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Performance analysis of NBFC v/s Private Bank

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Abstract :

The banking system is key part of financial sector and it plays an vital part in the growth of the economy. Comparing their performance gives a good idea about economic stability. This study mainly attempts to measure the performance of Indian banks. For this study, we have used NBFC and Private Bank. Overall , the analysis supports the conclusion that now a days NBFCs performing well and also the better profitability, but in terms of market capitalization Banks better than NBFCs.

Keywords:

NBFCs, Private Bank, HDFC Bank, ICICI Bank, Power finance, Bajaj finance.

Introduction :

Banking in India in the modern sense originated in the last decades of the 18th century. The first banks were bank of Hindustan (1770-1829) and the general bank of India , established 1786 and since defunct.

The Indian banking can be broadly categorized into nationalized (government owned), private banks and specialized banking institution. the reserve bank of India acts a centralized body monitoring any discrepancies and shortcoming in the system .since nationalization of bank in 1969 the public sector banks or the nationalized banks have acquired a place of prominence and had since then seen tremendous progress. The need to become highly customer focused has forced the slow-moving public sector banks to adopt a fast approach. Further has focus of government policy was to develop cooperative sector and rules areas. Further with liberalization of world economies the government permitted the public sector also to operate in banking sector since 1991. at present the Indian financial system consists of public , private,

cooperative, development and foreign banks. To control and regulate the option operation of all these banks the authority has been vested to reserve bank of India and it is the central controlling authority for all banks in India.

A Non-Banking financial company (NBFC) is [1] a company registered under the companies act, 1956 of India, engaged in the business of loans and advance, acquisition of share, stock, bonds, hire-purchase insurance business include agriculture, industrial, activity or the sale, purchase or construction of immovable property.

Banks whose greater part of the equity is held by private shareholders and entities rather than government is known as private sector banks. After most of the banks carried on their operation known as old generation private sector banks. Further, when the liberalization policy was coined in India, the banks which got a license like HDFC bank, ICICI bank, Axis bank etc. are considered as new generation private sector banks.

Literature Review:

(Shukla and Malusare, 2009) the most objective of capital requirement by banks is to absorb shocks. Hence, based on the risk management policy, the bank needs to decide the quantum and quality of capital.

(KOUNDAL, 2012) The paper concludes that although various reforms have produced favorable effect on commercial banks in India.

(Tiwari, Pratap Singh, and Singh, 2016) to conclude, the NBFC are playing significant role in meeting financial requirements of the medium sized small sized industries and development of India economy indirectly

(P. Srinivasa and Kumar, 2017) the financial market in India are comparatively smaller than the size of its population and economy, irrespective of the size of new issues.

(Rao, 2014) with respect to the banking activities the performance of HDFC is better than the SBI and for the investor who are intended for long term investment and risk takers HDFC is better but with respect to the growth in the market for the company price SBI is better.

(Julka, 2013) the trends in attitude towards the NBFC conversion to bank are positive from the side of respondent from the managerial cadre in the banking industry.

(Vadde, 2011) 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, declared during the year 2008-09.

(Satpal, 2014) the NAPs have always created a big problem for the banks in India. It is just not only problem for the banks but for the economy too.

(Akhan, 2009) stated that the non banking financial companies (NBFCs) have been playing a very significant role in the present day rigorous money.

(Kaur, 2010) reveals that, deposit the phenomenal growth sector the extent of rural indebtedness in India has been on a continuous rise.

Research methodology:

Objective of the study :

- To investigate the banking and nonbanking finance corporation (NBFC) in india to understand .
- To compare private sector banks with non banking finance companies in terms of performance.
- To understand the performance ration such as EPS,DPS, market capitalization, total turnover ratio, liquidity ratio , debt ratio, return

Beneficiaries of study :

- Private banks
- NBFCs
- SEBI

Data collection method :

- Secondary data – from books , internet , article and newspaper .

Research design :

- Our research design is DESCRIPTIVE research design .

Data analysis and interpretation :

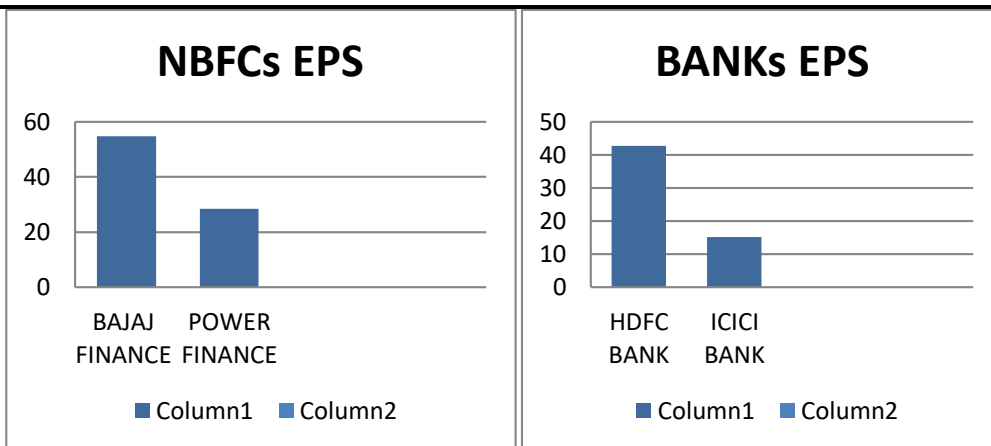
The collected data of NBFCs and BANKs are being analyzed using the concept by trend analysis.

“Trend analysis is an analysis of the trend of the company by comparing its financial statement to analyze the trend of market or analysis of the future on the basis of results of past performance and its an attempt to make the best decision on the basis of results of the analysis is done.”

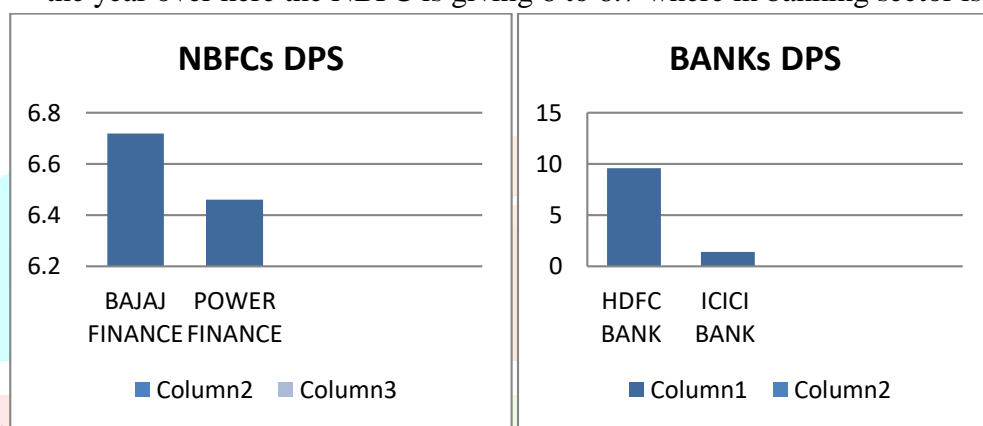
The interpretation of the data is done by putting the value of different ratios, the performance of the company from 2017 to 2021.

Data interpretation for NBFCs and Private Banks:

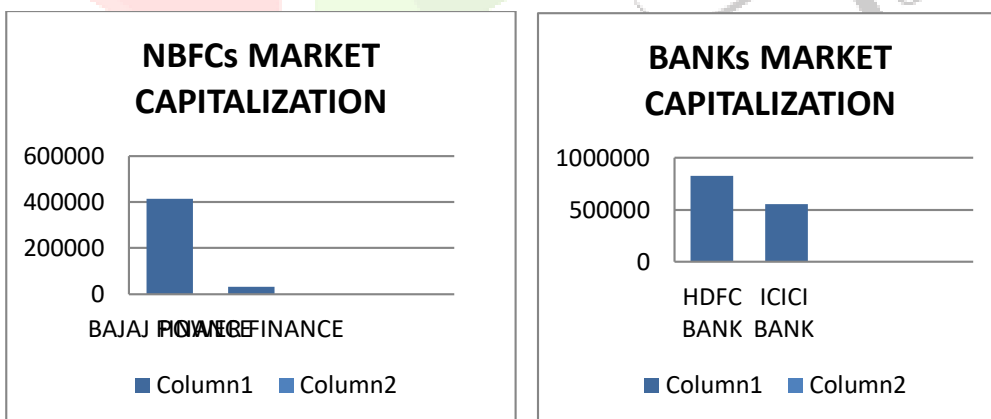
- 1) **EPS:** “EPS is a portion of company profit that is collected to each outstanding common stocks.”EPS Of banks somehow low as compare to the NBFC as we can see the highest performer in banking is HDFC at 42.78 where in NBFC Bajaj finance is performing around 55 and also if we compare to the lower one then BANK ICICI is at 15.18



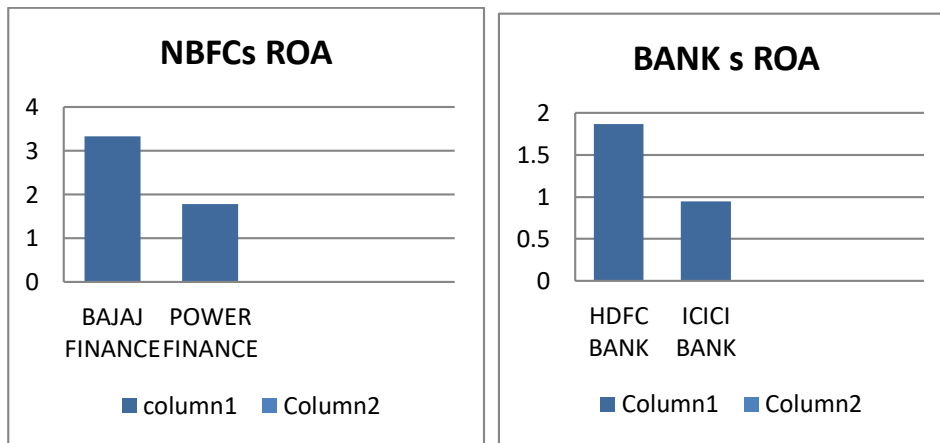
2) **DPS** : dividend per share shows the earning to each shareholder of the company at the end of the year over here the NBFC is giving 6 to 6.7 where in banking sector is 1 to 10.



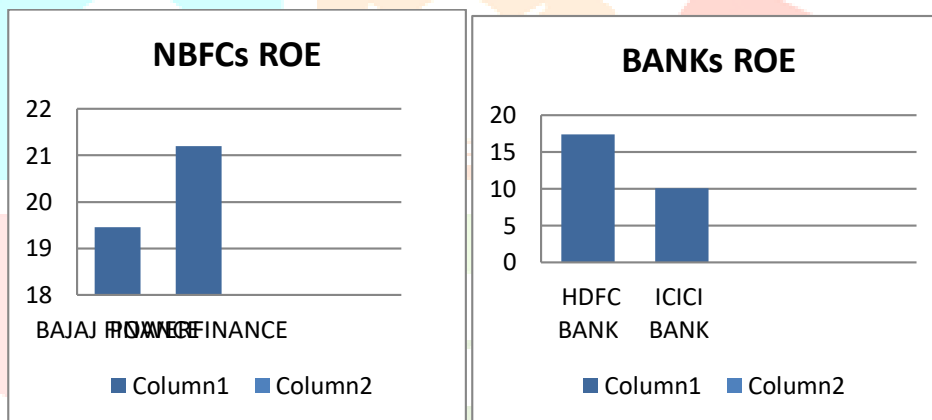
3) **MARKET CAPITALIZATION** :Market capitalization shows the current position of company and its market value .market Is quite clear that market capitalization of NBFC somehow low as compare to BANK.



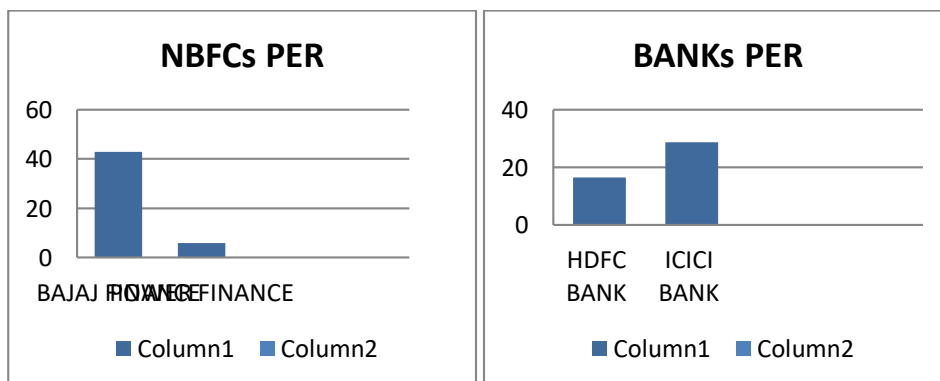
4) **RETURN ON ASSET** : return on asset shows the return of the year against the year against the assets in the company.ROA of NBFC is higher compare to the bank.



5) **RETURN ON EQUITY** : The ROE essentially measure the rate of return that the owners of common stock of a company receive on their shareholdings. As we can see the highest performer in banking HDFC at almost 17 where in NBFC power finance performing around 21.



6) **P/E RATIO** :PER is the ratio for valuing company that measure its current share price relative to its earning per share. So, here the highest PER is given by Bajaj finance. NBFCs PER is giving 3 to 40 where in banking sector is 15 to 25.



Findings :

Now a days NBFC are performing well and they should go for other option or ways to expand their market. On the other hands, BANK have customer base hence, NBFC's should come up with the benefits to the customer so that they can sustain in market. NBFC are leading in category of EPS, but BANK are winning when it comes to market capitalization. NBFCs should ensure consumers to trust and investment.

Conclusion:

It can conclude the comparison of Private Bank and NBFC segment. The market capitalization of Banks are more than NBFC. The EPS of both is good because the difference between both the companies are small but if we come up with the highest EPS so the NBFC giving the high EPS as compare to bank. In most of the financial performance the NBFC are doing better than Banks but the market capitalization of Banks are somehow high as compare to the NBFC.

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