# Financial Performance of Non-Banking Companies in India

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***Abstract-*** **Non-banking financial companies (NBFCs) weathered the pandemic supported by various policy initiatives. They built up financial soundness during 2021-22, marked by balance sheet consolidation, improvement in asset quality, augmented capital buffers and profitability. In the second wave of the pandemic during 2021-22, the disruption to economic activity was limited due to adoption of localized and region-specific containment policies and the steady pace of vaccination. Contact intensive segments and smaller businesses in the NBFC sector were however, hit hard and faced asset quality and liquidity stress. As the impact of the second wave waned and the third wave turned out to be short-lived, the NBFC sector regained momentum, cushioned by pro-active policy measures announced by the Reserve Bank and the government.**

***Key words*: NBFCs, Growth, ROA, Finance**

## INTRODUCTION

Financial institutes are major part of financial system of any economy. Financial system of an economy consists both banking and non banking financial institutes. Banks are known as backbone of any economy in the context of financial mobilization because banks accept deposits from general public and lend the money to needed one for starting a new business, expansion of business and other economic activity that plays a important role in the growth of economy. Government also implements its major social sector scheme through banks.
Apart from banks, Non banking financial institutes on the other hand plays a vital role in the economic growth of a country. Non banking financial are private institutes started its business in India.

### Overview of NBFC sector

As on January 31, 2022, there were 94,956 NBFCs registered with the Reserve Bank. Based on liability structure, NBFCs are categorized into deposit-taking NBFCs (NBFCs-D), which are allowed to raise term deposits and non-deposit taking NBFCs (NBFCs-ND). NBFCs-ND are further categorized as systemically important NBFCs (NBFCs-ND-SI) if their asset size exceeds Rs. 500 crore. Based on the kind of activity they undertake, NBFCs are classified into 12 categories.

**Table 1: Types of NBFCs in India**

| Type of NBFC | Nature of activity / Principal business |
|---|---|
| Investment and Credit Company (ICC) | Lending and investments. |
| Infrastructure Finance Company (IFC) | Providing loans for infrastructure development. |
| Infrastructure Debt Fund (IDF) | Facilitate flow of long-term debt to infrastructure projects. |
| Core Investment Company (CIC) | Investment in equity shares, preference shares, debt, or loans of group companies. |
| NBFC- Micro Finance Institution (NBFC-MFI) | Collateral free loans and advances to small borrowers. |
| NBFC – Factor | Factoring business i.e., financing of receivables. |
| Non-Operative Financial Holding Company (NOFHC) | For setting up new banks in private sector through its promoter/promoter groups. |
| Mortgage Guarantee Company (MGC) | Providing mortgage guarantees for loans. |
| Asset Reconstruction Company (ARC) | Acquiring and dealing in financial assets sold by banks and financial institutions. |
| Peer-to-Peer Lending platform (P2P) | Providing an online platform to bring lenders and borrowers together to help mobilise funds. |
| Account Aggregator (AA) | Collecting and providing information about a customer's financial assets in a consolidated, organised and retrievable manner to the customer or others as specified by the customer. |
| Housing Finance Company (HFC) | Financing for housing. |

**Source: RBI**

## LITERATURE REVIEW

It is unanimous that for rapid growth of an economy a proper and systematic functioning of financial system is necessary (Kroszner, 2010). In all modern economies, for instance, well structured financial systems efficiently provide a broad range of financial services and act as a strong pillar in contributing towards macroeconomic stability and sustained economic growth and prosperity (World Bank, 2003).

however, 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.

**Kantwala (1997)** analyzed the financial performance of NBFCs in India. He has found a significant difference in the profitability ratio, leverage ratio, liquidity ratio of various categories of NBFCs in India during the year 1985-1995.

**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.

**Singh and Ramniwas (2011)** studied the growth and financial performance of the NBFCs in India. They have concluded that the NBFCs segment of finance was less regulated over a period of time.

**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".

**R.Sowndharya and Dr.R.Shanmugam (2014)** write on "Analysis of Financial Performance of Non- Banking Financial Companies in India" in the Indian Journal of Applied Research this research paper includes Non-Banking Financial Companies, profitability, liquidity, leverage, Interest Coverage, Risk Indicator ratios. This study indicates the selected NBFCs differ significantly in terms of profitability and leverage indicators. The analysis of variance along with detail about average ratios may become a useful guide to the NBFCs in their financial decision making.

**Dr.J.Shanmuganandavadivel and Dr.D.Sasikala Devi (2018)** published a paper entitled "Performance of NBFCs-an Indian Context" in the International Journal of Pure and Applied Mathematics This study found that there has been some deterioration in asset quality of NBFCs in recent years, but it is better than that of banks. NBFCs also reported better profitability and capital positions.

**Research methodology**

The current paper is based on the descriptive type of research. This study is based on secondary data mainly focuses on Literature review, research Paper, RBI Bulletin News Papers, Journals, websites, and other reliable sources. The data is also collected from RBI websites.

**Objectives of the study**

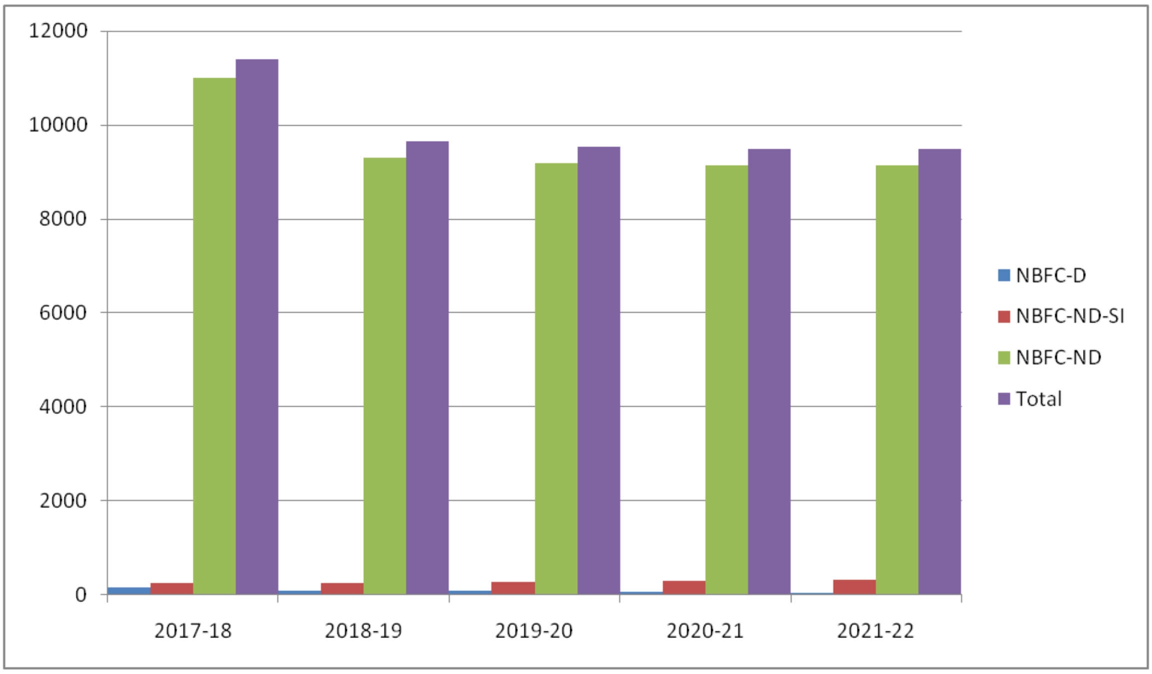
- To study the financial structure of NBFCs.
- To analyze the financial performance of NBFCs sector in india.

**Financial structure of NBFCs in india:**

**Table 2: Number of different type of NBFCs in India**

| Year | NBFC-D | NBFC-ND-SI | NBFC-ND | Total |
|---|---|---|---|---|
| 2017-18 | 156 | 249 | 10997 | 11402 |
| 2018-19 | 88 | 263 | 9308 | 9659 |
| 2019-20 | 82 | 274 | 9187 | 9543 |
| 2020-21 | 64 | 292 | 9133 | 9489 |
| 2021-22 | 49 | 316 | 9130 | 9495 |

**Chart 1: Number of different type of NBFCs in India**




**Source: Table 2**

**NBFC-D:** The deposits of NBFCs-D are not insured by the Deposit Insurance and Credit Guarantee Corporation (DICGC). Hence, the Reserve Bank has mandated that only investment grade NBFCs-D shall accept fixed deposits from the public up to a limit of 1.5 times of their NOF and for a tenure of 12 to 60 months only, with interest rates capped at 12.5 per cent, keeping depositors' interest in view. In May 2022, it was mandated that the deposits of NBFCs shall have a minimum investment grade credit rating of 'BBB–' from any of the SEBI-registered credit rating agencies.

**NBFC-ND:** At end-March 2022, NBFCs-ND accounted for 14.4 per cent of the total assets of the NBFC sector. Non-government public limited companies dominate this category, with a share of 88.3 per cent of the total assets of NBFCs-ND

**NBFC-ND – SI:** The NBFCs-ND-SI category accounted for around 86 per cent of the total assets of the NBFC sector at end-March 2022. Although the category is largely populated by non-government companies, a few large government-owned NBFCs hold a substantial share of the assets of the NBFCs-ND-SI sub-sector.

**Financial Position of NBFCs in India:**

**Table 3: Balance Sheet of NBFCs for selected period**
**(Amt in Rs crore)**

| Items | At end-March 2021 | | | At end-March 2022 | | |
|---|---|---|---|---|---|---|
| | NBFCs | NBFCs-ND-SI | NBFCs-D | NBFCs | NBFCs-ND-SI | NBFCs-D |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1. Share Capital and Reserves | 7,97,627 (26.3) | 6,96,742 (27.6) | 1,00,884 (17.6) | 9,01,449 (13.0) | 7,89,909 (13.4) | 1,11,541 (10.6) |
| 2. Public Deposits | 62,262 (24.5) | - | 62,262 (24.5) | 70,754 (13.6) | - | 70,754 (13.6) |
| 3. Debentures | 9,82,576 (8.4) | 8,83,895 (10.1) | 98,681 (-4.5) | 10,06,496 (2.4) | 8,97,508 (1.5) | 1,08,988 (10.4) |
| 4. Bank Borrowings | 7,75,099 (11.5) | 6,60,285 (15.7) | 1,14,815 (-7.7) | 9,04,715 (16.7) | 7,85,089 (18.9) | 1,19,625 (4.2) |
| 5. Commercial Paper | 72,597 (8.6) | 64,074 (7.9) | 8,523 (14.0) | 70,117 (-3.4) | 62,218 (-2.9) | 7,899 (-7.3) |
| 6. Others | 8,14,174 (-0.6) | 6,80,946 (-3.2) | 1,33,228 (15.0) | 8,87,389 (9.0) | 7,53,619 (10.7) | 1,33,770 (0.4) |
| **Total Liabilities/Assets** | **35,04,335 (10.6)** | **29,85,943 (11.3)** | **5,18,392 (6.5)** | **38,40,921 (9.6)** | **32,88,344 (10.1)** | **5,52,577 (6.6)** |
| 1. Loans and Advances | 27,02,618 (9.7) | 22,78,224 (11.3) | 4,24,394 (1.6) | 29,08,743 (7.6) | 24,47,059 (7.4) | 4,61,684 (8.8) |
| 2. Investments | 4,44,837 (27.9) | 3,98,236 (29.0) | 46,601 (19.0) | 5,13,891 (15.5) | 4,68,413 (17.6) | 45,479 (-2.4) |
| 3. Cash and Bank Balances | 1,57,708 (20.0) | 1,23,474 (8.1) | 34,235 (98.2) | 1,80,341 (14.4) | 1,48,174 (20.0) | 32,167 (-6.0) |
| 4. Other Current Assets | 1,59,543 (-11.5) | 1,46,988 (-12.8) | 12,555 (32.2) | 1,65,364 (3.6) | 1,52,703 (3.9) | 12,661 (0.8) |
| 5. Other Assets | 39,629 (-13.1) | 39,021 (-12.9) | 608 (-80.3) | 72,581 (83.2) | 71,994 (84.5) | 587 (-3.4) |

**Notes: Data are provisional**
**Source: Supervisory returns,RBI**

The balance sheet size of NBFCs grew at a subdued pace in 2021-22, reflecting both weak demand and risk aversion amid disruptions caused by the second wave of COVID-19. NBFCs also faced headwinds as competition from banks intensified, particularly in the retail space. The Sector nevertheless maintained comfortable liquidity buffers, adequate provisioning, and a strong capital position.

The deceleration in loans and advances of the sector was driven by an absolute decline in unsecured loans by NBFCs-ND-SI, highlighting their preference for safe assets in an atmosphere of economic uncertainty. NBFCs-ND-SI also continued to shore up their liquidity, with their cash and bank balances exhibiting double digit growth. At end- September 2022, balance sheet growth of NBFCs moderated on the back of a decline in investments of NBFCs-ND-SI. Credit, however, grew in double digits for both NBFCsND-SI and NBFCs-D.

**Financial performance parameter of NBFCs:**

**Table 4: Income statement of NBFCs for selected period**
**(Amt in Rs crore)**

| Items | 2020-21 | | | 2021-22 | | |
|---|---|---|---|---|---|---|
| | NBFCs | NBFCs-ND-SI | NBFCs-D | NBFCs | NBFCs-ND-SI | NBFCs-D |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| A. Income | 3,56,252 (3.9) | 2,89,157 (4.7) | 67,095 (0.8) | 3,76,563 (5.7) | 3,03,831 (5.1) | 72,732 (8.4) |
| B. Expenditure | 3,00,373 (4.8) | 2,44,869 (4.2) | 55,504 (7.9) | 2,94,928 (-1.8) | 2,39,645 (-2.1) | 55,282 (-0.4) |
| C. Net Profit | 41,578 (6.5) | 32,901 (16.2) | 8,677 (-19) | 61,843 (48.7) | 48,523 (47.5) | 13,319 (53.5) |
| D. Total Assets | 35,04,335 (10.6) | 29,85,943 (11.3) | 5,18,392 (6.5) | 38,40,921 (9.6) | 32,88,344 (10.1) | 5,52,577 (6.6) |
| E. Financial Ratios (as per cent of Total Assets) | | | | | | |
| (i) Income | 10.2 | 9.7 | 12.9 | 9.8 | 9.2 | 13.2 |
| (ii) Expenditure | 8.6 | 8.2 | 10.7 | 7.7 | 7.3 | 10.0 |
| (iii) Net Profit | 1.2 | 1.1 | 1.7 | 1.6 | 1.5 | 2.4 |
| F. Cost to Income Ratio (Per cent) | 84.3 | 84.7 | 82.7 | 78.3 | 78.9 | 76.0 |

**Notes: Data are provisional**
**Source: Supervisory returns,RBI**

**Financial Performance of NBFCs**
NBFCs' income grew at a higher rate in 2021-22 than a year ago, primarily driven by fund-based income of NBFCs-ND-SI and NBFCs-D. During 2021-22, net profits of NBFCs improved mainly by a turnaround in fund-based income.
On the expenditure side, there was a steep growth in the operating expenses of NBFCs. Provisions against NPAs, on the other hand, declined reflecting easing of asset quality concerns. Overall, expenditure of the sector declined due to lower provisions and decreases in interest expenses on bank loans and inter corporate deposits. The result was a sizable growth in net profit. The decline in cost to income ratio for the NBFC sector, across all categories, indicates efficiency gains in their operations. In 2021-22 there was a turnaround in total income surpassing the growth in total expenditure.

**Analysis of selected ratios of NBFCs sector:**

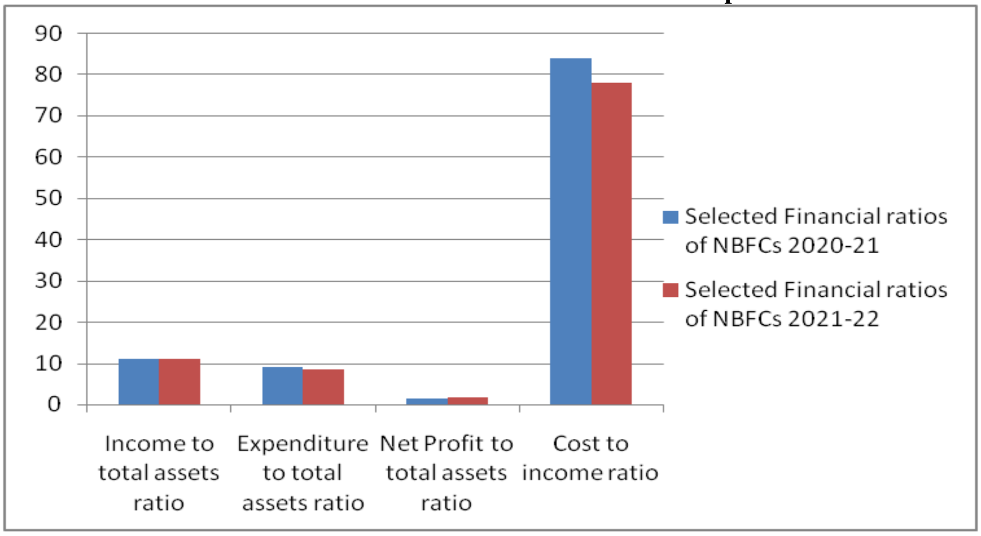
**Table 5: Financial ratio of NBFCs for selected period**

| Selected Financial ratios of NBFCs | | |
|---|---|---|
| Particulars | 2020-21 | 2021-22 |
| Income to total assets ratio | 10.93 | 11.13 |
| Expenditure to total assets ratio | 9.16 | 8.33 |

| | | |
|---|---|---|
| Net Profit to total assets ratio | 1.33 | 1.83 |
| Cost to income ratio | 83.9 | 77.73 |

**Source: Supervisory returns,RBI**

**Chart 1: Financial ratio of NBFCs for selected period**




**Source: Table 5**

**CONCLUSIONS:**

NBFCs need to be mindful of the rising interest rate cycle and persisting uncertainties due to global shocks. They also face intensifying competition from banks, particularly in segments that were NBFC strongholds like vehicle and gold loans. The fast growing digital lending ecosystem poses novel challenges, and regulated entities need to be cautious about unethical recovery practices and data privacy issues. These entities also need to strengthen their oversight of outsourced activities to prevent undue harassment of their customers by third party applications. The Reserve Bank, on its part, has endeavoured to address these issues proactively and has provided timely regulatory guidance.

NBFIs exhibited remarkable resilience in the face of the COVID-19 shock. During 2021-22, their operations gained traction notwithstanding the divergent speed of recovery in different sectors of the economy and cash flow disruptions faced by borrowers. Strong capital buffers and adequate provisioning in this unsettling environment are reassuring. The asset quality of NBFCs is expected to further improve in the near term, aided by strengthening economic activity. Sharper regulatory oversight, realignment in asset quality classification and prompt corrective action norms will further entrench stability.

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