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RESULTS & DISCUSSION

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GROWTH AND PERFORMANCE OF SELECT NON BANKING FINANCE COMPANIES IN INDIA

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ABSTRACT

A growing economy requires a progressively rising volume of savings and adequate institutional arrangements for the mobilization and allocation of savings. A financial system consisting of financial institutions, instruments and markets provides an effective payment and credit supply network and thereby assists in channeling of funds from savers to the investors in the economy. Financial institutions are divided into the banking and non-banking ones. The distinction between the two has been highlighted by characterizing the former as "creators" of credit, and the latter as mere "purveyors" of credit. The examples of non-banking financial institutions are Life Insurance Corporation (LIC), Unit Trust of India (UTI), and Industrial Development Bank of India (IDBI). Non-Banking Financial Companies (NBFCs) are fast emerging as an important segment of Indian financial system. The purpose of the study is to understand the performance and growth of Non-Banking Finance Companies in India during the period 2011 to 2014. This study found that during the study period the Non banking finance companies have shown a positive trend for development. It is observed that, during this period the HDFC performed much better than the other non banking companies. With respect to the banking performance measures the 2 non banking companies have shown an increasing trend. The study concludes that the HDFC have better managerial efficiencies than the other non banking companies.

KEYWORDS
non banking finance companies, growth performance.

INTRODUCTION

The financial sector is the engine that drives economic growth through effective allocation of resources to productive units. As a developing country, India has immense potential for better economic growth in both the short and long-run. Therefore, need arises for the efficient allocation of productive resources in order to narrow the gap between the actual and potential national output. The concept of productivity is linked closely with the issues of efficiency and encompasses several efficiency elements such as pure efficiency, scale efficiency and technical efficiency. The overall productivity level of an organization depends on all elements. Improvements in efficiency and productivity gains can be considered as one of the goals of a firm in a competitive market. Therefore, measurement in efficiency and productivity gain provide supplementary information about the firm's performance. These measurements can be considered as non-financial performance indicators as they consider all of the contributors to the firm's performance. In any organization, whether it is profit oriented or not, measurements of productivity help to analyze the efficiency of resource use in the organization. The specific reforms were the development of efficient and transparent money markets, promotion of professional competition through free entry or exist in financial sector, recapitalizing the financial health of banks, restructuring poor performing banks, improvement and institutionalization of proper quality improvement systems through development of human resources, information technology etc [Aruna kumari (2002)].

Indian economies have been significantly influenced by non banking sector over the years. The non banking sectors become an important segment of Indian economy for money market dynamics. Financial sector controlled and managed by banking industry works as a source for generating money supply. The non banking financial companies play a dominant role in the economic development of the country. It is well known that the rapid growth in the various sectors of the economy can be brought through efficient, effective, disciplined banking system (RBI report (2010)). Now in Indian economy the non banking sector is considered to be the nerve system with the modern technological advancements. Financial system is decomposed of into two basic types of institutions. One is the banking financial institutions (BFIs) and the other is the non-banking financial institutions (NBFIs). These two financial institutions are different in respect of their activities and treatment of the assets and liabilities in the financial market. For a well functioning financial market along with the BFIs, NBFIs have an important role to uplift the economic activity. These two financial sectors can simultaneously build up and strengthen the financial system of the country. In spite of several challenges in domestic and international conditions, performance of non-banking finance companies remind robust.

REVIEW OF LITERATURE

There have been many studies related to Non Banking Finance Companies both in India and outside India. To have a comprehensive on operational, a brief review of them is desirable and an attempt is made in this chapter.

Kantawala (1997) studied on "Financial Performance of Non Banking Finance Companies in India" for the period from 1985-86 to 1994-95 based on secondary data collected from RBI Bulletins regarding financial and Investment Companies. In this study various ratios and one way analysis of variance (ANOVA) have been applied and concluded that different categories of NBFCs behave differently and it is entrepreneur's choice in the light of behavior of some the parameters which go along with the category of NBFC. **Khalil and Group (2011)** observed on the topic "Financial Performance of Non Banking Finance Companies in Pakistan" to analyze the financial performance of those non-bank finance companies (NBFCs) which are providing the services of investment advisory (IAS), asset management (AMS), leasing and investment finance (IF) for two year from 2008 to 2009. Ratio analysis method has been used to analyze the financial performance of non-bank financial institutions. The study concludes that the financial performance of NBFCs was better in 2008 as compared to the overall decline in 2009 caused by many factors. **Vadde (2011)** investigated on the topic "Performance of Non-Banking Financial Companies in India – An Evaluation" after analyzing the performance of nongovernment financial and investment companies (other than banking, insurance, and chit fund companies) during the year April 2008 to March 2009 based on the audited Annual Accounts of 1215 companies. The data have been collected from various issues of RBI Bulletin. Financial and Investment Companies‟ growth in income, both main as well as other, decelerated during the period and growth of total expenditure also decelerated but it was higher than the income growth. **Samal and Pande (2012)** examined on the topic "A Study on Technology Implications in NBFCs: Strategic Measures on Customer Retention and Satisfaction" by using primary and secondary data & using both descriptive and analytical Research design. The authors concluded that technology on services and technology care for beneficiary have more influencing potentiality in increasing beneficiary satisfaction. But NBFCs must look to all other factors to increase its potentiality in technology, as new beneficiary are more accustomed with new technology to save their time and energy. **Kaur and Tanghi (2013)** investigated on the topic "Non Banking Financial Companies, Role & Future Prospects" with a focus to analyze role and significance of NBFCs in India. The paper concludes that NBFCs have to focus more on their core strengths and must constantly endeavour to search for new products and services in order to survive and grow constantly. **Khan and Fozia (2013)** have researched on the topic "Growth and Development in Indian Banking Sector Introduction" based on the secondary data. The purpose of the study was to show the growth and technological development in Indian Banking sector. Statistical tables and charts have been used by the researcher and concluded that banks need to optimally leverage technology to increase penetration, improve the productivity and efficiency, better customer service and contribute to the overall growth and development of the country. **Arun kumar (2014)** has made an attempt on the topic "Non Banking Financial Companies: A Review" and after observing twelve studies of different authors he concluded that due to the regulations of the Reserve Bank of India, still the NBFCs are not entering into more credit and suggested to the NBFC credit policy to reduce rates of interest. The study finds a research gap which is „evaluation of performance of NBFCs in India‟. **Mohan (2014)** observed on the topic "Non Banking Financial Companies in India: Types, Needs, Challenges, and Importance in Financial Inclusion" and suggested to improve Corporate Governance Standards and concluded that NBFCs have turned out to be engines of growth and are integral part of the Indian financial system, enhancing competition and diversification in financial sector, spreading risks specifically at times of financial distress and have been increasingly recognized as complementary of banking system at competitive prices.

RESEARCH METHODOLOGY

The present study focuses on the growth performance evaluation non banking finance companies in India. The study based on secondary data that has been collected from annual reports and other public information. For this purpose the parameters such as investments, advances, total assets, operating profit, Net profit, and investment deposit ratio are considered.

A Non-Banking Financial Company (NBFC) is a company incorporated under the Companies Act, 1956 and conducting financial business as its principal business. In contrast, companies incorporated under the same Act but conducting other than financial business as their principal business are known as non-banking non-financial Companies. NBFCs are different from banks in that an NBFC cannot accept demand deposits, issue checks to customers, or insure deposits through the Deposit Insurance and Credit Guarantee Corporation (DICGC). In India, the non-banking financial sector comprises a multiplicity of institutions, which are deemed under Section 45 I (a) of the Reserve Bank of India Act, 1934. These are equipment-leasing companies (EL), hire purchase companies (HP), investment companies(ICs), loan companies (LCs), mutual benefit financial companies (MBFC), miscellaneous non-banking companies (MNBC), housing finance companies (HFC), insurance companies (IC), stock broking companies (SBC) and merchant banking companies (MBC). NBFCs have recently gained popularity amongst institutional investors, since they facilitate access to credit for semi-rural and rural India and it have also had a major impact in developing small business in rural India through strong customer relationship. The growth performance of various categories of Non Banking Finance Company is carried by computing the compound growth rates of various parameters.

GROWTH AND PERFORMANCE OF NON BANKING FINANCE COMPANIES IN INDIA

The NBFCs of the country diverts its savings towards more productive usage and so it help to increase the output of the economy. Besides linking savings and investment the financial companies help in accelerating the rate of savings and investment by offering diversified financial services and instruments. Financial Institutions play a crucial role in economic development and growth. The Non banking sector has manifested capital base improvement and profit maintenance with respect to the parameters such as credit, liquidity and interest rate remain at respectable levels even under extreme shocks of global economy. This healthy phenomenon of Non banking is due to the economic reforms made by Indian government during post liberalization era (RBI Report on trend and progress of banking in India).

INVESTMENTS

Investment of a non banking finance company is one of the most important parameters for analyzing the performance of the firm. The non-banking companies gets fund through deposits from public, paid-up capital and reserves. NBFCs have to pay interest to the public at the contract rate at the end of the period. They have to pay dividends to their share holders and they have to meet their staff expenses and other expenses. Only getting mobilization of deposits does not serve the objectives of the non banking companies. The NBFCs have to get income to meet their expenses. So they have to invest their funds for the schemes with good ROI. The basic purpose of investment of a non banking company is to get better income to their funds. Hence, to understand the trend in investments of various categories of non banking companies the data on investments is presented in Table 1.

TABLE 1: GROWTH IN INVESTMENTS OF SELECT NON-BANKING FINANCE COMPANIES

Category of NBFCs	2011	2012	2013	CGR (11-12)	2014	CGR (13-14)
HDFC	7579.15	8811.15	3385.97	16.87	9051.55	19.77
IDFC	2955.26	2956.01	1043.47	3.25	8317.5	5.61
IFCI	918.43	900.96	3602.07	9.91	1093.3	12.57
BAJAJ HOLDINGS	357.67	422.020	2104.3	10.92	5259.2	11.8

From Table 1 the investments in HDFC has increased from 16.87% in 2010-2011 to 19.77% in 2012-2013, where as IDFC the investments have raised from 3.25% in 2010-2011 to 5.61% in 2013-2014. Among all the non banking finance companies Bajaj holdings have increased their investments during 2012 to 2013 with a compound growth rate of 11.8%, where as in IFCI the compound growth rate has increased from 9.91% to 12.57% during the periods 2010-2011 and 2013-2014 respectively. However, the investments in HDFC have increased during 2013-2014.

ADVANCES

Advances in banks are also known as loans. The advances carry interest rates depending on the risk involved. The income earned through advances is the main sources of income to non banking finance companies. The advances can be categorized into two types namely, 1) short term loans and 2) long term loans. The short term loans are working capital loans and long term loans purchase of house hold articles for setting up small scale units, agricultural capital needs etc,. Usually non banking companies provide the advances depending on purpose ability and other strategy requirement. Table 3 shows the advances of various Non Banking Finance Companies during 2011-14.

TABLE 2: GROWTH IN ADVANCES OF SELECT NON-BANKING FINANCE COMPANIES

Category of NBFCs	2011	2012	2013	CGR (11-12)	2014	CGR (13-14)
HDFC	1704.80	2153.81	3375.23	17.42	25451.3	14.77
IDFC	631.14	756.19	125.7	2.64	867.79	5.61
IFCI	226.23	237.34	225.2	8.56	484.2	6.47
BAJAJ HOLDINGS	1382.2	157.98	254.37	11.53	1811.8	12.25

From Table 2 it is observed that the non banking finance companies Bajaj Holdings have increased their advances from 11.53 in 2011 to 12.25% in 2014. Among these non banking finance companies the IFCI are having highest percentage of advances in 2012.The HDFC have marked a significant growth in advances from 2011 to 2014 with a compound growth of 14.77%. In IDFC the advances increased from 631.14 crores in 2011 to 867.79 crores in 2014 with the compound growth of 5.61%. In all types of non banking finance companies the IDFC is having a low increase in its CGR of advances, where as the Bajaj Holdings and HDFC have increased their CGR during the period 2011-2014.

TOTAL ASSETS

Non Banking Finance Companies assets include all its investments, other non- banking assets like building, furniture, fixtures etc. The total of all these assets of a NBFC is one of the important performance measures for the stability and growth of a firm. All types of non banking finance companies reported an increasing trend in total assets during the periods 2011-2012 and 2013-2014 in spite of global financial disability and challenges. Table 3 shows the total assets of non banking finance companies in India.

TABLE 3: GROWTH IN TOTAL ASSETS OF SELECT NON-BANKING FINANCE COMPANIES

Category of NBFCs	2011	2012	2013	CGR (11-12)	2014	CGR (13-14)
HDFC	5624.3	8569.2	35486.4	14.28	1452.8	19.77
IDFC	3658.2	2569.3	1456.2	4.92	7568.2	6.25
IFCI	856.5	9562.2	4526.5	8.79	1258.3	13.45
BAJAJ HOLDINGS	3652.4	3856.4	2546.2	11.76	6523.2	12.36

From Table 3 it is observed that the IFCI have contributed 66% distribution of total assets. The IDFC have recorded compound growth rates 4.92% in 2011-12 and 6.25% in 2013-14 .The HDFC have increased their total assets with a compound growth rate of 19.77% in 2013-14. In Bajaj Holdings the total assets during 2011-12 amounts to 11.76% and 12.36% in the year 2013-14. This distribution was stable over all the three years during 20011 - 13.

OPERATING PROFIT

Operating profit is also known as gross profit. The operating profit can be computed as the total income earned by firms minus total expenditure. The total income is obtained through interest earned on advances, loans, commission on over drafts and other services and the interest earned on their assets etc. Usually the total income is calculated as interest earned income plus other income. Similarly the total expenditure is the sum of interest expanded and other expenditure. The total profit is one of the most important parameters for non banking finance companies. The gross profit will characterize the financial health of the firm. This operating profit is also an important factor for NBFCs sustainability in the market. Hence, the data on operating profit of all types of Non- banking finance companies is collected and presented in Table 4.

TABLE 4: GROWTH IN OPERATING PROFIT OF SELECT NON-BANKING FINANCE COMPANIES

Category of NBFCs	2011	2012	2013	CGR (11-12)	2014	CGR (13-14)
HDFC	8569.4	9568.4	45896.2	14.25	10515	20.25
IDFC	3658.4	235.8	12548.2	5.67	8315	18.35
IFCI	956.7	7568.4	4562.7	10.25	1093.3	14.23
BAJAJ HOLDINGS	4625.7	5486.5	3658.2	13.24	5259.2	12.36

From Table 4 it is observed that there is an increasing trend in all types of non banking finance companies with respect to the operating profit from 2013 to 2014. In HDFC the operating profit is increased from 14.25% in 2012 to 20.25% 2014. Among all non banking finance companies have contributed 62 % of the total operating profit. The IFCI have increased their operating profit from 10.25% in 2011 to 14.23% 2014. Among all types of Non banking finance companies, the HDFC is having highest of annul compound growth rate in operating profit during 2013-14.

NET PROFIT

Net profit is the one of the most important performance measures for any Non banking finance companies. Some people argue that the performance of a finance company should be judged in terms of profitability alone. The net profit is usually influenced by the fulfillment of social objectives and spreading the non banking services. In spite of world economic crisis during 2009 to 2012 all types of non banking companies have recorded an increasing trend in net profit. The data on net profit of non banking finance companies over the periods 2011 to 2014 is shown in Table 5.

TABLE 5: GROWTH IN NET PROFIT OF SELECT NON-BANKING FINANCE COMPANIES

Category of NBFCs	2011	2012	2013	CGR (11-12)	2014	CGR (13-14)
HDFC	8542.7	9568.7	7426.9	14.87	12534	20.25
IDFC	2568.8	3256.4	1123.4	7.2	7524	8.23
IFCI	754.8	875.4	2536.4	16.74	1245.3	15.42
BAJAJ HOLDINGS	4256.1	3254.2	4356.2	11.26	5423.6	13.8

The non banking finance companies have also increased their net profit. Among all the select non banking companies IFCI has recorded highest CGR in 2011-12 with a compound growth rate of 16.74%. The same phenomenon is observed with respect to HDFC bank operating in India. Among the select non banking finance companies the 3 NBFCs have contributed 83% in the net profit. The net profits of Bajaj Holdings have increased from 4256.1 crores in 2011 to 5423.6 crores in 2014 with CGR 13.8% in 2014.

CONCLUSIONS

Non Banking Financial Company is one of the most attractive and biggest markets of Asia for the investment. In the present day competitive market environment retaining the customer and their goodwill is a major challenge. The need of NBFCs is making the customer happier by providing qualitative services that there is one to one correspondence between development of the economy and occupational structure.

Even though the performance of Non banking finance companies during the period 2011 - 14 is under challenges due to stressed financial conditions, the balance sheet and expansion of NBFCs remains stable and recorded steady growth in several performance matrices, such as advances, investments, total assets, total income, operating profits, provisions and contingencies, net profit, credit deposit ratio, investment deposit ratio etc.,. These parameters have a vital role in increasing the profitability and productivity of Non banking finance companies.

The NBFCs are reducing their operational cost and increasing quality of services. Many NBFCs are focusing their operations towards customer centric services. In the present competitive business environment the NBFCs are searching for new ways and means to provide an excellent experience to their customers for a cheaper cost. This study emphasizes the positive growth and stability of Non banking finance companies during global economic crisis.

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