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**A STUDY ON FINANCIAL PERFORMANCE AND  
GROWTH OF NON- BANKING FINANCIAL  
COMPANIES**

**FOR THE PARTIAL FULFILLMENT OF THE REQUIREMENT  
FOR THE AWARD OF**

**MASTER OF BUSINESS ADMINISTRATION**

**(2022-2024)**

**UNDER THE GUIDANCE OF Prof.**

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## Executive summary

Non- Banking Financial Companies are an important segment of the Indian Financial system in extending credit to the unbanked segments of the society particularly to micro, small and medium enterprises. They are classified into different categories based on their status and principal activities. In this paper, an attempt has been made to analyze the performance of the five different categories of NBFCs in India across 2015 to 2019. The performance is analyzed by examining key indicators like Liquidity ratio, Profitability Ratio and Debt to Equity Ratio. The findings indicate that the selected categories of NBFCs differ significantly in terms of Liquidity and Profitability ratios from one another.

India is a developing country where large sections of the population are unbanked which give rise to several forms of financial intermediaries including non - banking financial companies. 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 stocks, equities, debt etc issued by government or any local authority or other marketable securities like leasing, hire purchase, insurance business , chit business. NBFC sector has evolved considerably in terms of size, operations, technological sophistication, and entered into newer areas of financial services and products. It is essential to analyze and measure the growth of NBFCs for better understanding about the transformation of financial intermediaries in the context of Indian banking system. Financial performance can be measured using solvency and profitability ratios and applying statistical tools to analyze the results. NBFCs are playing a crucial role in economic development of a country. They cater to needs of people in both rural and urban areas through various schemes which helps in bridging the credit gaps. NBFCs do enjoy flexibility in operations when compared to banks. Some of the top NBFCs in India are Power Finance Corporation Limited, Mahindra & Mahindra Financial

Services Limited,

Muthoot Finance Ltd. Etc. This project is mainly focused on the studying the growth of NBFCs and finding the reasons or factors behind their performance and non- performance. The financial performance is analyzed through ratio analysis technique and results are interpreted for 5-year period.

# CHAPTER 1 INTRODUCTION

## 1.1 INTRODUCTION OF NON-BANKING FINANCIAL COMPANIES (NBFCs)

Non-Banking Financial Companies are financial companies which performs like banks but they are not actual bank. These types of financial companies have to be registered under Companies act,1956. These financial companies engage in the business of financial loans and advances, acquisition of securities/bonds/debentures which are issued by Government or local authority or the marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not it does not include whose prime principal business is that of agricultural activity, industrial activity, purchase or sale of any goods. A Non-Banking Financial Companies have head business of accepting stores under any plan or course of action in one singular amount or in portions by method for commitments or in some other way, is additionally a non-banking budgetary organization.

NBFCs garnered the attention of the Reserve Bank of India ('RBI') when several depositors lost their money, during the failure of several banks in the late 1950s and early 1960s. In order to prevent the large number of depositors, RBI initiated regulating them by introducing Chapter IIIB in the Reserve Bank of India Act, 1934. In March 1996, there were around 41,000 NBFCs in India and they were not recognized as a separate class. However, due to the failure of some of the institutions the regulatory structure along with the reporting and supervision was constricted by RBI. In the late 90s, sweeping changes were brought to protect the interest of depositors and ensuring the desired functioning of NBFCs.

The capital requirement was changed in the year 1999, NBFCs getting registered on or after the issuance of notification dated April 21, 1999 were required to have the minimum net owned funds of ` 200 lakhs in order to commence the business of an NBFC. Due to snowballing trend in the sector and to ensure the growth of the sector in a healthy and efficient manner various regulatory measures were taken for identifying the systemically important companies and bringing them under the austere norms. The NBFC-ND with asset size of ` 100 crores or more were considered to be systemically important companies. During the FY 2011-12, two new categories of NBFCs were introduced viz., IDF and MFI. **DEFINITION ( Reserve Bank of India)**

Definition for Non-Banking Financial Company, it carries functions like bank but it is not actual bank. Reserve bank of India has defined NBFC as below. RBI has defined it in systematic way, it has explained each term in detailed i.e. what is financial institution? What is non-banking?

An NBFC is a company registered under the Companies act, 1956 or Companies act, 2013 and is engaged in the Business of financial Institution.

Section 45I(f) of the Reserve Bank of India act, 1934 defines "Non-Banking Financial Companies" as

- (i) A financial Institution which is a company;

- (ii) A non-banking financial institution which is company and which has its principal business the receiving of deposits, under any scheme or arrangement or in any order manner, or in lending in any manner;
- (iii) Such other non-banking financial institution or class of such institution, as the bank may, with the previous approval of the central government and by notification in the Official gazette, specify; Section 45I(c) of the Reserve Bank of India act, 1934 defines the term “Financial Institution” as

Financial institution means any non-banking institution which carries on as it’s business or part of its business any of the following activities, namely:

- (i) The financing, whether by way of making loans or advances or otherwise, of any activities other than its own;
- (ii) The acquisition of shares, stocks, bonds, debentures or securities issued by government or local authority or other marketable securities of a like nature;
- (iii) Letting or delivering of any goods to a hirer under hire-purchase agreement as defined in clause (c) of section 2 of the hire purchase act, 1972;
- (iv) The carrying on of any class of business;
- (v) Managing, conducting or supervising, as foreman, agent or in any other capacity, of chits or kooris as defined as any law which is for the time being in force in any state, or in any business, which is similar thereto;
- (vi) Collecting, for any purpose or under any scheme or arrangement by whatever name called, monies in lump sum or otherwise, by way of subscription or by sale of units, or other instruments or other any manner and awarding prizes or gifts, whether in cash or kind, or disbursing monies in any other way, to persons from whom monies are collected or to any other person, but does not include any other institution, which carries on as its personal business:

- Agricultural operations; or
- Industrial activity; or
- The purchase or sale of any goods (other than securities) or the providing of any services; or
- The purchase, construction or sale of any immovable property, so however, that no other portion of income of the institution is derived from the financing of the purchases, constructions or sale of immovable property by other persons.

## 1.2 REQUIREMENT FOR REGISTRATION WITH RBI

Section 45-IA of the RBI Act, 1934 states that-

No Non-Banking Financial company shall commence or carry on the business of a NonBanking Financial Institution without ➤ Obtaining Certificate of Registration; and

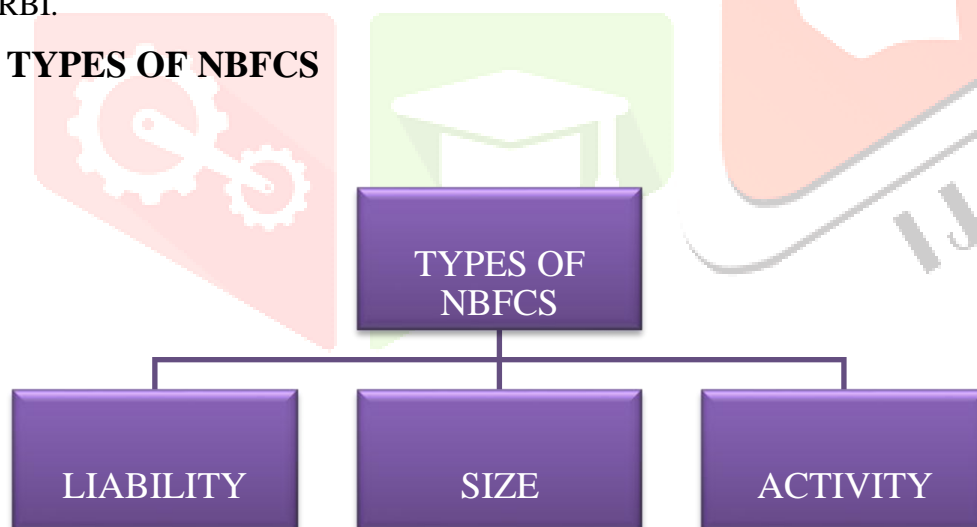
- Having Net Owned Fund of Rs. 2 crores (Prior to the issuance of notification dated 21st April, 1999 the requirement of having minimum Net owned fund was revised from 25 lac to 2 crores)

However, as per revised regulatory framework if a NBFC having NOF less than Rs. 2 crores then such companies need to increase the NOF in the following manner

- Rs. 1 crore before 1st April, 2016;
- and Rs. 2 crores before 1<sup>st</sup> April, 2017.

An application for the registration needs to be submitted by the company in the prescribed format along with the necessary documents for the RBIs consideration. RBI has specified different indicative list of documentation/information to be submitted along with for the application for NBFC-CIC (Core Investment Companies), NBFC-Factors, NBFC-MFI (Micro Finance Company), and other NBFCs. However, in order to avert dual registration, RBI has exempted certain class of companies from the requirement of registration with the RBI.

## 1.3 TYPES OF NBFCs



### Liability

There are two types in classification of NBFCs by Liability.

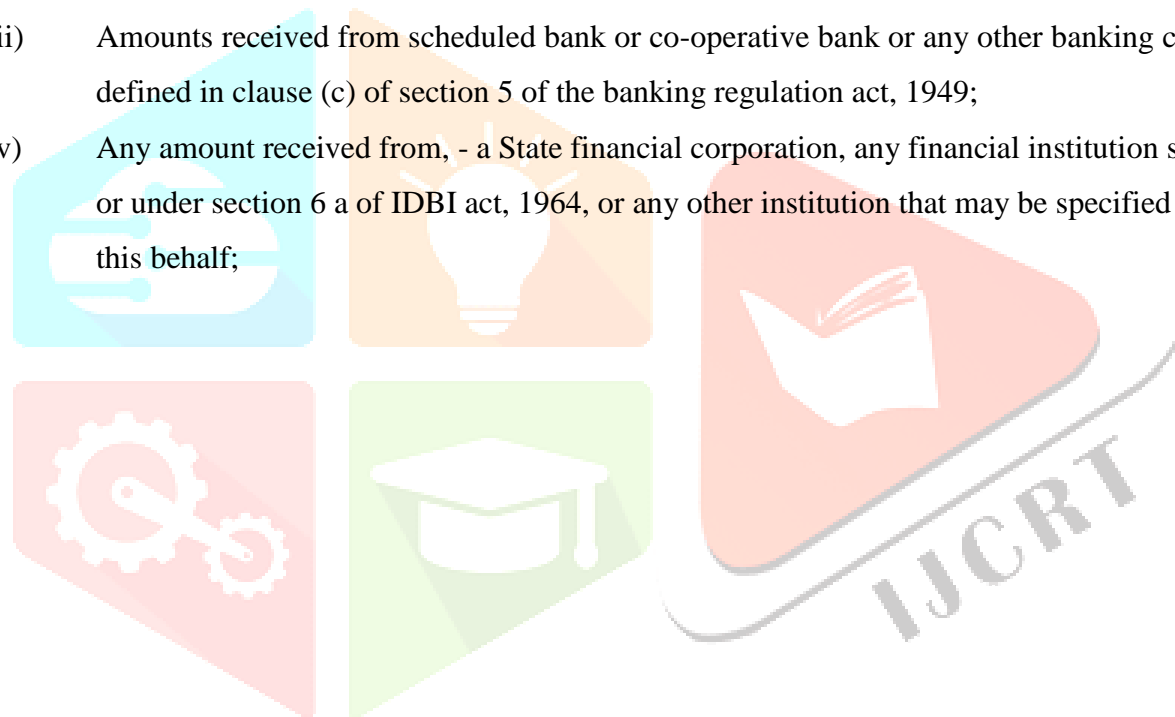
- Deposit accepting NBFCs

➤ Non-Deposit accepting NBFCs

All Non-Banking Financial Companies don't accept deposits. Only those NBFCs which are holding a valid Certificate of Registration (COR) with authorization to accept Public Deposits can accept/hold public deposit.

Section 45-I(bb) of the Reserve Bank of India Act, 1934 defines the term deposits as Stores (Deposits) incorporates and will be deemed always to have included any receipt of cash by way of deposit or credit or in any other structure, however does exclude –

- (i) Amounts raised by the way share capital;
- (ii) Amounts contributed as capital by partners of the firm;
- (iii) Amounts received from scheduled bank or co-operative bank or any other banking company as defined in clause (c) of section 5 of the banking regulation act, 1949;
- (iv) Any amount received from, - a State financial corporation, any financial institution specified in or under section 6 a of IDBI act, 1964, or any other institution that may be specified by bank in this behalf;



- (v) Money got in normal course of business, by method for – Security Deposits, Dealership Deposits, sincere cash, and advance against request of merchandise, properties or administrations.
- (vi) Any sum got from an individual or a firm or a relationship of a people not being a body corporate, enlisted under any institution identifying with cash loaning which is for now in power in any state;

## Size

NBFCs are categorized into two different categories viz. Deposit accepting and non-Deposit accepting. The non-depositing NBFCs further bifurcated into:

### 1. Systematically Important-

The term “Systematically important non-deposit taking non-banking financial company” has been defined to means a Non-Banking Financial Company not accepting/holding public deposits and having total assets of Rs. 500 crores and above.

### 2. Non-systematically Important-

The term “non-systematically important non-deposit taking non- banking financial company” has been defined to means a Non-Banking Financial Company not accepting/holding public deposits and having total assets less than Rs. 500 crores.

## Activity

### ASSET FINANCING COMPANY

- Underlying one or more assets as security for availing credit
- Principal business, Financing for physical assets like automobiles, tractors , and generator sets etc
- E.g. Magma Fincorp Ltd, Edelweiss Assets management

### INVESTMENT COMPANY

- Engaged in business of pooled capital of investors in financial securities.
- It can be corporation, partnership, business trust, or L.L.P
- E.G. TATA Investment corporation Ltd.



**LOAN COMPANY**

- Provide finance by making loans and advances.
- Offer different types of loans as per individual's preference.
- Accept deposits at higher interest rate and further give loans give loans on higher interest to retailers, wholesalers, and self-employed persons

**INFRASTRUCTURE  
FINANCE  
COMPANY**

- Non-Deposit taking NBFC
- Deploys 75% of its total assets in infrastructural loans.
- Minimum Net Owned fund Rs.300 crores, minimum credit rating of 'A' or equivalent, and CAR should be 15 %. E.g. L&T, IDFC Ltd

**CORE INVESTMENT  
COMPANY**

- Asset size 100 crores and accept public deposit.
- Does not hold less than 90% of its total assets in the form of investment in shares
- Principal business, acquisition of shares and securities
- E.G. TATA capital limited

**MICRO FINANCE  
INSTITUTIONS**

- Non-deposit taking NBFC with minimum net owned funds of 5 crores.
- Loans to be extended without collateral.
- Indebtedness should not be exceeded Rs. 1,00,000
- E.G. Unnati Micro Finance private limited

**HOUSING FINANCE  
COMPANY**

- Principal business of financing of acquisition or construction of houses.
- Regulated by national housing financing
- Net owned fund of Rs. 10 crores
- E.G. HDFC Ltd, India Bulls Housing Finance Ltd.



## 1.4 THE CURRENT STATUS OF NON- BANKING FINANCIAL COMPANIES.

### Prudential norms:

The Reserve Bank put in place in January 1998 a new regulatory framework involving prescription of prudential norms for NBFCs which deposits are taking to ensure that these NBFCs function on sound and healthy lines. Regulatory and supervisory attention was focused on the ‘deposit taking NBFCs’ (NBFCs – D) so as to enable the Reserve Bank to discharge its responsibilities to protect the interests of the depositors. NBFCs - D are subjected to certain bank –like prudential regulations on various aspects such as income recognition, asset classification and provisioning; capital adequacy; prudential exposure limits and accounting / disclosure requirements. However, the ‘non-deposit taking NBFCs’ (NBFCs – ND) are subject to minimal regulation.

The application of the prudential guidelines / limits is thus not uniform across the banking and NBFC sectors and within the NBFC sector. There are distinct differences in the application of the prudential guidelines / norms as discussed below:

- i) Banks are subject to income recognition, asset classification and provisioning norms; capital adequacy norms; single and group borrower limits; prudential limits on capital market exposures; classification and valuation norms for the investment portfolio; CRR / SLR requirements; accounting and disclosure norms and supervisory reporting requirements.
- ii) NBFCs – D are subject to similar norms as banks except CRR requirements and prudential limits on capital market exposures. However, even where applicable, the norms apply at a rigor lesser than those applicable to bank. Certain restrictions apply to the investments by NBFCs – D in land and buildings and unquoted shares.
- iii) Capital adequacy norms; CRR / SLR requirements; single and group borrower limits; prudential limits on capital market exposures; and the restrictions on investments in land and building and unquoted shares are not applicable to NBFCs – ND.
- iv) Unsecured borrowing by companies is regulated by the Rules made under the Companies Act. Though NBFCs come under the purview of the Companies Act, they are exempted from the above Rules since they come under RBI regulation under the Reserve

Bank of India Act. While in the case of NBFCs – D, their borrowing capacity is limited to a certain extent by the CRAR norm, there are no restrictions on the extent to which NBFCs – ND may leverage, even though they are in the financial services sector.

## Financial Linkages between Banks and NBFC:

Banks and NBFCs compete for some similar kinds of business on the asset side. NBFCs offer products/services which include leasing and hire-purchase, corporate loans, investment in non-convertible debentures, IPO funding, margin funding, small ticket loans, venture capital, etc. However, NBFCs do not provide operating account facilities like savings and current deposits, cash credits, overdrafts etc.

NBFCs avail of bank finance for their operations as advances or by way of banks' subscription to debentures and commercial paper issued by them.

Since both the banks and NBFCs are seen to be competing for increasingly similar types of some business, especially on the assets side, and since their regulatory and cost-incentive structures are not identical it is necessary to establish certain checks and balances to ensure that the banks' depositors are not indirectly exposed to the risks of a different cost-incentive structure. Hence, following restrictions have been placed on the activities of NBFCs which banks may finance:

- i) Bills discounted / rediscounted by NBFCs, except for rediscounting of bills discounted by NBFCs arising from the sale of –
  - a) Commercial vehicles (including light commercial vehicles); and
  - b) Two-wheeler and three-wheeler vehicles, subject to certain conditions;
  - c) Investments of NBFCs both of current and long term nature, in any company/entity by way of shares, debentures, etc. with certain exemptions;
- ii) Unsecured loans/inter-corporate deposits by NBFCs to/in any company. iii) All types of loans/advances by NBFCs to their subsidiaries, group companies/entities.
- iv) Finance to NBFCs for further lending to individuals for subscribing to Initial Public Offerings (IPOs).
- v) Bridge loans of any nature, or interim finance against capital/debenture issues and/or in the form of loans of a bridging nature pending raising of long-term funds from the market by way of capital, deposits, etc. to all categories of Non-Banking Financial Companies, i.e. equipment leasing and hire-purchase finance companies, loan and investment companies, Residuary Non-Banking Companies (RNBCs).

Should not enter into lease agreements departmentally with equipment leasing companies **Structural Linkages between Banks and NBFCs:**

Banks and NBFCs operating in the country are owned and established by entities in the private sector (both domestic and foreign), and the public sector.

Some of the NBFCs are subsidiaries/ associates/ joint ventures of banks – including foreign banks, which may or may not have a physical operational presence in the country. There has been increasing interest in the recent past in setting up NBFCs in general and by banks, in particular.

Investment by a bank in a financial services company should not exceed 10 per cent of the bank's paid-up share capital and reserves and the investments in all such companies, financial institutions, stock and other exchanges put together should not exceed 20 per cent of the bank's paid-up share capital and reserves.

Banks in India are required to obtain the prior approval of the concerned regulatory department of the Reserve Bank before being granted Certificate of Registration for establishing an NBFC and for making a strategic investment in an NBFC in India. However, foreign entities, including the head offices of foreign banks having branches in India may, under the automatic route for FDI, commence the business of NBFI after obtaining a Certificate of Registration from the Reserve Bank.

NBFCs can undertake activities that are not permitted to be undertaken by banks or which the banks are permitted to undertake in a restricted manner, for example, financing of acquisitions and mergers, capital market activities, etc. The differences in the level of regulation of the banks and NBFCs, which are undertaking some similar activities, gives rise to considerable scope for regulatory arbitrage. Hence, routing of transactions through NBFCs would tantamount to undermining banking regulation.

This is partially addressed in the case of NBFCs that are a part of banking group on account of prudential norms applicable for banking groups

## **1.5 ROLE OF NON- BANKING FINANCIAL COMPANIES.**

### **1. Promoters Utilization of Savings:**

Non- Banking Financial Companies play an important role in promoting the utilization of savings among public. NBFC's are able to reach certain deposit segments such as unorganized sector and small borrowers where commercial bank cannot reach. These companies encourage savings and promote careful spending of money without much wastage. They offer attractive schemes to suit needs of various sections of the society. They also attract idle money by offering attractive rates of interest. Idle money means the money which public keep aside, but which is not used. It is surplus money.

### **2. Provides easy, timely and unusual credit:**

NBFC's provide easy and timely credit to those who need it. The formalities and procedures in case of NBFC's are also very less. NBFC's also provides unusual credit means the credit which is not usually provided by banks such as credit for marriage expenses, religious functions, etc. The NBFC's are open to all. Every one whether rich or poor can use them according to their needs.

### **3. Financial Supermarket:**

NBFC's play an important role of a financial supermarket. NBFC's create a financial supermarket for customers by offering a variety of services. Now, NBFC's are providing a variety of services such as mutual

funds, counseling, merchant banking, etc. apart from their traditional services. Most of the NBFC's reduce their risks by expanding their range of products and activities.

#### **4. Investing funds in productive purposes:**

NBFC's invest the small savings in productive purposes. Productive purposes mean they invest the savings of people in businesses which have the ability to earn good amount of returns. For example – In case of leasing companies lease equipment to industrialists, the industrialists can carry on their production with less capital and the leasing company can also earn good amount of profit.

#### **5. Provide Housing Finance:**

NBFC's, mainly the Housing Finance companies provide housing finance on easy term and conditions. They play an important role in fulfilling the basic human need of housing finance. Housing Finance is generally needed by middle class and lower middle-class people. Hence, NBFC's are blessing for them.

#### **6. Provide Investment Advice:**

NBFC's, mainly investment companies provide advice relating to wise investment of funds as well as how to spread the risk by investing in different securities. They protect the small investors by investing their funds in different securities. They provide valuable services to investors by choosing the right kind of securities which will help them in gaining maximum rate of returns. Hence, NBFC's plays an important role by providing sound and wise investment advice.

#### **7. Increase the Standard of living:**

NBFC's play an important role in increasing the standard of living in India. People with lesser means are not able to take the benefit of various goods which were once considered as luxury but now necessity, such as consumer durables like Television, Refrigerators, Air Conditioners, Kitchen equipment, etc. NBFC's increase the Standard of living by providing consumer goods on easy installment basis. NBFC's also facilitate the improvement in transport facilities through hire- purchase finance, etc. Improved and increased transport facilities help in movement of goods from one place to another and availability of goods increase the standard of living of the society.

#### **8. Accept Deposits in Various Forms:**

NBFC's accept deposits forms convenient to public. Generally, they receive deposits from public by way of depositor a loaner in any form. In turn the NBFC's issue debentures, units' certificates, savings certificates, units, etc. to the public.

## **9. Promote Economic Growth:**

NBFC's play a very important role in the economic growth of the country. They increase the rate of growth of the financial market and provide a wide variety of investors. They work on the principle of providing a good rate of return on saving, while reducing the risk to the maximum possible extent. Hence, they help in the survival of business in the economy by keeping the capital market active and busy. They also encourage the growth of wellorganized business enterprises by investing their funds in efficient and financially sound business enterprises only. One major benefit of NBFC's speculative business means investing in risky activities. The investing companies are interested in price stability and hence NBFC's, have a good influence on the stock- market. NBFC's play a very positive and active role in the development of our country.

### **1.6 FUNCTIONS OF NON- BANKING FINANCIAL COMPANIES:**

#### **1. Receiving benefits:**

The primary function of NBFC is receive deposits from the public in various ways such as issue of debentures, savings certificates, subscription, unit certification, etc. thus, the deposits of NBFC are made up of money received from public by way of deposit or loan or investment or any other form.

#### **2. Lending money:**

Another important function of NBFC is lending money to public. Non- banking financial companies provide financial assistance through.

#### **3. Hire purchase finance:**

Hire purchase finance is given by NBFC to help small important operators, professionals, and middle-income group people to buy the equipment on the basis on Hire purchase. After the last installment of Hire purchase paid by the buyer, the ownership of the equipment passes to the buyer.

#### **4. Leasing Finance:**

In leasing finance, the borrower of the capital equipment is allowed to use it, as a hire, against the payment of a monthly rent. The borrower need not purchase the capital equipment but he buys the right to use it.

#### **5. Housing Finance:**

NBFC's provide housing finance to the public, they finance for construction of houses, development of plots, land, etc.

#### **6. Other types of finance provided by NBFCs include:**

Consumption finance, finance for religious ceremonies, marriages, social activities, paying off old debts, etc. NBFCs provide easy and timely finance and generally those customers which are not able to get finance by banks approach these companies.

## 7. Investment of surplus money:

NBFCs invest their surplus money in various profitable areas.

### 1.7 COMMERCIAL BANK VERSUS (V/S) NON-BANKING FINANCIAL COMPANIES

While commercial banks and non-banking financial companies are both financial intermediaries (middleman) receiving deposits from public and lending them. Commercial bank is called as “Big brother” while the “NBFC” is called as the “Small brother. But there are some important differences between both of them, they are as follows:

Sr no.	COMMERCIAL BANKS	NBFC
1	<b><u>Issue of cheques:</u></b> In case of commercial banks, a <b>cheque can be issued</b> against bank deposits	In case of NBFC's there is <b>no facility to issue cheques</b> against bank deposits
2	<b><u>Rate of interest:</u></b> Commercial bank offer <b>lesser rate of interest</b> on deposits and charge <b>less rate of interest on loans</b> as compared to NBFC's.	NBFC's offer <b>higher rate Of interest</b> on deposits and charge <b>higher rate of interest on loans</b> as compared to Commercial banks.
3	NBFC's offer <b>higher rate of interest</b> on deposits and charge <b>higher rate of interest on loans</b> as compared to Commercial banks.	NBFC's are <b>not given</b> such facilities.
4.	<b><u>Law which governs them:</u></b> Commercial banks are <b>regulated by</b> Banking Regulation Act 1949 and RBI.	NBFC's are regulated by different regulation such as <b>SEBI</b> , Companies Act, National Housing Bank, Unit Fund Act and RBI.
5	<b><u>Types of assets:</u></b> commercial banks hold a variety of assets in the form of loans, cash credit, bill of exchange, overdraft etc.	NBFC's specialize in <b>one types of asset</b> . For e.g.: Hire purchase companies specialize in consumer loans while Housing Finance Companies specialize in housing finance only.



## 1.8 TOP NBFCS IN INDIA

### 1. Power finance corporation ltd.

Power Finance Corporation Ltd is a leading power sector public financial institution and a non-banking financial company providing fund and non-fund based support for the development of the Indian power sector. The company is engaged in power sector financing and the integrated development of the power and associated sectors. They provide large range of Financial Products and Services like Project Term Loan Lease Financing Direct Discounting of Bills Short Term Loan and Consultancy Services etc for various Power projects in Generation Transmission and Distribution sector as well as for Renovation & Modernization of existing power projects.

<b>Revenue</b>	<b>Rs. 33,362.90 crores</b>
<b>Operating Income</b>	Rs. 30045.7 crores
<b>Total assets</b>	361787.26 crores
<b>Total equity</b>	45,164.13



### 2. Rural Electrification Corporation

Rural Electrification Corporation Ltd is a Navratna Central Public Sector Enterprise under the Ministry of Power. The company is engaged in the financing and promotion of transmission distribution and generation projects throughout India. Their main objective is to finance and promote rural electrification projects all over the country. They provide financial assistance to State Electricity Boards State Government Departments and Rural Electric Cooperatives for rural electrification projects sponsored by them. The company provides loan assistance to SEBs/State Power Utilities for investments in rural electrification schemes through its extensive network of 23 offices across the country



<b>Operating income</b>	₹ 26021.28 crore
<b>Total assets</b>	₹ 347030.08 crore
<b>total equity</b>	₹35396.43 crore
<b>Net income</b>	₹4972.27 crore

Revenue ₹ 30007.50 crore



### 3. Mahindra & Mahindra Limited

Mahindra & Mahindra Limited is the flagship company of the Mahindra Group which consists of diverse business interests across the globe and aggregate revenues of around USD 19.4 billion. The company operates in nine segments: automotive segment comprises of sales of automobiles spare parts and related services; farm equipment segment comprises of sales of tractors spare parts and related services; information technology (IT) services comprises of services rendered for IT and telecom; financial services comprise of services relating to financing leasing and hire purchase of automobiles and tractors; steel trading and processing comprises of trading and processing of steel; infrastructure comprise of operating of commercial complexes project management and development; hospitality segment comprises of sale of timeshare; Sys tech segment comprises of automotive components and other related products and services and its others segment comprise of logistics after-market two wheelers and investment.



# Mahindra

<b>Revenue</b>	₹11,996.46 crore
<b>Operating income</b>	₹ 1556.13 crore
<b>Total assets</b>	₹ 81792.58 crore
<b>total equity</b>	₹ 11969 crore

#### 4. Muthoot Finance Limited

Muthoot Finance Limited is the largest gold financing company in India in terms of loan portfolio. The company provides personal and business loans secured by gold jewellery or Gold Loans primarily to individuals who possess gold jewellery but could not access formal credit within a reasonable time or to whom credit may not be available at all to meet unanticipated or other short-term liquidity requirements

<b>Revenue</b>	<b>₹ 9,707 crore</b>
<b>Operating income</b>	<b>₹ 7,433 crore</b>
<b>Total assets</b>	<b>₹54,881 crore</b>
<b>total equity</b>	<b>₹ 11,414 crore</b>
<b>Net income</b>	<b>₹ 3168 crore</b>



#### 5. Larsen & Toubro

Larsen & Toubro is a major technology engineering construction manufacturing and financial services conglomerate with global operations. The company is one of the largest and most respected companies in India's private sector. The company operates in three segments Engineering & Construction Segment Electrical & Electronics segment

Machinery & Industrial Products and others

<b>Revenue</b>	<b>₹147,813.26 crore</b>
<b>Operating income</b>	<b>₹13,430.95 crore</b>
<b>Total assets</b>	<b>₹308,140.13 crore</b>
<b>total equity</b>	<b>₹66,723.22 crore</b>
<b>Net income</b>	<b>₹9549.03 crore</b>



**LARSEN & TOUBRO**

## 6. Siemens financial services

**Siemens Financial Services (SFS)** is a Division of Siemens. The company's global headquarters is in Munich, Germany. SFS offers international financing solution in the business-to-business area. Financial Services serves Siemens as well as other companies – primarily in the energy, industry, healthcare and infrastructure & cities markets. The division finances infrastructure, equipment as well as working capital investments, and acts as a manager of financial risks within Siemens AG. The network of financing companies coordinated by **Siemens Financial Services GmbH** in Munich comprises about 3,150 employees worldwide.

**SIEMENS**  
Ingenuity for life

## 7. Reliance capital

Reliance Capital, a constituent of MSCI Global Small Cap Index, is a part of the Reliance Group. It is amongst India's leading and most valuable financial services companies in the private sector. Reliance Capital has interests in life, general and health insurance; commercial & home finance; equities and commodities broking; wealth management services; distribution of financial products; asset reconstruction; proprietary investments and other activities in financial services. Reliance Nippon Life Insurance and Reliance General Insurance are amongst the leading private sector insurers in India. Reliance Securities is one of the India's leading retail broking houses and distributors of financial products and services. Reliance Money and Reliance Home Finance are one of the most rapidly expanding businesses in the lending space.

<b>Revenue</b>	<b>₹1,075 crore</b>
<b>Total assets</b>	<b>₹64,782 crore</b>
<b>Total equity</b>	<b>₹-2,294crore</b>
<b>Operating income</b>	<b>₹2,741 crore</b>

The logo for Reliance Capital features the word "RELIANCE" in a bold, blue, sans-serif font. A red triangle is positioned within the letter "A". Below "RELIANCE", the word "Capital" is written in a red, sans-serif font. The logo is centered between two horizontal blue bars.

## 8. Ceejay Finance

Ceejay Finance Ltd was incorporated in 1993 under the name of Heritage Packaging Limited in the state of Gujarat as a public limited company (vide Co.No.04-1990, since then Ceejay Finance hasn't looked back and is a leading non-banking Financial Company (NBFC), formed by Ceejay Group with its headquarters situated in Nadiad, Gujarat (India). Ceejay Finance Ltd is listed on Bombay Stock Exchange (BSE) under the security code: 530789. The company is currently managing assets (AUM) of over ₹500 Crore and has served over 1.2 million clients nationally. Ceejay Finance Ltd is registered as an Asset Finance Company – D NBFC with the Reserve bank of India. Ceejay Finance is an integrated finance company providing financial services such as diverse vehicle loans, SME Business loans, Loan against property, Personal Loan, Micro Finance Loan and Insurance services.

The logo for Ceejay Finance Limited consists of the letters "CJ" in a large, bold, black font. Below "CJ" is the word "GROUP" in a smaller, black, sans-serif font. At the bottom, the words "CEEJAY FINANCE LIMITED" are written in a bold, black, sans-serif font.

## 9. Industrial Finance Corporation of India (IFCI)

Industrial Finance Corporation of India (IFCI) is actually the first financial institute the government established after independence. The main aim of the incorporation of IFCI was to provide long-term finance to the manufacturing and industrial sector of the country. Initially established in 1948, the Industrial Finance Corporation of India was converted into a public company on 1 July 1993 and is now known as Industrial Finance Corporation of India Ltd. The main aim of setting up this development bank was to provide assistance to the industrial sector to meet their medium and long-term financial needs.

The IDBI, scheduled banks, insurance sector, co-op banks are some of the major stakeholders of the IFCI. The authorized capital of the IFCI is 250 crores and the Central Government can increase this as and when they wish to do so.



## 10. Arman financial services ltd.

Arman Financial Services Limited (Arman) is an India-based non-banking finance company. The Company provides two-wheeler three-wheeler financing inter-corporate deposit (ICD) micro financing and personal financing. The Company operates through two segments: JLG Microfinance and Asset-backed Microfinance (two-wheeler/three-wheeler financing). Arman's Micro Finance operations have 14 branches operational all over Gujarat in urban semi-urban and rural areas. Arman Financial Services Limited was originally incorporated on November 26 1992 as an erstwhile Arman Lease & Finance Ltd. The company is a public limited listed company.



**Arman Financial Services Ltd.**

## 1.9 THEORITICAL FRAMEWORK

### Introduction to ratio analysis

Ratio analysis is used to evaluate relationships among financial statement items. The ratios are used to identify trends over time for one organization or to compare two or more organizations at one point in time.

Ratio analysis focuses on three key aspects of business: liquidity, profitability, and solvency. Ratio Analysis is an important tool for any business organization.

### **Classification of ratio**

1. **Liquidity ratios:** Liquidity ratios are the ratios that measure the ability of a company to meet its short-term debt obligations. These ratios measure the ability of a company to pay off its short-term liabilities when they fall due.
2. **Solvency ratios:** The solvency ratio is a key metric used to measure an enterprise's ability to meet its debt obligations and is used often by prospective business lenders. The solvency ratio indicates whether a company's cash flow is sufficient to meet its short-and long-term liabilities. The lower a company's solvency ratio, the greater the probability that it will default on its debt obligations
3. **Activity ratios:** An activity ratio is a type of financial metric that indicates how efficiently a company is leveraging the assets on its balance sheet, to generate revenues and cash. Commonly referred to as efficiency ratios, activity ratios help analysts gauge how a company handles inventory management, which is key to its operational fluidity and overall fiscal health.
4. **Profitability ratios:** Profitability ratios are a class of financial metrics that are used to assess a business's ability to generate earnings relative to its revenue, operating costs, balance sheet assets, and shareholder's ; equity over time, using data from a specific point in time. **Advantages of ratio analysis**

- It helps to analyse and understand financial health and trend of a business, its past performance, and makes it possible to forecast the future state of affairs of the business.
- They diagnose the financial health by evaluating liquidity, solvency, profitability etc. This helps the management to assess the financial requirements and the capabilities of various business units. It serves as a media to link the past with the present and the future.
- It serves as a useful tool in management control process, by making a comparison between the performance of the business and the performance of similar types of business.
- Ratio analysis plays a significant role in cost accounting, financial accounting, budgetary control and auditing.
- It accelerates the institutionalization and specialization of financial management accounting ratios summarize and systematize the accounting figures in order to make them more understandable in a lucid form. They highlight the inter-relationship which exists between various segments of the business expressed by accounting statements.

### **Limitations of ratio analysis**

- Usefulness of ratios depends on the abilities and intentions of the persons who handle them. It will be affected considerably by the bias of such person



- Ratios are worked out on the basis of money-values only. They do not take into account the real values of various items involved. Thus, the technique is not realistic in its approach.
- Historical values (specially in balance sheet ratios) are considered in working out the various ratios. Effects of changes in the price levels of various items are ignored and to that extent the comparisons and evaluations of performance through ratios become unrealistic and unreliable. Ratios are only as accurate as the accounts on the basis of which these are established. Therefore, unless the accounts are prepared accurately by applying correct values to assets and liabilities, the statements prepared wherefrom would not be correct and the relationship established on that basis would not be reliable

## **ANOVA TABLE**

ANOVA, which stands for Analysis of Variance, is a statistical test used to analyze the difference between the means of more than two groups.

A one-way ANOVA uses one independent variable, while a two-way ANOVA uses two independent variables.

### **One-way ANOVA example**

As a crop researcher, you want to test the effect of three different fertilizer mixtures on crop yield. You can use a one-way ANOVA to find out if there is a difference in crop yields between the three groups.

ANOVA tells you if the dependent variable changes according to the level of the independent variable.

For example:

Your independent variable is social media use, and you assign groups to low, medium, and high levels of social media use to find out if there is a difference in hours of sleep per night. Your independent variable is brand of soda, and you collect data on Coke, Pepsi, Sprite, and Fanta to find out if there is a difference in the price per 100ml.

Your independent variable is type of fertilizer, and you treat crop fields with mixtures 1, 2 and 3 to find out if there is a difference in crop yield.

The null hypothesis ( $H_0$ ) of ANOVA is that there is no difference among group means.

The alternate hypothesis ( $H_a$ ) is that at least one group differs significantly from the overall mean of the dependent variable.

If you only want to compare two groups, use a t-test instead.

### **How does an ANOVA test work?**

ANOVA determines whether the groups created by the levels of the independent variable are statistically different by calculating whether the means of the treatment levels are different from the overall mean of the dependent variable.

If any of the group means is significantly different from the overall mean, then the null hypothesis is rejected.



ANOVA uses the F-test for statistical significance. This allows for comparison of multiple means at once, because the error is calculated for the whole set of comparisons rather than for each individual two-way comparison (which would happen with a t-test).

The F-test compares the variance in each group mean from the overall group variance. If the variance within groups is smaller than the variance between groups, the F-test will find a higher F-value, and therefore a higher likelihood that the difference observed is real and not due to chance

### **When to use a one-way ANOVA**

Use a one-way ANOVA when you have collected data about one categorical independent variable and one quantitative dependent variable. The independent variable should have at least three levels (i.e., at least three different groups or categories).

ANOVA tells you if the dependent variable changes according to the level of the independent variable.

### **Assumptions of ANOVA**

The assumptions of the ANOVA test are the same as the general assumptions for any parametric test:

**Independence of observations:** the data were collected using statistically-valid methods, and there are no hidden relationships among observations. If your data fail to meet this assumption because you have a confounding variable that you need to control for statistically, use an ANOVA with blocking variables.

**Normally-distributed response variable:** The values of the dependent variable follow a normal distribution.

**Homogeneity of variance:** The variation within each group being compared is similar for every group. If the variances are different among the groups, then ANOVA probably isn't the right fit for the data.

### **One-way ANOVA summary**

The ANOVA output provides an estimate of how much variation in the dependent variable that can be explained by the independent variable.

The first column lists the independent variable along with the model residuals (aka the model error).

The Df column displays the degrees of freedom for the independent variable (calculated by taking the number of levels within the variable and subtracting 1), and the degrees of freedom for the residuals (calculated by taking the total number of observations minus 1, then subtracting the number of levels in each of the independent variables).

The Sum Sq column displays the sum of squares (a.k.a. the total variation) between the group means and the overall mean explained by that variable. The Mean Sq column is the mean of the sum of squares, which is calculated by dividing the sum of squares by the degrees of freedom.

The F-value column is the test statistic from the F test: the mean square of each independent variable divided by the mean square of the residuals. The larger the F value, the more likely it is that the variation associated with the independent variable is real and not due to chance.

Source of variation	Degress of freedom	Sum of squares	Mean square	F
Between the classes	$H-1=v_1$	S.S.C	$M.S.C=M_1$	$F=m_1/m_2$
Within classes	$N-h=v_2$	S.S.E	$M.S.E=M_2$	
Total	$N-1$			

## CHAPTER 2

# LITREATURE REIVIEW

## REVIEW OF LITREATURE

There is universal agreement that a properly functioning financial system is required for a thriving modern economy (Kroszner, 2010). In all advanced economies, for instance, sophisticated financial systems efficiently deliver a broad range of financial services and act as a critical pillar in contributing to macroeconomic stability and sustained economic growth and prosperity (World Bank, 2003). Moreover, the well developed financial markets facilitate mobilization of savings, by offering savers and investors wider choice of instruments. With NBFCs coming up on the financial system, investors could park their funds at more lucrative returns in comparison to the bank deposits.

Referring to NBFIs, Greenspan (1999) had stated: “enhance the resilience of the financial system to economic shocks by providing it with an effective ‘spare tyre’ in times of need”. Moreover, while short term loans needed by the industry and agriculture are offered by the banking system, the other forms of services needed by industry as well as other segments of economy are offered by NBFCs and other similar financial institutions, like factoring, venture finance and so on.

**Hasriman Kaur A. and Dr. Bhawdeep Singh Tanghi (2013)** analyzed that NBFCs played an essential role in terms of macroeconomic prospective as well as strengthening the structure of the Indian monetary system. Consolidation in the sector and better regulatory structure has become more focused.

**Dr. Amardeep (2013)** analysed that “The role of NBFCs in creation of productive national assets can hardly be undermined. This is more than evident from the fact that most of the developed economies in the world have relied heavily on lease finance route in their development process”.

**Dr. Yogesh Maheshwari (2013)** in his paper state that “Changing Monetary scenario have opened up opportunities for NBFCs to expand their global presence through self-expansion strategic alliance etc. The Monetary reforms have brought Indian Monetary system closer to global standards”.

**Sornaganesh and Maria Navis Soris17 (2013) B** “A Fundamental Analysis of NBFCs in India” in ‘Outreach’. The study was made to analyze the performance of five NBFCs in India.

The annual reports of these companies are evaluated so as to ascertain investments, loans disbursed, growth, return, risk, etc. To sum up, the study is concluded that the NBFCs are earning good margins on all the loans and their financial efficiency is good.

**Jency (2017)** tried to learn the performance of non-banking financial institutions. She has found that the NBFC sector assumes a critical role in financial inclusion as it caters to a wide range of financial activities particularly in areas where commercial banks have limited penetration. Moreover, the profitability of NBFCs has risen significantly than that of commercial banks.

**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. **Shollapur M.R** in his article in ‘The Indian Journal of Commerce’ has revived concept of NBFCs. As per him the abstract NBFCs constituted a significant part of financial system and compliment the service provide by commercial bank in India. The efficiency of financial services and flexibilities helped them build a large body of client including small borrower and bigger corporate establishment. The pace of financial liberalization has intensified the competition. As a result, there has been a shift towards strategic perspective marketing process of NBFCs. This perspective enable them to predict the future impact of change and help to move out of week area and grab new opportunity through continuous monitoring system.

**R.M Srivastava & Divya Nigam** in his book Management of Indian Financial Institution background material for economic growth and financial institution, types of financial institution, recent trend Indian financial market. He put enfaces on the fact that the money market has passed through a phase of substantial adjustment and advancement in recent year.

**K.C Shekhar & Lakshmy Shekhar** in his book has explain role of NBFCs in India has shown rapid development especially in 1990 owing to their high degree of orientation towards consumers and implication of section requirement. The role of NBFCs as effective financial intermediaries arise has been well recognized as they have inherent abilities to take quicker decision, assume risk and customize their services provided by bank and market the components on a conceptual basis.

**E. N. Murty** suggests the advantage and outlook of NBFCs. In remarkable surge under stringent production like prudential limit and capital adequacy just like M&M Finance, DBS Chula, Sundaram Finance Sri Ram Transport Finance etc. In outlook NBFCs has been searching for avenue for future growth, if they get regulatory treatment on par with the bank. So that large NBFC will be converting and making available credit to credit.

**L M Bhole** in his book define the NBFCs perform a diversified range of function and other various financial services to individual, corporate and institutional client. It also play positive role in accessing certain depositor segment and clearing credit requirement of borrowers. It also discussing the major financial market in India. Along with related financial instrument and services i.e. call money, call loan, other short term interest rate instrument and the recent development in money market.

**Shashi K. Gupta, Nisha Gupta & Neeti Gupta** in his book define money market is an opportunity for balancing the short-term surplus fund of the investor with the short-term requirement to borrowers. Another feature of money market is that they are liquid with varying degree. It also defines NBFCs play an important role in financial intermediaries because they can take quick decision making assume greater risks and design their product to the need of customer.

**Kantawala, (1997)**, in his study “Financial Performance of Non-Banking Finance Companies in India”, examined the performance of non-banking financial companies for the period from 1985-86 to 1994-95. Based on secondary data collected from different RBI bulletins regarding financial and investment companies, the study concluded that there was a significant difference in the profitability ratios, leverage ratios, and liquidity ratios of various categories of NBFCs. When two categories were compared, the selected ratios were not statistically different from each other in majority of the cases. When all the companies were taken together, null hypothesis was accepted for only three ratios, indicating thereby that there was no significant difference. From this, it can be inferred that the ratios for all categories of NBFCs were generally different from each other.

CHAPTER 3

# RESEARCH METHODOLOGY

RESEARCH AND METHODOLOGY

### 3.1 Meaning of research methodology

Research methodology is the specific procedures or techniques used to identify, select, process, and analyze information about a topic. In a research paper, the methodology section allows the reader to critically evaluate a study's overall validity and reliability.

#### 3.1.1 Meaning of research:

Research is defined as the creation of new knowledge and/or the use of existing knowledge in a new and creative way so as to generate new concepts, methodologies and understandings. Research is an organized and systematic way of finding answers to questions” Systematic because there is a definite set of procedures and steps which you will follow. There are certain things in the research process which are always done in order to get the most accurate results.

#### 3.2 Objective of the study:

1. To analyze the short-term solvency of the selected NBFCS.
2. To appraise the long-term solvency of the selected NBFCS.
3. Financial performance of NBFCS in terms on profitability.
4. Financial performance of NBFCS in terms of return on net worth equity and return on capital employed
5. To study whether the NBFCS are different or similar in terms of debt-to-equity ratio, current ratio, return on net worth ratio, return on equity ratio. Net profit ratio

### 3.3 Research problem

The first step while conducting research is careful definition of Research problem. To ERR IS THE HUMAN is a proverb which indicates that no one is perfect in this world. Every researcher has to face many problems which conducting any research that is why problem statement is defined to know which type of problems a researcher has to face while conducting any study. It is said that, problem well defined is problem half solved. The problem statement here is:

**“A STUDY ON FINANCIAL PERFORMANCE AND GROWTH OF NON-BANKING FINANCIAL COMPANIES”**

#### 3.3.1 Research design

Research Design is the conceptual structure with in which research in conducted. It constitutes the blueprint for the collection measurement and analysis of data. Research Design includes and outline of what the researcher will do form writing the hypothesis and it operational implication to the final and collection and analyzing the data. It is a strategy specifying which approach will be used for gathering and analyzing the data.

#### Types of research design:

1. Exploratory Research Design: This research design is preferred when researcher has a vague idea about the problem the researcher has to explore the subject.
2. Experimental Research Design: The research design is used to provide a strong basis for the existence of casual relationship between two or more variables.
3. Descriptive Research Design: It seeks to determine the answers to who, what, where, when and how questions. It is based on some previous understanding of the matter.
4. Diagnostic Research Design It determines the frequency with which something occurs or its association with something else.

Research design used in this project - Research Design chosen for this study is Descriptive Research Design. Descriptive study is based on some previous understanding of the topic.

### 3.3.2 Sampling design

Sampling is necessary because it is almost impossible to examine the entire parent population (i.e., the entire universe) various factors such as time available cost, purpose of study etc. make it necessary for the researchers to choose a sample. It should neither be too small nor too big. It should be manageable. The sample size of past 6 years is taken for present study.

### 3.3.3 Data collection

Secondary information has been collected through various sources which include data from RBI Publications, Money control Website, Journals and Reports on NBFCs. For conducting the study, 10 companies of five different categories are chosen for which data is available.

The five different categories of NBFCs chosen are Asset Finance Companies, Core Investment Companies, Factors NBFCs, Infrastructure Finance Companies and Microfinance Companies. In the course of the analysis in this study, the use of various accounting and statistical techniques has been made. Ratio analysis, mean, standard deviation and ANOVA have been applied. The variables selected for analyzing the performance of NBFCs are Current ratio, Debt-Equity Ratio and Net profit Ratio.

### 3.3.4 Limitations of the study

- The study is restricted only for five years i.e., 2015, 2016, 2017, 2018, 2019 and 2020.
- The study is completely based on secondary data and the accuracy of the analysis depend on the data obtained.
- The study may not be extensive enough to cover all the ratios to be considered in evaluating the financial soundness of the NBFCs.



# CHAPTER 4 DATA ANALYSIS

## CURRENT RATIO

Current Ratio is a liquidity ratio that measures ability of the enterprise to pay its short-term financial obligations i.e. liabilities. The Formula for calculating the ratio is

$$\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$$

The generally accepted standard of current ratio is 2:1 i.e. current assets should be twice the current liabilities. Table provides the data related to current ratios calculated for the sample NBFCs taken for the study. These ratios are calculated for 5 consecutive years from 2015 to 2020.

COMPANIES	2015	2016	2017	2018	2019	2020
Armaan Financial Ltd	1.36	1.28	1.02	0.96	2.05	2.77
Mahindra & Mahindra	1.18	1.27	1.25	3.19	2.72	2.24
L&T finance Holdings Ltd	1.09	1.1	0.90	845.51	1679.92	37.70
Reliance	1.22	0.85	1.01	31.63	28.62	7.72
IFCI	1.299	0.93	1.23	11.9	9.57	213.88
Siemens	1.54	1.85	1.99	1.95	2.12	2.20
REC	0.678	1.22	1.17	51.63	15.5	13.82
Power Finance	1.006	1.21	1.32	48.74	58.27	4.21
Muthoot Finance	1.91	1.76	1.56	20.95	33.14	1.78
Ceejay Finance Ltd	1.64	1.73	1.46	1.60	1.69	2.46

Source : money control

Source of variation	Sum of Squares	Degrees of Freedom	Mean square	F
Between Groups	1116664	9	124073.8	2.19
Within Groups	2265576	50	56639.39	



<b>Total</b>	3382240	59		
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The current ratio of IFCI was highest in the year 2020 followed by L & T financial holding in 2020. All the other companies have similar ratios. In 2019, L&T Finance Holdings had the highest current ratio followed by power finance . The current ratio of Power Finance has continuously increased with subsequent years. The current ratio of REC decreased to 15.57 in 2019. The current ratio of Ceejay Financials limited was similar in all five years and was close to the accepted standard ratio of 2:1.

## ANOVA

**Hypothesis:** There is not any significant difference in current ratios of NBFCs under study. **Alternative**

**Hypothesis:** There is a significant difference in current ratios of NBFCs under study.

The table value of F for degree of freedom 50 at 5 per cent level of significance is 212. Since the calculated value of F (2.2) is less than the table value, the null hypothesis is rejected and alternative hypothesis is accepted . It is concluded that there is significant difference in the current ratio of NBFCs under study.

## LONG TERM SOLVENCY DEBT-EQUITY RATIO

Debt to equity ratio is computed to assess long term financial soundness of the enterprise.

The ratio is computed as follows:

### Debt to Equity Ratio= Debt/Equity (Shareholder's Funds)

A high Debt to Equity Ratio<sup>8</sup> means that the enterprise is depending more on borrowings or debts as compared to shareholder's funds. In effect, lenders are at high risks. On the other hand, low debt to Equity ratio means that the enterprise is depending more on shareholder's funds than external equities. In effect, lenders are at a lower risk and have high safety.

COMPANIES	2015	2016	2017	2018	2019	2020
<b>Armaan Financial Ltd</b>	1.14	0.90	1.18	1.94	3.07	1.41
<b>Mahindra &amp; Mahindra</b>	3.47	3.56	4.20	4.17	4.84	5.23
<b>L&amp;T finance Holdings Ltd</b>	0.15	0.15	0.24	0.06	0.15	0.44
<b>Reliance</b>	1.31	1.31	1.25	2.13	2.19	5.14
<b>IFCI</b>	3.75	3.78	3.37	3.98	3.48	3.15
<b>Siemens</b>	0	0	0	0	0	0
<b>REC</b>	5.31	5.07	4.49	6.33	7.12	8.16

<b>Power Finance</b>	5.83	5.61	4.86	6.41	6.82	6.87
<b>Muthoot Finance</b>	2.85	2.43	2.61	2.71	2.74	3.21
<b>Ceejay Finance Ltd</b>	0.79	0.60	0.77	0.72	0.64	0.62

Source : money control

Source of variation	Sum of Squares	Degrees of Freedom	Mean square	F
<b>Between Groups</b>	269.53	9	29.94	35.64
<b>Within Groups</b>	42.027	50	0.84	
<b>Total</b>	311.557	59		

Power Finance and REC do good business throughout all the six years. In case of Mahindra & Mahindra, the debt equity ratios of all the five years do not vary widely i.e. the annual debt equity ratios are around the mean only. In case of REC the growth rate of equity exceeds that of debt and as a result the debt equity ratios of REC have shown wide variations from the mean ratio.

We can see that the debt of Power Finance, REC and Mahindra & Mahindra is higher than their equity. All the three companies are well established NBFCs and hence its debt level is more than its equity. As growing NBFCs they are vibrant in terms of both debt and equity and register continuous growth over the years. The debt to equity ratio was lower for Ceejay Finance ltd, L&T Finance Holdings ltd, Armaan Finance ltd. Ceejay Finance ltd and L&T Finance Holdings ltd maintain its equity almost at a constant level throughout the period of study. As the debt is negligent in these 2 companies, their solvency position is highly sound. In case of Reliance and Muthoot, the growth trend both in debt and equity with a moderate debt equity ratio exhibit an acceptable solvency position.

## ANOVA

**Hypothesis:** There is not any significant difference in Debt Equity Ratio of NBFCs under study.

**Alternative Hypothesis:** There is significant difference in Debt Equity Ratio of NBFCs under study.

The table value of F for degree of freedom 50 at 5 per cent level of significance is 2.38. Since the calculated value of F (35.64) is less than the table value, the null hypothesis is rejected.

It is concluded that the debt equity ratio do differ significantly for the NBFCs under study.

## PROFITABILITY RATIO

### Net Profit Ratio

Net Profit Ratio establishes the relationship between Net Profit and Revenue from Operations i.e. Net Sales. It shows the percentage of Net Profit earned on Revenue from Operations. The ratio is computed as follows:

$$\text{Net Profit Ratio} = \text{Net Profit after Tax} / \text{Revenue from Operations} * 100$$

If the Net Profit Ratio is higher the business will be better. This ratio helps in determining the operations of the business.

COMPANIES	2015	2016	2017	2018	2019	2020
Armaan Financial Ltd	18.23%	15.66%	15.08%	11.74%	26.51%	27.17
Mahindra & Mahindra	15.02%	11.49%	6.48%	16.22%	17.85%	8.97%
L&T finance Holdings Ltd	90.02%	108.47%	89.58%	58.52%	55.39%	56.11%
Reliance	19.17%	23.96%	21.41%	-222.99%	6.79%	-393.44
IFCI	16.04%	8.83%	-16.73%	13.58%	-20.57%	-12.37
Siemens	20.8%	42.24%	13.92%	16.30%	17.67%	16.05%
REC	26%	23.80%	26.47%	19.68%	22.77%	16.40%
Power Finance	23.97%	22.25%	7.90%	16.88%	24.10%	16.95%
Muthoot Finance	15.54%	16.65%	20.54%	28.36%	28.67%	30.67%
Ceejay Finance Ltd	32.18%	30.56%	32.76%	33.93%	34.17%	27.85%

Source : money control

Source of variation	Sum of Squares	Degrees of Freedom	Mean square	F
Between Groups	34244.32	9	3804.924	3.00
Within Groups	50711.74	50	1267.793	
Total	84956.06	59		

In terms of Net Profit Ratio L&T Finance Holdings is performing good followed by Ceejay Finance ltd. L&T Finance Holdings has the highest net profit ratio of 108.47% in 2016. The net profit ratio of Reliance witnessed a negative growth rate in 2018. Ceejay Finance ltd has maintained a stable growth rate in terms of net profit ratio for the five years. REC witnessed various ups and down in terms of NPR ratio but managed a good NPR in 2019 at 22.77%.

## ANOVA

**Hypothesis:** There is not any significant difference in Net Profit Ratio of NBFCs under study.

**Alternative Hypothesis:** There is significant difference in Net Profit Ratio of NBFCs under study.

The table value of F for degree of freedom 50 at 5 per cent level of significance is 2.38. Since the calculated value of F (3) is more than the table value, the null hypothesis is rejected .It is concluded that the net profit ratio not differ significantly for the NBFCs under study.

## RETURN ON CAPITAL EMPLOYED

Return on the capital employed ratio is one of the few profitability ratios that an investor evaluates to understand the rate of returns and profitability of a company. ROCE is a financial ratio that can be used to assess a company's profitability and capital efficiency. ROCE helps understand how efficiently a company is using its total capital to generate profits.

The Return on Capital Employed ratio consists of two components and their calculations: Earnings before Interest and Tax (EBIT) and Capital Employed.

**Return on Capital Employed = Earnings Before Interest and Taxes (EBIT) / Total Capital Employed X 100**

Investors calculate the ROCE to evaluate how well a company is using its capital and financial strategies. A company's returns should always be higher than the rate of borrowings or loans that they have taken to fund their assets. In case the ROCE is lower, it means that the company is not operating healthily and cannot generate returns for itself or its investor.

COMPANIES	2015	2016	2017	2018	2019	2020
Armaan Financial Ltd	6.64	6.66	22.39	22.27	23.06	23.48
Mahindra & Mahindra	17.78	2.76	1.38	12.80	14.79	14.83
L&T finance Holdings Ltd	5.32	7.28	5.46	4.95	5.03	4.38

<b>Reliance</b>	11.92	12.82	6.79	-11.84	7.75	-18.65
<b>IFCI</b>	1.75	1.12	5.61	10.25	5.21	6.94
<b>Siemens</b>	21.51	42.24	13.92	16.30	17.67	10.51
<b>REC</b>	3.34	3.33	12.07	8.10	8.51	8.07
<b>Power Finance</b>	2.99	2.90	9.77	8.31	11.14	10.85
<b>Muthoot Finance</b>	5.15	6.73	36.90	16.28	28.70	30.69
<b>Ceejay Finance Ltd</b>	13.91	12.53	27.17	27.05	20.08	18.15

Source : money control

In terms of return on capital employed Armaan financial ltd and siemens is performing good followed by Mahindra and Mahindra. The net profit ratio of Reliance witnessed a negative growth rate in 2018. Ceejay Finance ltd has maintained a stable growth rate in terms of return on capital employed ratio for the five years. REC witnessed various ups and down in terms of returns on capital employed.

Source of variation	Sum of Squares	Degrees of Freedom	Mean square	F
<b>Between Groups</b>	2878.21	9	319.80	4.720
<b>Within Groups</b>	3387.49	50	67.74	
<b>Total</b>	6265.7			

## ANOVA

**Hypothesis:** There is not any significant difference in return on capital employed of NBFCs under study.

**Alternative Hypothesis:** There is significant difference in return capital employed of NBFCs under study.

The table value of F for degree of freedom 50 at 5 per cent level of significance is 2.38. Since the calculated value of F (4.720) is more than the table value, the null hypothesis is rejected .It is concluded that the differ significantly for the NBFCs under study.

## RETURN ON NETWORTH EQUITY

Return on Net Worth is a ratio developed from the perspective of the investor and not the company. By looking at this, the investor sees whether the entire net profit is coming to him or how much return would he be getting. It explains the efficiency of the shareholders' capital to generate profit.

Return on Net Worth (RONW) is a measure of the profitability of a company expressed in percentage.

### RONW = Net Income / Shareholders' Equity

A rising RONW reflects that a company is increasing its ability to generate profit without having as much capital. It also means how well a company's management is using the shareholders' capital. In other words, the higher the RONW the better the company prospectus. Falling RONW is generally a problem.

COMPANIES	2015	2016	2017	2018	2019	2020
Armaan Financial Ltd	8.09	6.98	6.54	7.97	23.36	15.10
Mahindra & Mahindra	14.676	11.04	6.17	11.18	14.27	7.97
L&T finance Holdings Ltd	7.37	9.51	6.04	3.4	3.41	3.4
Reliance	6.01	7.35	3.05	-62.54	1.77	-161.97
IFCI	8.70	5.5	-8.06	9.25	-9.58	-7.11
Siemens	23.08	43.87	14.71	10.76	12.01	7.98
REC	21.16	19.66	18.74	13.68	16.80	13.92
Power Finance	18.49	17.69	5.83	11.87	16.06	12.52
Muthoot Finance	13.09	14.40	18.10	22.75	20.13	26.08
Ceejay Finance Ltd	13.97	12.59	13.56	14.11	11.06	10.07

Source : money control

In terms of Net Worth Equity Muthoot finance is performing good followed by REC Finance Ltd. The net profit ratio of Reliance witnessed a negative growth rate in 2018. Ceejay Finance Ltd has maintained a stable growth rate in terms of net profit ratio for the five years. REC witnessed various ups and down in terms of net worth ratio.

Source of variation	Sum of Squares	Degrees of Freedom	Mean square	F
Between Groups	13596.16	9	1510.68	3
Within Groups	25049.52	50	500.99	
Total	38645.68	59		

### ANOVA

**Hypothesis:** There is not any significant difference in Net worth equity t Ratio of NBFCs under study.

**Alternative Hypothesis:** There is significant difference in Net worth equity Ratio of NBFCs under study.

The table value of F for degree of freedom 50 at 5 per cent level of significance is 2.38. Since the calculated value of F (3) is more than the table value, the null hypothesis is accepted. It is concluded that the net profit ratio do differ significantly for the NBFCs under study.

## CHAPTER 5

# FINDINGS AND CONCLUSION

### 5.1 FINDINGS

- From the analysis above it follows that current are high for the asset finance companies and infrastructure finance companies. The debt-to-equity ratio was lower for microfinance companies
- Core Investment companies showing that the enterprise is depending more on shareholder's funds and lenders are at a lower risk.
- The Net Profit Ratio was high for infrastructure finance companies and micro finance companies predicting good returns in these sectors.
- The return on capital of micro finance companies and assets finance companies higher. This shows that how efficiently a company is using its total capital to generate profit
- The return on net worth equity is higher for microfinance companies and asset financing companies. This shows how well the company management is using the shareholders capital
- From the table it follows that for all the three ratios calculated, the value of F is more than the table value of F at 5% level of significance. This implies that null hypothesis is rejected and indicates that the majority of selected ratios for this study differ significantly between various categories of NBFCs. Different categories of NBFCs behave differently.

### 5.2 CONCLUSION

The analysis of solvency reveal a fact that the sample NBFCs do their business taking high risk i.e. they hold very low percentage of total assets as their owned funds and depend more on borrowed funds and holds more current assets with low percentage of liquid assets with reference to current liabilities. Profit making is in direct proportion to risk taking. Thus, these NBFCs take more risk to earn profits. However, the performance of these NBFCs proves that they have sufficient solvency, as they manage the risks and have cash generation capacity. However these NBFCs need to improve their profitability ratios and cash



management. NBFCs have to focus on their core strengths while improving on weakness. Presently, the economic disruptions caused by the coronavirus outbreak, MSME sector seems to be worst hit due to both businesses coming to a standstill and reduced consumer spending. As MSMEs contribute to major chunk of NBFCs loan portfolio, in case of a default, it will affect NBFCs ability to repay the loans to other financial lenders. However, Indian authorities and regulator have taken several measures to ease borrower's financial burden. Reserve Bank of India introduced a three-month moratorium on loan repayments for distressed bank and NBFC borrowers. A sizeable Rs 3.74 trillion injection of liquidity into the system should help to improve liquidity in local credit markets.

## sCHAPTER 6

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