

# A Study on Financial Performance of Selected Indian Non-Banking Financial Companies (NBFCs)

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## ABSTRACT

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In recent times, the Non-Banking Finance Companies (NBFCs) sector has grown as most important roll into a large industrial sector. But this industry has seen some radical transformation in its composition in terms of its players. NBFCs industry is a part of the changing business paradigms across the world. In a market driven NBFCs sector, competition is the most dynamic elements. Due to market competition in Indian NBFCs industry, the pattern of this sector is changing phenomenally. The last decade has seen many very positive developments in the Indian NBFCs industry. India's NBFCs industry must growth (strengthen) itself significantly if it has to support our modern and vibrant economy. So, measurement the financial performance of NBFCs industry is an interesting area for the researcher. A thorough short analysis of impact of financial ratios on the Financial Performance has been carried out. Here the financial performance has been compared with their growth of ten years from 2010-11 to 2019-20. Profitability ratios are used to find out how far the resources of the companies are used effectively during the study period.

**Keywords:** Non-Banking Finance Companies, Financial Performance, Growth, Profitability.

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## Introduction

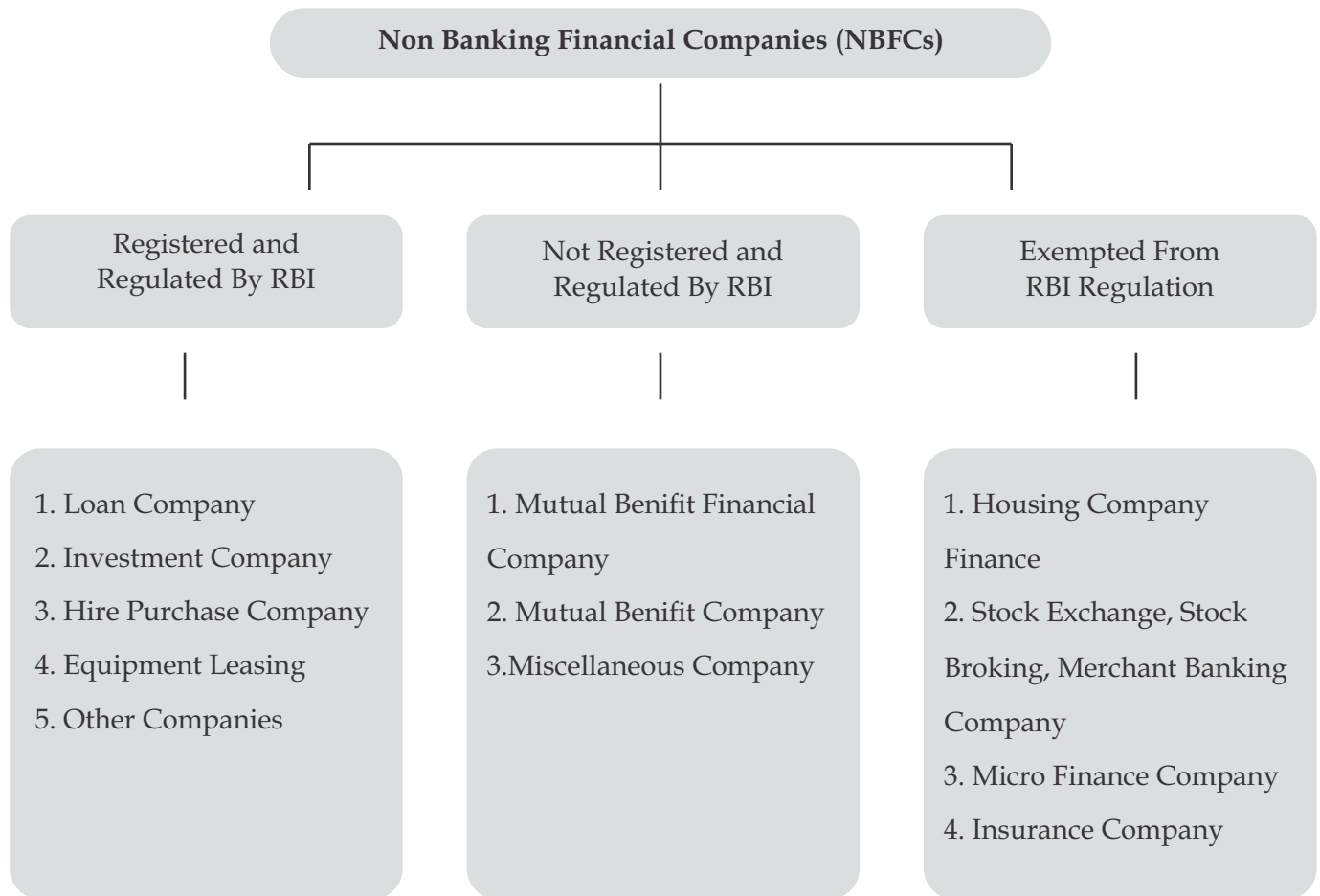
A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 of India, engaged in the business of loans and advances, acquisition of shares or stock or bonds, hire-purchase business, insurance business or chit business but does not include any institution whose principal business is that includes agriculture or industrial activity or the sale, purchase or construction of immovable property. The working and operations of NBFCs are regulated by the Reserve Bank of India (RBI)

within the framework of the Reserve Bank of India Act, 1934 (Chapter III B) and the directions issued by it.

## Objectives of the Study

- To know the structure, functions and role of NBFCs in economic development of the country.
- To study the financial performance and their growth regarding total income, net income and share holders' fund of selected NBFCs.

## Structure of NBFCs



### Functions of Non-Banking Financial Companies (NBFCs)

- Hire Purchase Services
- Retail Financing
- Trade Finance
- Assets Management Company
- Leasing Services
- Micro Small Medium Enterprise Financing
- Venture Capital Service
- Infrastructure Funding

### Role of Non-Banking Financial Company in Economic Development

- NBFCs aid in economic development in the following ways:
- Mobilization of Resources – It converts savings into investments
- Capital formation – Aids to increase capital stock of a company
- NBFC`s provide long term credit and Specialized credit
- Aid in employment generation
- Help in development of financial markets

- Helps in attracting foreign grants

Helps in breaking the vicious circle of poverty by serving as government's instrument

## Why are Non-Banking Financial Companies Important?

India's financial services sector is very huge. It is not just comprised of commercial banks, but also non-banking financial companies (NBFCs). These firms offer a wide assistance of financial services like loans, chit-funds, and are different from banks. NBFCs are often small players that largely go unnoticed. NBFC companies are game-changers that are very important to the economy due to the following factors.

- Size of the sector
- Growth
- Profitability
- Infrastructure lending

## Promoting Inclusive Growth NBFCs are Typically into Funding of

- Construction equipment
- Commercial vehicles and cars
- Gold loans
- Microfinance
- Consumer durables and two wheelers
- Loan against shares, etc.

## Research Methodology

The sample of the NBFCs has been chosen based on convenient sampling technique. The data has been collected from their annual reports. The study period covered 2010-11 to 2019-20. Profitability ratio is used to find out how far the resources of the companies are used effectively during the study period.

The following NBFCs are taken for the study

- Power Finance Corporation Ltd.
- Rural Electrification Corporation Ltd.
- Shriram Transport Finance Company Ltd.
- Bajaj Finance Ltd.
- Chola mandalam Investment and Finance Company Ltd.
- Muthoot Finance Ltd.
- Mahindra & Mahindra Financial Services Ltd.

Here I have done three analyses to take decision on profitability and investment.

- 1) Analysis of Growth in Total Income
- 2) Analysis of Growth in Net Profit
- 3) Analysis of Growth in Shareholders' Fund

## Analysis of Growth in Total Income

**Table-1: Total Income for selected financial institutions for the period from 2010-11 to 2019-20**

Firm	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PFC	10214.10	13037.11	17272.55	21537.46	24906.80	27564.31	27018.57	26737.74	54156.83	62275.36
REC	8495.27	10509.07	13598.67	17228.94	20388.05	24129.93	24095.35	23101.40	25431.33	29854.98
Shriram	5429.65	5893.88	6563.59	7880.01	8644.72	10293.48	10830.61	12339.56	15545.70	15562.36
Bajaj	1406.13	2171.91	3111.37	4073.33	5418.28	7383.48	10003.31	13329.22	18501.76	23834.15
Chola	1201.83	1766.60	2555.68	3262.84	3691.19	4193.71	4660.35	5425.77	6992.64	8652.89
Muthoot	2315.97	4549.06	5387.14	4947.44	4324.64	4875.02	5746.70	6243.20	6880.63	8722.79
Mahindra	2012.58	2910.36	3894.70	4953.00	5584.71	5905.10	6237.54	7206.12	8809.81	10245.14

**Table-2: Growth in Total Income for selected financial institutions for the period from 2010-11 to 2019-20**

Firm	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Average increment
PFC	100.00	127.64	169.10	210.86	243.85	269.87	264.52	261.77	530.22	609.70	298.61
REC	100.00	123.71	160.07	202.81	239.99	284.04	283.63	271.93	299.36	351.43	246.33
Shriram	100.00	108.55	120.88	145.13	159.21	189.58	199.47	227.26	286.31	286.62	191.45
Bajaj	100.00	154.46	221.27	289.68	385.33	525.09	711.41	947.94	1315.79	1695.02	694.00
Chola	100.00	146.99	212.65	271.49	307.13	348.94	387.77	451.46	581.83	719.98	380.92
Muthoot	100.00	196.42	232.61	213.62	186.73	210.50	248.13	269.57	297.09	376.64	247.92
Mahindra	100.00	144.61	193.52	246.10	277.49	293.41	309.93	358.05	437.74	509.05	307.77

Above mentioned, Table – 1 shows the amount of total income for selected seven non-financial institutions for the selected period for 10 financial years i.e. from 2010-11 to 2019-20. Table-2 shows the growth in total income for such period. For calculating individual growth for selected financial institutions, the first year (2010-11) is taken as base year and considered as 100. Accordingly for the rest of the period, the changes have been calculated to find out the increment and decrement.

After observing table-2, it can be said that highest

increment for Bajaj is observed (1695.02) for the year 2019-20. While the lowest increment is observed for Shriram (108.55) for the year 2011-12. Moreover, after calculating the average increment for the selected seven financial institutions, PFC is 298.61, REC is 246.33, Shriram is 191.45, Bajaj is 694, Chola is 380.92, Muthoot is 247.92 and Mahindra is 307.77. Here the highest average increment for Bajaj is 694 which is almost 6.94 times than the base year 2010-11. While the lowest average increment is 191.45 for Shriram which is 1.91 times than the base year 2010-11.

## Analysis of Growth in Net Profit

**Table-1: Net Profit for selected financial institutions for the period from 2010-11 to 2019-20**

Firm	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PFC	2647.12	3031.74	4419.60	5417.75	5959.33	6113.48	2126.39	5855.22	12640.27	9477.25
REC	906.70	2817.03	3817.62	4741.25	5259.87	5691.42	6245.76	4689.46	5741.38	4886.16
Shriram	1229.88	1257.45	1360.62	1264.21	1237.81	1178.20	1257.34	1554.46	2575.68	2501.84
Bajaj	246.96	406.44	591.31	719.01	897.88	1278.52	1836.55	2646.70	3994.99	4881.12
Chola	62.18	172.54	306.55	364.01	435.16	568.45	718.74	974.12	1186.15	1052.37
Muthoot	494.18	892.02	1004.24	780.07	670.52	809.45	1179.83	1720.27	1972.14	3018.30
Mahindra	463.11	643.50	882.69	887.23	831.78	672.26	400.23	1372.75	1557.06	906.40

**Table-2: Growth in Net Profit for selected financial institutions for the period from 2010-11 to 2019-20**

Firm	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Average increment
PFC	100.00	114.53	166.96	204.67	225.13	230.95	80.33	221.19	477.51	358.02	231.03
REC	100.00	310.69	421.05	522.91	580.11	627.71	688.85	517.20	633.22	538.90	537.85
Shriram	100.00	102.24	110.63	102.79	100.64	95.80	102.23	126.39	209.43	203.42	128.18
Bajaj	100.00	164.58	239.44	291.14	363.57	517.70	743.66	1071.71	1617.67	1976.48	776.22
Chola	100.00	277.50	493.01	585.44	699.86	914.23	1155.93	1566.67	1907.67	1692.51	1032.54
Muthoot	100.00	180.51	203.21	157.85	135.68	163.80	238.75	348.11	399.07	610.77	270.86
Mahindra	100.00	138.95	190.60	191.58	179.61	145.16	86.42	296.42	336.22	195.72	195.63

Above mentioned, Table – 1 shows the amount of net profit for selected seven non-financial institutions for the selected period for 10 financial years i.e. from 2010-11 to 2019-20. Table-2 shows the growth in net profit for such period. For calculating individual growth for selected financial institutions, the first year (2010-11) is taken as base year and considered as 100. Accordingly for the rest of the period, the changes have been calculated to find out the increment and decrement.

After observing table-2, it can be said that highest

increment for Bajaj is observed (1976.48) for the year 2019-20. While the lowest increment is observed for PFC(80.33) for the year 2016-17. Moreover, after calculating the average increment for the selected seven financial institutions, PFC is 231.03, REC is 537.85, Shriram is 128.18, Bajaj is 776.22, Chola is 1032.54, Muthoot is 270.86 and Mahindra is 195.63. Here the highest average increment for Chola is 1032.54 which is almost 10.33 times than the base year 2010-11. While the lowest average increment is 128.18 for Shriram is 1.28 times than the base year 2010-11.

1) **Analysis of Growth in Shareholders' Fund:**  
**Shareholders' Fund = Share Capital + Reserve and Surplus**

**Table-1: Shareholders' Fund for selected financial institutions for the period from 2010-11 to 2019-20**

Firm	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PFC	15240.81	20707.52	24054.12	27374.61	32219.21	35765.13	36470.21	39860.67	47121.25	49399.80
REC	12788.62	14744.92	17454.38	20803.05	24857.03	28893.40	33325.59	35872.30	34546.34	35076.56
Shriram	4900.85	5992.31	7194.74	8273.22	9237.96	10154.11	11302.23	12587.99	15962.76	18005.16
Bajaj	1358.11	2012.25	3367.04	3990.86	4799.71	7324.61	9600.31	16518.29	19697.02	31813.21
Chola	1071.99	1417.28	1964.77	2294.70	3172.65	3657.38	4312.67	5150.22	6175.74	8171.84
Muthoot	1334.41	3429.53	3735.57	4264.58	5083.50	5619.25	6516.44	7760.41	9792.72	11571.81
Mahindra	2488.01	3031.07	4454.57	5093.86	5669.41	6088.10	6477.24	9303.09	10908.02	11363.85

**Table-2: Growth in Shareholders' Fund for selected financial institutions for the period from 2010-11 to 2019-20**

Firm	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Average increment
PFC	100.00	135.87	157.83	179.61	211.40	234.67	239.29	261.54	309.18	324.13	228.17
REC	100.00	115.30	136.48	162.67	194.37	225.93	260.59	280.50	270.13	274.28	213.36
Shriram	100.00	122.27	146.81	168.81	188.50	207.19	230.62	256.85	325.71	367.39	223.79
Bajaj	100.00	148.17	247.92	293.85	353.41	539.32	706.89	1216.27	1450.33	2342.46	810.96
Chola	100.00	132.21	183.28	214.06	295.96	341.18	402.31	480.44	576.10	762.31	376.43
Muthoot	100.00	257.01	279.94	319.58	380.95	421.10	488.34	581.56	733.86	867.18	481.06
Mahindra	100.00	121.83	179.04	204.74	227.87	244.70	260.34	373.92	438.42	456.74	278.62

Above mentioned, Table – 1 shows the amount of Shareholders' Fund for selected seven non-financial institutions for the selected period for 10 financial years i.e. from 2010-11 to 2019-20. Table-2 shows the growth in Shareholders' Fund for such period. For calculating individual growth for selected financial institutions, the first year (2010-11) is taken as base year and considered as 100. Accordingly for the rest of the period, the changes have been calculated to find out the increment and decrement.

After observing table-2, it can be said that highest increment for Bajaj is observed (2342.46) for the year 2019-20. While the lowest increment is observed for REC (115.30) for the year 2011-12. Moreover, after calculating the average increment for the selected seven financial institutions, PFC is 228.17, REC is 213.36, Shriram is 223.79, Bajaj is 810.96, Chola is 376.43, Muthoot is 481.06 and Mahindra is 278.62. Here the highest average increment for Bajaj is 810.96 which is almost 8.11 times than the base year 2010-11. While the lowest average increment is 213.36 for REC which is 2.13 times than the base year 2010-11.



## Findings

The growth rate was very high to Baja Finance Limited and it was negative to Shriram Transport Finance Company Limited, it showed that Baja Finance Limited had considerable increase in its total income.

The growth rate was very higher to Baja Finance Limited and it was negative to Power Finance Corporation Limited it showed that it showed that Baja Finance Limited had considerable increase in its profitability.

The growth rate of shareholders' fund is significantly changed to REC during the study period and it was very high to Bajaj Finance Limited.

For the purpose of investment, the growth rate of total income is highly positive for Bajaj Finance Limited while average positive for Cholamandalam Investment and Finance Company Ltd, Power Finance Corporation Limited, Mahindra & Mahindra Financial Services Ltd. and less positive for Rural Electrification Corporation Ltd., Muthoot Finance Ltd. Shriram Transport Finance Company Ltd.

For the purpose of investment, the growth rate of net profit is highly positive for Cholamandalam Investment and Finance Company Ltd, while average positive for Bajaj Finance Limited, Rural Electrification Corporation Ltd and less positive for Muthoot Finance Ltd., Shriram Transport Finance Company Ltd, Power Finance Corporation Limited, Mahindra & Mahindra Financial Services Ltd.

For the purpose of investment, the growth rate of share holders' fund is highly positive for Bajaj Finance Limited while average positive for Cholamandalam Investment and Finance Company Ltd, Muthoot Finance Ltd., Mahindra & Mahindra Financial Services Ltd. and less positive for Rural Electrification Corporation Ltd., Shriram Transport Finance Company Ltd, Power Finance Corporation Limited.

## Conclusion

Non-banking financial companies (NBFCs) are fast emerging as an important part of Indian financial system. It is a variant group of institutions (other than commercial and co-operative banks) performing financial intermediation in a variety of ways, like accepting deposits, making loans and advances, leasing, hire purchase, etc. They also raise funds from the public, directly or indirectly, and lend them to ultimate spenders. They advance loans to the various wholesale and retail traders, small-scale industries and self-employed persons. Thus, they have broadened and diversified the range of products and services offered by a financial sector.

## References

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