PERFORMANCE OF NON-BANKING HOUSING FINANCIAL COMPANIES TERMS OF PROFIT AND GROWTH IN INDIA

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Abstract:

Growth and diversification of Non-banking Financial Companies is an integral part of the development process of the financial market of the economy. NBFCs and unincorporated bodies have been competing and complementing the services of commercial banks since yester-years all over the world. While the financial system in a country generally develops through a process of gradual evolution, it has been observed that there was a stage in evolutionary process wherein the growth of NBFCs was more pronounced than other components of the financial system. In the United States of America, the growth of NBFCs were more pronounced during the first three decades of 20th century and two of the top five commercial lenders are NBFCs and three of the four top providers of consortium finance are non-bank firms. In many countries, NBFCs have been able to serve the household, farm and small enterprises sector on a sustained basis

Keywords: Performance, terms, profit, Growth,

Introduction:

Financial arrangements constitute an integral part of the process of economic development. A growing economy requires a progressively rising volume of savings and adequate institutional arrangements for the mobilization and allocation of savings. These arrangements must not only extend and expand but also adapt to the growing and varying financial needs of the economy. A well-developed and efficient capital market is an indispensable prerequisite for the effective allocation of savings in an economy. 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. The task of the financial institutions or intermediaries is to mobilize the savings and ensure efficient allocation of these savings to high yielding investment project so that they are in a position to offer attractive returns to the savers.

Methodology:

The research methodology has been adopted in the preparation of the Article. With the help of primary sources and Secondary source, published records like books, journals, magazines, newspaper articles, reports along with internet resources, important terms and concepts related to, performance of non-banking housing financial companies terms of profit and growth in India Study has been done to understand the terms profit and growth.

Review of literature:

Safania Saeid[35] (2010) published a paper entitled **"The Study of Non-Banking Financial Companies in India"** in **'Asian Journal of Development Matters'**. The non-banking financial companies (NBFC's) have emerged as substantial contributors to the Indian economic growth by having access to certain deposit segments and catering to the specialized credit requirements of certain classes of borrowers. The non-banking financial companies (NBFC's) have emerged as substantial contributors to the Indian economic growth by having access to certain deposit segments and catering to the specialized credit requirements of certain classes of borrowers. A non-banking institution which is a company and which has its principal business of receiving deposits under any scheme or arrangement or any other manner, or lending in any manner is also a non-banking financial company.

Ghosal[36] (2014) writes on **"Emerging Growth Model for Micro Financing Institutions: Banks or Non-Banking Finance Companies"** in **'SAARJ Journal on Banking and Insurance Research'**. In recent years there is sudden spurt of growth could be observed in micro financing institutions. These could be largely attributed to increasing stress given for inclusive growth and apparent success perceived in micro financing institutions to outreach poor on a sustainable business model. So much so the pioneer of MFI Mohd. Yunus gave a call to youths to seize the opportunity to build a sustainable business model for poor by developing MFIs with the help of innovative technology to outreach them with least cost and maximum benefits.

Thiyagarajan and Arulraj[37] (2012) published a research paper entitled **"Mediating Effects of Funding Strategies and Profit Maximization: Indian Non-Banking Finance Sector"** in **'Journal of Asian Business Studies'**. The mobilization of funds was severely affected with the linking of their funds mobilization to their internal owned funds. Therefore, the purpose of the study is to identify the mediating effects of funds with profitability and to focus on the funding strategy to maximize profits in the non-banking financial sector in India. The paper discusses various approaches to maximize profits. The study also examines trends in sources of funds using key financial variables. A formative model to capture the mediating effects of funds with profitability is tested using structural equation modeling (SEM) technique. The paper includes various financial variables including external and internal funds. These variables' relationship with the core operating profit is tested in a graphical structural equation environment using package software. Mediating effects of borrowings with profitability are established. The paper concludes that the gap in funds can be matched effectively through mobilization of funds of short duration. The study establishes that a combination of fund raising strategies such as flotation of debentures, bank borrowings and short term funding program can affect profits. The study is confined to non-bank finance companies in a particular state in India. The geographical and demographical differences may affect generalization. However, care has been taken to match the geographical and demographical characteristics of the country. The findings of this paper are of immense value for industry managers, lenders and for financial forecasting within the sector. New entrepreneurs can use the findings in their funding plans.

Table and discussion:

Table No. 1: Showing Operating Profit Margin (OPM) of Select Non Banking Housing Financial Companies in India for the study period 2004-05 to 2013-14(In Percentage)

Year	DHFL	GIC	Gruh	HDFC	LICHF
2004-05	86.90	79.37	85.75	95.21	84.93
2005-06	87.06	89.18	85.47	95.37	88.23
2006-07	88.96	91.83	86.10	95.98	92.03
2007-08	90.72	91.50	89.74	96.46	92.65
2008-09	89.85	92.76	91.99	97.04	94.64
2009-10	88.24	89.82	89.25	96.86	95.73

2010-11	88.01	79.69	91.14	96.63	89.84
2011-12	89.16	88.88	93.52	97.04	93.69
2012-13	90.25	88.13	92.73	96.87	95.33
2013-14	91.12	88.71	93.42	97.11	96.43
Average	**89.03**	**87.99**	**89.91**	**96.46**	**92.35**

Source: Annual Reports of the Selected Companies.

The table No –1 reveals the best trend for the study period of operating profit margin which is almost more than 80%. That means for every 100 Rupees operating profit available was 80 and moreover average operating profit margin exhibited average range of operating profit margin from 87.99% to 96.46%. the trend of OPM for entire companies of the list was fluctuating which off course will have impact on Net Profit Margin but all companies have exhibited best performances as regard to profitability of operations which is good sign of creating value to shareholders.

Table No-6.05: Showing Net Profit Margin of Select Non Banking Housing Financial Companies in India for the study period 2004-05 to 2013-14 (In Percentage)

Year	DHFL	GIC	Gruh	HDFC	LICHF
2004-05	16.54	14.18	19.91	30.39	13.72
2005-06	18.39	21.12	21.03	29.38	16.52
2006-07	14.56	25.42	20.39	26.63	17.82
2007-08	15.77	20.53	20.97	29.72	17.82
2008-09	13.25	18.32	17.08	20.71	18.37
2009-10	15.31	21.06	22.37	24.87	19.05
2010-11	18.27	33.73	25.49	27.44	21.00
2011-12	12.04	13.53	23.68	23.75	14.89
2012-13	10.91	15.35	22.42	22.92	13.35
2013-14	10.64	15.06	20.91	22.48	14.11
Average	**14.57**	**19.83**	**21.43**	**25.83**	**16.67**

Source: Annual Reports of the Selected Companies.

The above table No. 6.05 Net profit Margin exhibited by Non Banking Housing Financial Companies for the study period was not uniform. HDFC and Gruh housing Finance have got better net profit margin compared to other companies such as Dewan housing finance and GIC housing finance. To speak specifically, HDFC and Gruh housing finance have exhibited the best trend of Net profit margin. Dewan housing finance and GIC housing finance have exhibited lower trend of Net profit margin. Reasons for the same may be enquired in the future work. The average net profit margin range was 14.57% to 25.83%. The best average margin has been reported by HDFC. Whereas, low margin has been reported by Dewan housing finance and GIC housing finance.

Table No – 6.09: Showing Sustainable Growth Rate of Earnings Select Non Banking Housing Financial Companies in India for the study period 2004-05 to 2013-14 (In Percentage)

Year	DHFL	GIC	Gruh	HDFC	LICHF
2004-05	8.58	11.36	14.73	15.89	8.49
2005-06	10.59	19.65	17.15	16.88	11.78
2006-07	9.57	11.71	12.02	18.25	13.70
2007-08	15.08	10.69	14.83	14.46	16.54
2008-09	16.81	10.44	15.48	10.86	18.88
2009-10	14.42	10.83	17.58	11.76	15.35
2010-11	14.72	18.00	16.60	12.76	19.48
2011-12	13.04	7.01	20.65	13.16	12.86
2012-13	11.96	10.61	20.43	11.57	12.78
2013-14	11.90	10.65	20.40	11.68	14.45
Average	**12.67**	**12.10**	**16.99**	**13.73**	**14.43**

Source: Annual Reports of the Selected Companies.

The above table No – 6.09 exhibits sustainable growth rate of earnings range is from 12.10% to 16.99% for the study period. The volatility of sustainable growth rate of earnings is very high in GIC Housing Finance and LIC Housing Finance Companies. The rate of volatility exists in case of GIC Housing Finance & LIC Housing Finance is 180% and 129% respectively. Whereas, low volatility in sustaining earnings growth was in HDFC and Gruh Housing Finance. The rate of growth for these two companies was 71% and 68% respectively. The average sustainable growth rate of earnings was more in case of Gruh Housing Finance and less in case of Dewan Housing Finance Ltd. As per as potentiality of future growth is concerned the Gruh Housing Finance stands in merit, as its average sustainable growth rate was 16.99% and low potentiality was observed in Dewan Housing Finance. Therefore, respective companies advised to have better incremental performance in tern of Return on Equity and also in terms of savings. One company which does good performance and saves more would ensure the best growth potential.

Conclusion:

It was observed from the consolidated results of the select non-Government financial and investment companies that growth in income, both main as well as other income, decelerated during the year 2008-09. Though, growth in total expenditure also decelerated, it was higher than the income growth. The growth in expenditure was mainly driven by the growth in interest payments. As a result, operating profits of the select companies declined along with diminishing profitability. Business of select non-banking financial and investment companies expanded at a slower pace during 2008-09. The share of external sources in total sources declined during 2008-09 when compared with the previous year. However, they continued to be the major sources of finance. A substantial portion of funds raised during the year was in the form of borrowings. Other significant portion of funds was in the form of raising fresh capital from the capital market. Major portion of the funds raised during the year was deployed as loans and advances in the credit market. However, its share in total uses of funds decreased. The share of 'Investments' in total uses of funds increased during on account of investments in the mutual funds and shares and debentures of other Indian companies.

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