



# AN EMPIRICAL STUDY TO ANALYSE THE PERFORMANCE VARIATION AMONG TOP FIVE INDIAN NBFCs REGARDING SEVERAL OPERATIONAL PARAMETRES

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## Abstract

*NBFCs play an important role in providing financial services to the different sectors of the economy. It boosts up the economic well being of the country by providing diversified and dynamic financial services for the every corners of the country. At present socio-economic scenario it is utmost important to undertake serious research works regarding various aspects of the Non-Banking Financial Companies. Performance variation among different Indian NBFCs regarding various parameters is one of the most important areas of study at present, in terms of socio-economic welfare of the nation. Under this research work, researchers have tried to empirically study the performance variations among top 5 NBFCs regarding PBDIT, Secured and Unsecured loan advances, by applying Single Factor ANOVA. The study concludes on the basis of mixed results, showing statistically significant performance variation in some cases and not statistically significant performance variation in other case. The study also looks into the probable causes of the results obtained through the statistical tests conducted as a part of the research objectives.*

**Keywords:** NBFC, NPA, PBDIT, Secured and Unsecured Loan Advances & Single Factor ANOVA.

*JEL Classification:* C12, C88, G23, Y10.

## RESEARCH PROBLEM:

Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 and 2013. Engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property. NBFC is a financial institution that does not have a full banking license but it facilitates bank related financial services. It is not subject to the banking regulations and oversight by federal and state authorities adhered to by traditional banks. The working and operations of NBFCs are regulated by the Reserve Bank of India (RBI) within the framework of Reserve Bank of India Act, 1934 (Chapter III-B) and the directions issued by it. In its chapter III; it was introduced to accept deposits which were previously not there. NBFCs

lend and make investments and hence their activities are akin to that of banks; however there are a few limitations compared to banking services are given below:

- i. NBFC cannot accept demand deposits.
- ii. NBFCs do not form part of the payment and settlement system and cannot issue cheque drawn on it.
- iii. Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.

However, NBFCs are now playing a vital role in the economic growth of a country by providing financial services to the needy. NBFCs are providing accessible and affordable financial services to the economy in recent times; which is boosting the economic growth. Non-Banking Financial Companies (NBFCs) form an integral part of the Indian financial system and play a complimentary role to the banking system by broadening the access to financial services, facilitating diversification and contributing to inclusive economic development. The Reserve Bank of India (RBI) regulates the functioning of NBFCs, which are considered as quasi-banking institutions. There are 9,658 Non-Banking Financial Companies (NBFCs) registered with the Reserve Bank of India as on March 31, 2019, of which 84 are deposit accepting and 9,554 are non-deposit accepting NBFCs, and of the non-

Deposit accepting NBFCs, 267 are systemically important. NBFCs (Non Banking Financial Companies) play an important role in promoting the inclusive growth of the economy. The NBFCs are providing tough competition to banks with their ability to innovate financial products and through conditions for efficient consumer orientation. They help in facilitating growth of trade and business in rural and semi-urban areas. A large segment of our economy is unorganized but is highly productive and efficient. The NBFCs play an important role by complementing banks in providing credit to those segments of the economy that the banks are unable to reach. Now in the recent era where banks are busy engaged in cleaning the books of bad loan in their balance sheet, the NBFCs are gaining their market share. The NBFCs are winning the market share by outgrowing banks, through the gaining of market share via credit growth and profitability. Considering the above scenario it can be easily put forwarded that NBFCs are becoming an important area of research for the social science researchers. Various aspects of NBFCs, like operational aspects, profitability aspects performance related aspects and its comparative aspects with respect to other institutions becoming more and more part of the research gap of the researchers. The research on these issues has huge social implications in betterment of the financial super structure of the country. Which directly or indirectly ensure over all social welfare and inclusive growth.

## LITERATURE REVIEW:

RBI REPORT (2015), stated that, India's NBFC sector, which has shown robust growth in the recent years, is generically different from shadow banks operating elsewhere in the world, as this article has argued. An assessment of the recent financial performance of NBFCs suggests that they are emerging as an important source of credit to micro and small enterprises and to infrastructure sector.

ECONOMIC TIMES, Jan 28, 2020: "The NBFC issue that we are facing today is both a problem and an opportunity. They have challenges in terms of managing asset-liability mismatch. It is an opportunity because they have built significant capabilities that the banks lack like monitoring small-ticket loans, automated underwriting, and also efficient collection systems. There is an opportunity for us to work with NBFCs" BOB Chief.

Kaur, D. (2018). "A Study of Financial Performance of NBFCs". Study concluded that the financial performance of NBFCs is quite satisfactory. All the parameters like Incomes, expenditure, taxes, PBT, PAT, various ratios fall in the year 2014-15 but all these parameters are rising from the year 2015-16 onwards. The total assets of NBFCs are also continuously rising which is a good indicator of sound financial position. With this sound financial position and good financial performance NBFCs are contributing in the economic growth of country.

Paul, P. (2011). "Financial Performance Evaluation - A Comparative Study of Some Selected NBFCs". It stated that Non-Banking Finance Companies (NBFCs) accomplish various functions and provide a variety of financial services to individuals, businesses and organizational customers. They play an extremely fundamental role in the economic growth of any country. This paper concludes by saying that the selected companies differ significantly in terms of their financial performance indicators from one to another and there are no significant differences in the

last five years in the management of financial performance, but the companies have performed well in the last five years.

Beck et al (2007), studied financial sector outreach and its determinants by using cross country data. They used several indicators of banking sector outreach and examined the determinants of each of these indicators separately.

Karla, R. (2016). "Performance Analysis of Non-Banking Financial Institutions". The study gives a simple picture and leaves room for further study in different areas of NBFI functions. The study tells that Performance of NBFCs is improving. Importantly, the results indicate that NBFCs are the dominant market players of the financial sectors through which the financial resources are effectively channelized from the savers to the users in the economy.

Sowndharya, R. & Sanmugham, R. (2014). "Analysis of Financial Performance of Non-Banking Financial Companies in India". The research concluded that there exists a significant difference in the profitability ratios, leverage ratios, liquidity ratios and risk indicator ratios of selected NBFCs. When all companies are taken together the significant difference does not exist for only two ratios i.e. Price Earnings Ratio and Current Ratio. The ratios for all the selected NBFCs are differing significantly from one another. From this it has been observed that the ratios of NBFCs are generally different from each other.

### **RESEARCH GAP:**

Based on the above extensive review of literature, researchers have identified that an in-depth study of variation in PBDIT, secured loan advances and unsecured loan advances of top five NBFCs in India, as accepted by most of the organizations and individuals has been overlooked till now. The researchers considered above study will have a good social implication in terms of the understanding of operational and performance related aspects of NBFCs. Hence the researchers has considered an empirical study on performance variation of top five NBFCs regarding EBDIT, secured and unsecured loan advances as a research gap in the existing literature and conducted this research work to fill up that gap.

### **RESEARCH OBJECTIVES:**

Following are the research objectives of the concerned research work as identified and decided by the researchers, based on the extensive review of the literature.

1. To know whether variation in mean Profit before Depreciation, Interest and Taxes among top five NBFCs are statistically significant.
2. To know whether variation in mean Secured Loan Advances by top five NBFCs are statistically significant.
3. To know whether variation in mean Unsecured Loan Advances by top five NBFCs are statistically significant.

### **RESEARCH QUESTIONS:**

Based on the above research objectives, following research questions are being derived.

1. Does mean Profit before Depreciation, Interest and Taxes among top five NBFCs vary significantly?
2. Does mean Secured Loan Advances by top five NBFCs vary significantly?
3. Does mean Unsecured Loan Advances by top five NBFCs vary significantly?

## RESEARCH HYPOTHESIS:

To answer the above research questions, to fulfil the above research objectives; following research hypothesis has been derived

1.  $H_{01}$ : There exists no significant variation in mean Profit before Depreciation, Interest and Taxes among top five NBFCs.
2.  $H_{02}$ : There exists no significant variation in mean Secured Loan Advances by top five NBFCs.
3.  $H_{03}$ : There exists no significant variation in mean Unsecured Loan Advances by top five NBFCs.

## RESEARCH METHODOLOGY:

With the growing trust deficit with the banking sector in the recent days; the importance of Non Banking Financial Companies is growing rapidly in meeting financial service needs of the expanding financial market. This is the right time to go for an in-depth understanding of the issues impacting the performance of NBFCs. This can be best achieved through extensive research works on this topic. Understanding of factors impacting various performance parameters of NBFCs has good amount of social implications regarding investor's protection and economic welfare of the country.

Researchers have looked into variation within three performance parameters of top five NBFCs (as per Moneycontrol). Researchers have taken five years data for PBDIT, Secured Loan Advances and Unsecured Loan Advances for five NBFCs. The data has been taken from Moneycontrol. The NBFCs under consideration are Power Finance Corporation Ltd., Shriram Transport Finance Company Ltd., Bajaj Finance Ltd, Mahindra & Mahindra Financial Services Ltd. and Muthoot Finance Ltd. Single Factor ANOVA has been used to test the following Null hypothesis (tests are done under 5% level of significance), as part of the research objectives.

1.  $H_{01}$ : There exists no significant variation in mean Profit before Depreciation, Interest and Taxes among top five NBFCs.
2.  $H_{02}$ : There exists no significant variation in mean Secured Loan Advances by top five NBFCs.
3.  $H_{03}$ : There exists no significant variation in mean Unsecured Loan Advances by top five NBFCs.

The results of the tests are properly interpreted and analysed by the researchers for identifying and giving the probable causes of the results. Parametric tests have been used as it is more fool proof and due to small sample size normality test will not give reliable results. Moreover the nature of the sample also suggests it.

## DATA PRESENTATION AND ANALYSIS:

Table: 1:- Yearly PBDIT of Top Five NBFCs (in Rs. Crore)

Companies	Years	MAR,1 9	MAR,1 8	MAR,1 7	MAR,1 6	MAR,1 5
POWER FIN. CORP. LTD.		28816.3 1	22815.6 9	21549.5 1	25538.5 1	23820.3 4
SHRIRAM TRANSPORT FIN CO. LTD.		11332.5 2	10206.7 1	7145.25	6875.66	6272.88
BAJAJ FIN. LTD.		12102.6 5	8743.06	6692.05	4947.77	3640.84
MAHINDRA & MAHINDRA FIN. SERVICES		6378.6	4780.34	3523.52	3718.36	3792.9
MUTHOOT FIN. LTD.		5355.75	4819.95	4263.04	3736.88	3218.32

Source: Moneycontrol.com

$H_{01}$ : There are no significant differences in mean PBDIT among the five different companies under consideration.

$H_{11}$ : There are significant differences in mean PBDIT among the five different companies under consideration.

## Analysis:

The following test has been conducted to validate the above Null Hypothesis.

Table: 2

Anova: Single Factor						
SUMMARY						
Groups	Count	Sum	Average	Variance		
POWER FIN. CORP. LTD.	5	122540.36	24508.072	7928234.596		
SHRIRAM TRANSPORT FIN. CO. LTD.	5	41833.02	8366.604	5070236.901		
BAJAJ FIN. LTD.	5	36126.37	7225.274	11102997.6		
MAHINDRA & MAHINDRA FIN. SERVICES LTD.	5	22193.72	4438.744	1413357.919		
MUTHOOT FIN. LTD.	5	21393.94	4278.788	717802.0297		
ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	1421157027	4	355289256.6	67.7190	0.0000	2.8661
Within Groups	104930516.2	20	5246525.809			
Total	1526087543	24				

Source: Computed using Microsoft Office Excel 2007

From the above analysis it has been observed that the value of F is 67.7190, which is higher than the F critical value, which is 2.8661 at 95% level of confidence with a P value of 0.0000, hence the Null hypothesis is being rejected and there lies statistically significant differences in mean PBDIT among the five different companies under consideration. It means that there is at least difference in mean PBDIT between two NBFCs.

It has been observed from the above analysis that mean PBDIT for Power Finance Corporation Ltd. is highest (24508.072), followed by Shriram Transport Finance Company Ltd. (8366.604), Bajaj Finance Ltd (7225.274), Mahindra & Mahindra Financial Services Ltd. (4438.744) and Muthoot Finance Ltd. (4278.788).

Table: 3:- Yearly Secured Loan Advances of Top Five NBFCs (in Rs. Crore)

Companies	Years	MAR,19	MAR,18	MAR,17	MAR,16	MAR,15
POWER FIN. CORP. LTD.		295238.7	236784.7	22506.96	21786.66	24703.83
SHRIRAM TRANSPORT FIN CO. LTD.		87914.4	82130.85	15963.03	24333.58	26001.91
BAJAJ FIN. LTD.		86351.72	38867.16	29590.52	30445.13	18691.12
MAHINDRA & MAHINDRA FIN. SERVICES		51862.3	39422.91	18394.81	14278.26	11682.76
MUTHOOT FIN. LTD.		26833.15	21167.04	16986.1	10417.7	11299.83

Source: Moneycontrol.com

H<sub>02</sub>: There are no significant differences in mean Secured Loan Advances among the five different companies under consideration.

H<sub>12</sub>: There are significant differences in mean Secured Loan Advances among the five different companies under consideration.

**Analysis:**

The following test has been conducted to validate the above Null Hypothesis.

**Table: 4**

Anova: Single Factor						
SUMMARY						
Groups	Count	Sum	Average	Variance		
POWER FIN CORP LTD	5	401020.9	80204.178	14486741897		
SHRIRAM TRANSPORT FIN CO LTD	5	236343.8	47268.754	1206445873		
BAJAJ FIN LTD	5	203945.7	40789.13	700093206		
MAHINDRA & MAHINDRA FIN SERVICES	5	135641	27128.208	310722568.1		
MUTHOOT FIN LTD	5	86703.82	17340.764	47323316.32		
ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	11582707998	4	2895676999	0.8643	0.5022	2.8661
Within Groups	67005307442	20	3350265372			
Total	78588015440	24				

Source: Computed using Microsoft Office Excel 2007

From the above analysis it has been observed that the value of F is 0.8643 which is less than the F critical value which is 2.8661 at 95% level of confidence; with a P value of 0.5022. So, it can be concluded that the Null hypothesis is being accepted and there lies no statistically significant differences in mean Secured Loan Advances among the five different companies under consideration.

It has been observed from the above analysis that mean Secured Loan Advances for Power Finance Corporation Ltd. is highest (80203.4), followed by Shriram Ttransport Finance Company Ltd. (47268.2), Bajaj Finance Ltd (40788.8), Mahindra & Mahindra Financial Services Ltd. (27127.6) and Muthoot Finance Ltd. (17340.4).

Table: 5:- Yearly Unsecured Loan Advances of Top Five NBFCs (in Rs. Crore)

Companies	Years	MAR,1 9	MAR,1 8	MAR,1 7	MAR,1 6	MAR,1 5
POWER FIN. CORP. LTD.		-	-	154735. 2	178697. 8	163068. 3
SHRIRAM TRANSPORT FIN CO. LTD.		-	-	22750.2 9	9266.45	8230.26
BAJAJ FIN. LTD.		-	14872.0 4	12447.8 5	6579.58	3896.39
MAHINDRA & MAHINDRA FIN. SERVICES		984.64	670.25	8807.8	7400.31	7975.37
MUTHOOT FIN. LTD.		-	-	-	3222.08	3173.38

Source: Moneycontrol.com

H<sub>03</sub>: There are no significant differences in mean Unsecured Loan Advances among the five different companies under consideration.

H<sub>13</sub>: There are significant differences in mean Unsecured Loan Advances among the five different companies under consideration.

#### Analysis:

The following test has been conducted to validate the above Null Hypothesis.

Table: 6

Anova: Single Factor						
SUMMARY						
Groups	Count	Sum	Average	Variance		
POWER FIN CORP LTD	5	496501. 3	99300.258	8291111599		
SHRIRAM TRANSPORT FIN CO LTD	5	40247	8049.4	86803942.14		
BAJAJ FIN LTD	5	37795.8 6	7559.172	37223466.19		
MAHINDRA & MAHINDRA FIN SERVICES	5	25838.3 7	5167.674	15960733.43		
MUTHOOT FIN LTD	5	6395.46	1279.092	3067939.607		
ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	35326899777	4	8831724944	5.2357	0.004 7	2.866 1
Within Groups	33736670720	20	1686833536			
Total	69063570497	24				

Source: Computed using Microsoft Office Excel 2007

From the above analysis it has been observed that the value of F is 5.2357 which is higher than the F critical value which is 2.8661 at 95% level of confidence with a P value of 0.0047, hence the Null hypothesis is being rejected and there lies statistically significant differences in mean Unsecured Loan Advances among the five different companies under consideration. It means that there is at least difference in mean Unsecured Loan Advances between two NBFCs.

It has been observed from the above analysis that mean PBDIT for Power Finance Corporation Ltd. is highest (99300), followed by Shriram Transport Finance Company Ltd. (8049.2), Bajaj Finance Ltd (7558.8), Mahindra & Mahindra Financial Services Ltd. (5167.2) and Muthoot Finance Ltd. (1279).

## **DISCUSSIONS AND CONCLUSIONS:**

Based on the above test results following conclusions have been drawn.

- 1.** The mean PBDIT of the five companies under research scope vary significantly. The most probable causes that can be attributed for this variation are the differences in market share and operational efficiency. The companies having higher financial market share due to better operational efficiency have higher PBDIT.
- 2.** The mean Secured Loan Advances of the five companies under study are statistically equal. The most probable reason for it is; NBFCs are always trying to maintain a moderate optimum balance in secured loans, so as to reduce operating and financial risk and ensure investor's confidence, while keeping the commercial motive unaffected. For this secured loan advances of the most of the NBFCs does not vary significantly. The giving of unsecured loans is easier than secured loans. Earnings from mortgages by the borrowers are higher than excess interest payment for unsecured loans. The sanctioning of secured loans is much higher than unsecured loans due to risk issues.
- 3.** The mean Unsecured Loan Advances of the five companies under consideration vary significantly. Different NBFCs have different policies and credit appraisal system for granting unsecured loans; hence it varies widely depending upon company perceptions reflected through policies. The NBFCs always trying to maintain low unsecured loan advance balances, as it is attached with high risk. But maintain it based on risk taking capability and considering commercial motive.

## **RECOMMENDATIONS:**

The NBFCs are really playing an important role in the economic welfare of the country. In this time of falling national GDP coupled with many other problems like unemployment, lack of skilled work force, lack of initiative for private investment, agricultural demand supply mismatch, high banking NPAs, etc.; the NBFCs need to play more concrete and wide role in the country's economic system. The role of NBFCs needs to be more important, sustainable and inclusive in supporting and maintaining the healthy economic super-structure of India. The problems of NPA and reducing asset quality are also creeping into the NBFC sector. The NBFCs need to be more serious in sanctioning unsecured loans. They have to devise well thought out strategic plans to gain more market share through customers' enrichment and higher operational efficiency. The institutional investment in NBFCs is also at risk, especially for mutual fund. Though in this case everything is not in NBFCs hand, but still policy measures can be devised for inviting better investment opportunities. The government also need to be more serious in NBFC issues; otherwise it will also be another financial sector disaster.

## **LIMITATIONS AND FUTURE RESEARCH SCOPE:**

The research is basically based on small number of companies and years. More extensive research can be performed under this objective by taking more number of companies and years. The parameters considered for checking of variation is also limited, more and number of parameters; classified under various categories can be considered for more lucid and clear understanding of the various aspects related to NBFCs. The present study is based on secondary data and basic statistical tools. Primary survey can be conducted and more sophisticated statistical tools can be used for understanding and quantification of various causal relationships in this area.

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