drawn on itself,
- Like in banks, Insurance facility on Deposits as provided by Deposit Insurance and Credit Guarantee Corporation is not available to depositors of Non Banking Finance Companies.

Objective of Study

The above Study has been undertaken with the main objective to discuss the Growth aspect of Non Banking Finance companies in India compare to Banks. However the detailed objects of undertaking the study are:

- To evaluate the Non Banking Finance Companies financial structure,
- To evaluate the financial performance of Non Banking Finance Companies,
- To examine the financial viability of different types of Non Banking Finance Companies in India,
- To evaluate the operating and efficiency of Non Banking Finance Companies in India
- To forecast the financial viability of Non Banking Finance Companies in India

Review of Literature

Bhole (1992) has studied the growth pattern, problems, prospects and impact of Non Banking Finance companies on financial market. He mentioned that in process of development of any developing country the role of Non Banking Finance companies become more and more important. His comparison was between the business volume and profitability ratio of Commercial Banks and Non Banking Finance companies at aggregate level. However for evaluation purpose he uses only the profitability ratio for the purpose.

Kantawala (1997) His study was more empirical than others. He examined the relative financial performance of different groups of Non Banking Finance companies for the period 1985-86 to 1994-95 in terms of profitability, leverage and liquidity. He observed a significant difference in the profitability ratios, leverage ratios and liquidity ratios of various categories of Non Banking Finance companies from his analysis and concluded that different types of Non Banking Finance companies behave differently.

Guruswamy (1998) By using Ratio techniques of Statistical methods, he has studied the financial performance of Non Banking Finance companies for the purpose of credit rating of a few numbers of Non Banking Finance companies. His main stress was Leverage ratios like Borrowing/Total Assets, Bank Borrowing/Total Assets, Net Worth/Total Assets, Bank Borrowings/Borrowing, Debt/Total Assets, Debt/Net Worth, Loan to Current Assets, for the purpose of study.

Ahmed and Chowdhury (2007) studied the problems and prospects of Non Banking Finance companies in Bangladesh. By employing the method of ratio analysis, he pointed out the asset liability mismatch faced by NBFCs in Bangladesh. The study used only the leverage ratios for the purpose.

Samal and Pande (2012) with the change in patter of study of other Researchers, they inspected on innovation Suggestions in Non Banking Finance companies by making use and analysis of essential and auxiliary information and utilizing both unmistakable and explanatory Examination outline. The researchers has reasoned that innovation on administrations and innovation administer to recipient have all the more affecting probability in expanding recipient fulfilment.

R. Sowndharya and Dr. R. Shanmugam (2014) they wrote on "Analysis of Financial Performance of Non- Banking Financial Companies in India". Their Study was covering Non-Banking Financial Companies, profitability, liquidity, leverage, Interest Coverage, Risk Indicator ratios. This study also suggested that selected Non Banking Finance companies differ significantly in terms of profitability and leverage indicators. The analysis of variance along with detail about average ratios may become a useful guide to the Non Banking Finance companies in their financial decision making.

Rational of Study

Even after playing significant importance in the banking structure of the country and helping in performing and operating economy, the non Banking Finance companies has not been given that level of importance in the literature, as compare to studies available on Banks. If proper researches and studies had undertaken on Non Banking Finance Companies, there performance would have been much better than present and they would have playing more significant role than Banks rather better as they have a privilege to serve rural areas where more than sixty five percent of the population lives. This study will help to understand the present level of structure of Non Banking Finance companies, their role and contribution towards the economic development of the country. As we said no sufficient and enough material is available on Non Banking Finance companies, this study will help out to enlarge the role of Non Banking Finance companies and will open a new gateway for the further studies.

Hypothesis for Study

H_{01}: **Null Hypothesis** There is no significant difference between the performances of Non Banking Finance companies in two financial years.

H_{01}: **Null Hypothesis** There is no significant decrease in number of non Banking Finance companies over a period of five years.

Research Methodology

The Present research paper is based on study conducted with descriptive research. Mainly secondary data has been used focusing on various available Literature review, Research papers, Reserve Bank of India material, various other published journals and websites. Data is found to be reliable as it has been collected from the reliable sources only.

Sampling Technique

In conducting the present study two statistical Techniques has been used. These are regression analysis and Date Envelopment Analysis.

- **Regression Analysis:** For the present study, regression analysis is used to identify the factors that contribute for the failure or success of Non Banking Finance Companies with respect to the viability, profitability, granting loans and advances, recovery of loans and amount of NPA.
- **Data Envelopment Analysis (DEA):** It is a kind of linear technique and non-parametric method which measures the performance of financial organizational like banking and non-banking financial institutions. In this technique, it identifies three types of efficiencies namely the technical, cost and allocative efficiencies. For Financial institutions, Efficiency means the success with which one organization uses its resources to produce an output. Cost efficiency renders to attempting the same amount of output at a reduced cost, while technical efficiency is the ability to reduce variable inputs to produce the same level of output. Allocative efficiency can be defined as the ability to choose the right mix of input required.

Sampling Design

For making the study more analytical and easy to understand, the Data has been presented and in form of various tables, graphs, and statistical tools. The various figures of the financial performance of Non Banking Finance companies relating to total assets have been taken and analyzed for the last two financial years. Apart from this various ratios are also analysed along with the figures of previous five financial years starting from 2014-15.

Results and Analysis

From the data collected from various sources, below three tables has been created. These tables show the various financial indicators from the financial year 2014-15 to financial year 2018-19.

Table 1: Number of different type of NBFCs in India End-March

Year	NBFC-D	NBFC-ND-SI	NBFC-ND	Total
2014-15	220	420	11202	11842
2015-16	202	209	11271	11682
2016-17	178	220	11124	11522
2017-18	156	249	10997	11402
2018-19	88	263	9308	9659

From the above table, the figures depicted indicates that there is a decrease in total number of Non Banking Finance Companies in the previous five years, however the decrease is not significant. Such decrease could be of any reason such as cancel of the license of Non Banking Finance companies. The decrease in total number of Non Banking Finance companies of all kind i.e. Non Banking Finance companies-deposit Accepting, Non Banking Finance companies-Non Deposit accepting and Non Banking Finance companies-non Deposit Systematic, is almost same.

Table No.2: Financial Figures of Non Banking Finance Companies

(Figures Are In Percentage)

Particulars	**2017-18**	**2018-19**
Share capital	6.0	6.3
Reserves and surplus	18.7	14.6
Total borrowings	19.6	19.6
• Debentures	13.1	5.2
• Bank borrowings	34.4	47.9
• Commercial paper	13.3	4.0
Current liabilities and provisions	22.4	48.7
Total Liabilities / Assets	17.9	20.6
Loans and advances	21.1	18.6
Investments	12.9	24.4
Others	26.7	-2.0
Income/Expenditure		
Total income	11.4	17.8
Total expenditure	9.6	17.8
Net profit	27.5	15.3

Table 2 depicts the financial position of Non-banking Financial Companies. On analysis of table we observed that along with increase in share capital and reserve & Surpluses of the company, any change has not occurred in borrowings. That means the Non banking finance companies are becoming more self dependent and not using outside sources. However the shift has made from Debentures and commercial papers to external borrowing. Total Investments made over the period has also increased significantly and almost doubled the previous year, which is good sign and increasing the capital base. However decrease in total advances is a point which needs thought.

Table 3: Descriptive Statistics of Financial Ratios of NBFC

	Minimum	**Maximum**	**Mean**	**SD**
Net profit ratio (NPR)	-173.50	52.08	.54	7.69
Current Ratio (CR)	.00	1211.00	19.02	103.46
Operating profit ratio (OPR)	-19000.00	2700.00	-6.96	834.57
Debt-Equity ratio (DER)	-6518647.00	7898333.99	-4694.95	767077.25
Fixed asset turnover Ratio (FATR)	-2.35	7778.00	153.36	726.58
Asset turnover ratio (ATR)	-1.68	59.03	.59	3.19
Return on Assets (ROA)	-12.00	7.72	.11	.62

From the analysis of Table 3 it is absolutely clear that performance of the Non Banking Finance companies improving. However the steep decrease or increase is not observed but the standard deviation indicates that change in the performance is occurring. Hence the Null Hypothesis that there is no significant difference between the performances of Non Banking Finance companies in two financial years and there is no significant decrease in number of non Banking Finance companies over a period of five years, has been rejected.

Conclusion

Non-Banking Finance Companies (NBFCs) have passed on through a period of more than 5 decades. They are being the very important economic pillar of not only the Indian Banking System but also the whole financial system and economy. Their contribution towards financing of development of various sectors of the country like infrastructure, Transport, and real estate. They are the among the highest employment generators in India, with the changing scenario of Loan profile of India. Non Banking Finance companies mainly finance to Industrial sector with small scale business and unorganized sector.

However in last few year Non Banking companies has faced a deterioration in their Asset Quality due to high level of Non Performing assets and Non Performing Investments, Still their position is better than that of Banks. They are still reporting better profitability and capital adequacy positions. The efforts of reserve Bank of India is also appreciable in this regard who is consistently ensuring necessary changes in non Banking Finance companies Prudential Norms to make them stable for the long run. These initiatives will ensure financial stability, and specialization of Non Banking Finance companies in special domain areas.

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