A CASE STUDY OF NON-BANKING GROWTH AND PERFORMANCE IN FINANCIAL INSTITUTIONS OF INDIA

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ABSTRACT

But the banking sector has a significant impact on the Indian financial market, non-bank financial institutions have emerged as a major force, competing with banks while also complementing them via the provision of a wide range of financial services. Annual data from 20 NBFCs from 2006-2015 are used for this analysis. Firms that rely on their assets to generate revenue are known as asset-based those, whereas companies that rely on their core investments are known as core investment companies. The function of NBFCs has been to augment that of the organized banking sector by filling in credit gaps, such as providing loans to the unorganized sector and to small borrowers in the local community in order to fulfil the rising demands of the corporate sector for financial services. In the structured financial industry, NBFCs have traditionally benefited from a more adaptable organizational structure than banks. The Central Government and the Reserve Bank of India have been making periodic efforts to regulate these NBFCs.

Keywords: Onset of NBFCs; Growth of NBCs; Performance, Non-Banking Financial Companies and

INTRODUCTION

NBFC is a Financial Institution that is into Lending or Investment or collecting cash under any plan or arrangement but does not include any institutions which operate on its major business-like agricultural activity, industrial activity, trade and acquisition or sale of immovable assets. A firm that engages on the business of receiving deposits as its core activity is likewise an NBFC.

India has a varied financial industry experiencing fast development, both in terms of the robust growth of current financial services organisations and new entities joining the market. The sector contains commercial banks, insurance firms, non-banking financial businesses, co-operatives, pension funds, mutual funds, and other smaller financial enterprises. The banking regulator has enabled new organisations such as payments banks to be founded lately so adding to the kinds of businesses functioning in the industry.

Non-Banking Financial Companies (NBFC) in India had a modest starting far back in the 1960's to fulfil the demand of the savour and investor whose financial needs were not adequately covered by the existing banking system in India. The NBFCs started to request fixed deposit from investor and work out lease contract for major industrial enterprises. Initially, they functioned on a small scale and could not have a substantial influence on the financial system. However, during 1980's and 1990's, NBFCs gained solid footing and began to inveigle a big number of investors due to their consumer-friendly reputation. Non-Banking Financial Firms or NBFCs in India are registered companies doing commercial operations similar to normal banks. Their banking activities involve making loans and advances accessible to individuals and companies, acquisition of marketable securities, leasing of hard assets such as autos, hire-purchase and insurance business. Though they are comparable to banks, they vary in handful key aspects.

NBFCs cannot take demand deposits, cannot issue checks to consumers and the deposits with them are not protected by DICGC (Deposit Insurance and Credit Guarantee Corporation) (Deposit Insurance and Credit Guarantee Corporation). Either the RBI (Reserve Bank of India) or SEBI (Securities and Exchange Board of India) or both regulate NBFCs. The NBFC industry in India has undergone substantial vicissitude over the last several years and has grown to be regarded as a fundamentally crucial aspect of the financial system. The NBFC market has undergone consolidation throughout the recent past, notably in the NBFCND-SI category. Indeed, it is obvious in India that with the expansion of NBFCs sector within the broader financial system, it forced the other segments, i.e. banks to innovate, to increase quality and competence, and provide at flexible timings and at competitive pricing. In reality, in a lot of un-treaded paths, NBFCs were the ones to venture first to study the industry and expand before banks joined the space. NBFCs are widely categorized into two groups depending on whether they take public deposits, i.e. NBFC-Deposit taking (NBFC-D) and NBFCs-Non-Deposit taking (NBFC-ND) (NBFC-ND). Besides, there are only two residuary non-banking financing companies (RNBCs) which are also deposit taking firms of distinct character. In the recent years, infrastructure financing has gathered momentum, and NBFCs involved in infrastructure finance are designated 'Core Investment Companies'.'

The financial sector in each economy consists of numerous intermediaries. Apart from banking entities, there are investment intermediaries (such as mutual funds, hedge funds, pension funds, and so on), risk transfer entities (such as insurance companies), information and analysis providers (such as rating agencies, financial advisers, etc), investment banks, portfolio managers and so on. All such businesses that provide financial services other than banking, may be roughly dubbed non-banking financial institutions.

LITERATURE AND REVIEW

Jency S et.al (2017) There are many middlemen in every economy's financial system. Apart from banking entities, there are investment intermediaries (such as mutual funds, hedge funds, pension funds, and so on), risk transfer entities (such as insurance companies), information and analysis providers (such as rating agencies, financial advisers, etc), investment banks, portfolio managers and so on. Non-banking financial institutions include all organizations that function similarly to banks but do not issue bank deposits or provide loans. As a result of their ability to reach niche deposit markets and meet the unique credit needs of certain groups of borrowers, non-banking financial firms (NBFCs) have become important drivers of economic expansion in India. To qualify as a non-bank financial institution, a firm must rely on the acceptance of deposits or the extension of credit as its primary activity. This article makes an effort to studythe financial performance of each of the entities of NBFIs such as All India financial institutions (AIFIs), Non-banking financial firms (NBFCs) and Primary dealers in 2015-16.

Dr.J.Shanmuganandavadivel, et.al (2018) There is no Indian financial system without non-banking financial corporations (NBFCs). More and more resource flows destined for the business sector are being mediated by it. When it comes to providing for the growing financial demands of businesses, NBFCs play an auxiliary role alongside traditional banks. Companies engaging in non-banking financial activities are subject to the Reserve Bank's regulatory perimeter. There are twelve different categories of NBFCs based on their liability structures, the activities they engage in, and the impact they have on the financial system as a whole. The purpose of this study is to report on the effectiveness of India's NBFCs. Capital adequacy, profitability, exposure to the sensitive industry, and asset quality are all factors in this category of NBFCs. The analysis concluded that although NBFCs' asset quality has declined in recent years, it is still superior than that of banks. The NBFCs also reported increased profits and stronger financial standings. The Reserve Bank of India (RBI) is persistently working to introduce required regulatory measures in the NBFC sector to guarantee long-term financial stability.

Dr. Kishore Kumar Das et.al (2019) Despite the fact that banking sectors have a significant impact on the Indian financial market, non-bank financial companies have emerged as major players, competing with banks but also complementing them via the provision of a wide range of financial services. In this research, NBFCs' impact on India's economic growth was analysed. For economic growth and entrepreneurship in developing countries like India, access to capital is a major challenge. While the government has recently implemented financial inclusion schemes like the Pradhan Mantri Jan Dhan Yojana with the help of the banking sector, households and small business owners still have difficulty gaining access to banking services because of strict loan disbursement policies and credit worthiness requirements. In order to foster the growth of entrepreneurial activity in our country, NBFCs are essential for meeting the diverse financial demands of its populace. Non-bank financial companies (NBFCs) play a crucial role in our economy by meeting the debt needs of a wide variety of industries, from macro financing of infrastructure to microfinancing of small businesses. In order to better understand risks and detect them, the Credit industry has reacted favorably to regulatory measures to this end. The Sector has been dispersed throughout time, but it now embraces cutting-edge innovations in management, regulation, and oversight. Above and beyond these considerations, research has been performed to better understand the contributions of NBFCs to the growth of the Indian economy and the difficulties they now face in doing so.

RESEARCH METHODOLOGY:

Annual data from 20 NBFCs from 2006-2015 are used for this analysis. There are two broad categories for these businesses: those that rely on their assets and those that invest primarily in core markets. The information is gathered secondarily, from sources like their annual reports and websites. Excel for data visualisation, SPSS for statistical analysis (including regression and correlation), then Excel again for computing ratios

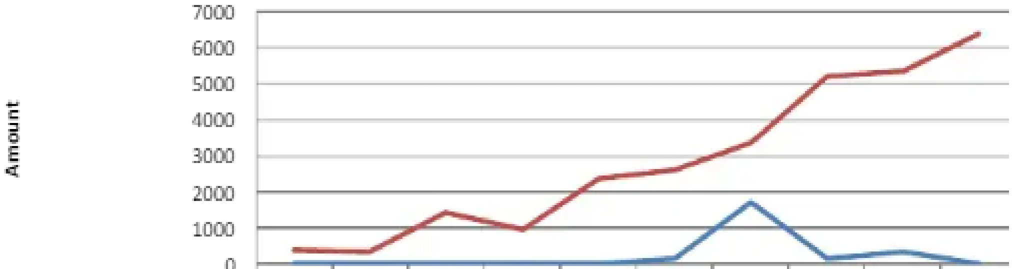
Data Analysis

Non-banking financing institutions' (NBFIs') performance may be calculated via the use of graphical analysis to determine the rate of increase in various financial metrics over time. Table 1 shows the evolution of the company's finances throughout the time period specified. Data in the table shows that the NFI's finances have improved over time.

Table 1

Year	Deposits	Loans & Advances	Assets	Investments	Total income	Total Expenditure
Core Investment NBFCs						
2006	0	366.31	1455.73	989.19	424.48	304.2
2007	0	330.63	3010.19	2124.53	645.8	494.07
2008	0	1414.29	7606.6	5820.01	828.92	593.3
2009	0	942.19	9681.98	6646.88	990.98	714.34
2010	0	2364.62	12165.19	9466.07	1318.62	993.21
2011	137.41	2597.83	13990.41	10728.14	2290.7	1854.59
2012	1695.12	3366.54	14459.49	11267.63	2389.74	2690.38
2013	161.43	5202.83	15975.23	12475.67	2462.06	2546.23
2014	341.42	5354.13	17284.23	15307.88	2896.27	2008.39
2015	14.08	6412.96	18739.23	15128.24	2341.67	1783.78
Asset Financing NBFCs						
2006	0	11150.37	16200.8	1571.27	15255.99	12317.01
2007	0	14579.37	22430.64	1524.5	21178.55	17107.82
2008	0	18941.66	24929.2	3000.45	25943.95	19238.29
2009	0	21385.44	29156.42	3268.72	26005.13	20430.29
2010	0	31860.65	41608.03	3740.71	33352.62	25588.22
2011	4134.02	54971.87	56735.52	5960.77	44259.81	33363.03
2012	3241.52	81891.86	78660.52	5961.76	58583.16	44051.64
2013	1724.47	98780.88	91226.53	7472.86	67063.96	50483.31
2014	1790.77	96969.56	93459.11	8054.19	67564.06	50358.89
2015	1233.24	109532.8	101988.4	7934.49	65405.2	48250.45

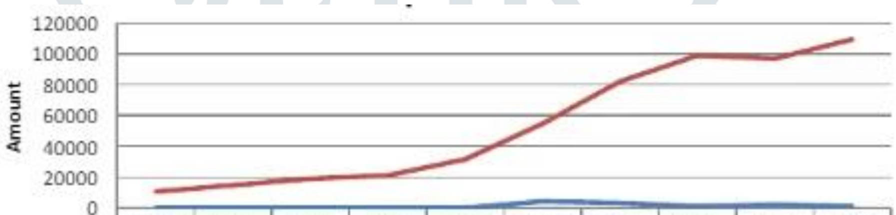
Figure 1 demonstrates that Core Investment NBFCs have grown efficient at mobilising their deposits to investments when the gap between deposits and loans and advances widens. Their Loans & Advances portfolio has grown by 1,650% over the last decade, indicating that they have expanded their operations to serve a larger customer base.



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Deposits	0	0	0	0	0	137.41	1695.12	161.43	341.42	14.08
Loans and Advances	366.31	330.63	1414.29	942.19	2364.62	2597.83	3366.54	5202.83	5354.13	6412.96

Figure 1: Growth Overtime in Deposits And Advance

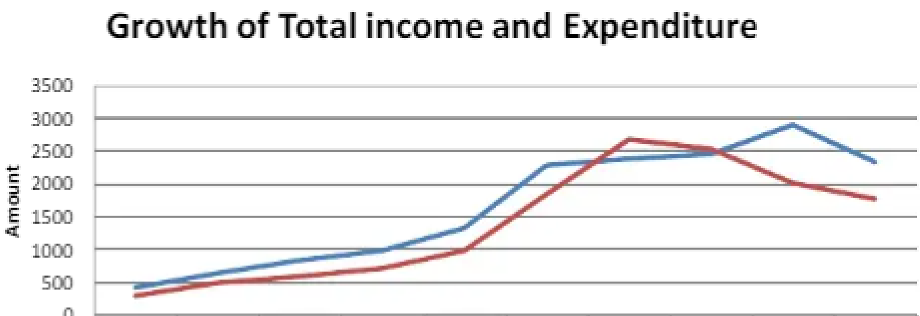
Figure 2 shows once again how the disparity between deposits and advances is growing by leaps and bounds. As time goes on, the disparity between deposits and advances further widens since deposits are declining while advances are growing. Over the last decade, the number of loans has increased by 882.23%.



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Deposits	0	0	0	0	0	4134.02	3241.52	1724.47	1790.77	1233.24
Loans & Advances	11150.4	14579.4	18941.7	21385.4	31860.7	54971.9	81891.9	98780.9	96969.6	109533

Figure 2: Growth Overtime in Deposits And Advance

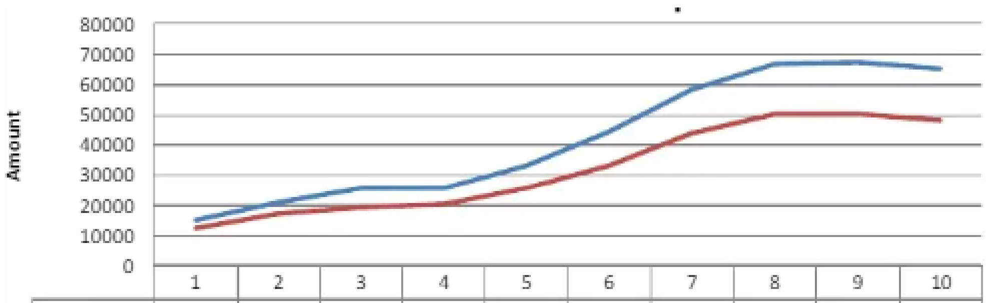
The future prospects of the industry are shown in Figure 2. The efficiency of operations may be gauged by comparing the difference between total revenue and total expenditures. This demonstrates that, with the exception of 2012 and 2013, operational efficiency has improved over time. Since Religare posted losses in both years, NBFCs' collective revenue took a hit.



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total income	424.48	645.8	828.92	990.98	1318.62	2290.7	2389.74	2462.06	2896.27	2341.67
Total Expenditure	304.2	494.07	593.3	714.34	993.21	1854.59	2690.38	2546.23	2008.39	1783.78

Figure 3: Growth of Total Income And Expenditure

The potential efficiency of the industry through time is also shown in Figure 3 . When expenses are lower than revenues, it means operations are more efficient. This demonstrates that, over the last decade, operational efficiency has steadily improved. What this implies is that NBFCs have become much better at investing in successful areas and collecting deposits in the most cost-effective ways as time has gone on.



	1	2	3	4	5	6	7	8	9	10
Series1	15255.99	21178.55	25943.95	26005.13	33352.62	44259.81	58583.16	67063.96	67564.06	65405.2
Series2	12317.01	17107.82	19238.29	20430.29	25588.22	33363.03	44051.64	50483.31	50358.89	48250.45

Figure 4: Growth of Total Income And Expenditure

Figure 4 demonstrates that asset growth has a rising tendency. As a result, the total market value of all assets rose from Rs. 1,455.73 billion to Rs. 18,739.23 billion. This indicates that NBFCs are advancing both themselves and the country economically.

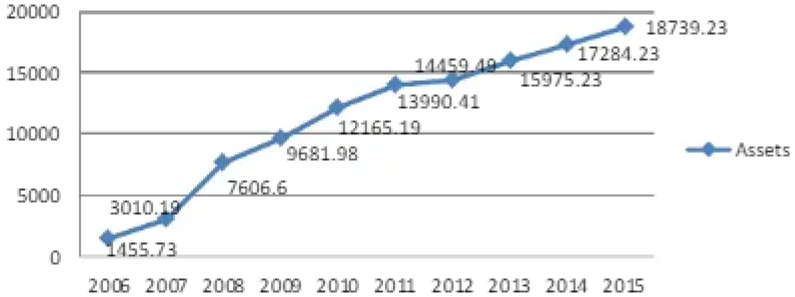


Figure 5: Growth in assets

Figure 5 demonstrates a similar upward trend in the value of assets. Assets rose in value from Rs. 16,200.8 Cr. to Rs. 1,01,988.4 Cr. This indicates that in addition to their own growth, these NBFCs are helping the country as a whole.

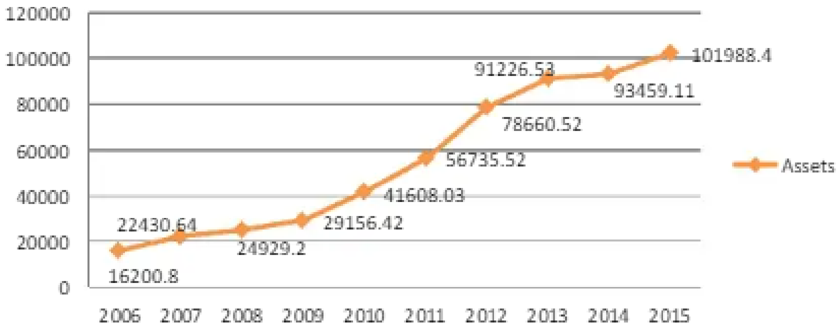


Figure 6: Growth in assets

Thus, it is clear that the expansion of NBFCs in the market is remarkable, especially given the severe competitive hurdles posed by banks and other financial institutions. The purpose of this section is to conduct statistical analysis of a number of factors in order to identify the factors that correlate with the company's expected financial success as measured by Net Profit. SPSS software was used to perform a correlation analysis, revealing the degree to which the variables are linked. Table 2 shows that there is no relationship between net profit and the independent variables of total assets, total equity, loans and advances, deposits, and total income for Core Investment Companies. Total spending is strongly negatively connected to the dependent variable net profit, as shown by a correlation of 0.09 (less than 0.01). The implication is that the net profit would decline with rising costs.

Table-2 shows that the independent variables for Core Investment Companies namely totalassets, Total Equity, Loans and Advances, Deposits and Total Income are not correlated with netprofit.

		Net Profit	Assets	Total Equity	Loans and Advances	Deposits	Total Income	Total Expenditure
Net Profit	Pearson Correlation	1	-.497	-.533	-.593	-.601	-.543	-.771**
	Sig. (2-tailed)		.144	.113	.071	.066	.105	.009
	N	10	10	10	10	10	10	10
Assets	Pearson Correlation	-.497	1	.975**	.918**	.298	.930**	.846**
	Sig. (2-tailed)	.144		.000	.000	.403	.000	.002
	N	10	10	10	10	10	10	10
Total Equity	Pearson Correlation	-.533	.975**	1	.893**	.321	.896**	.838**
	Sig. (2-tailed)	.113	.000		.001	.365	.000	.002
	N	10	10	10	10	10	10	10
Loans and Advances	Pearson Correlation	-.593	.918**	.893**	1	.208	.889**	.807**
	Sig. (2-tailed)	.071	.000	.001		.563	.001	.005
	N	10	10	10	10	10	10	10
Deposits	Pearson Correlation	-.601	.298	.321	.208	1	.441	.627
	Sig. (2-tailed)	.066	.403	.365	.563		.202	.052
	N	10	10	10	10	10	10	10
Total Income	Pearson Correlation	-.543	.930**	.896**	.889**	.441	1	.935**
	Sig. (2-tailed)	.105	.000	.000	.001	.202		.000
	N	10	10	10	10	10	10	10
Total Expenditure	Pearson Correlation	-.771**	.846**	.838**	.807**	.627	.935**	1
	Sig. (2-tailed)	.009	.002	.002	.005	.052	.000	
	N	10	10	10	10	10	10	10

As seen in Table 3 below. How well the regression equation fits the data is reported by Anova. Based on this data, it seems that the regression model provides very accurate predictions for the dependant variable. This shows that the regression model has strong statistical significance. Because the value of p in this case is less than 0.05, we can conclude that the regression model provides a good fit for the data and can accurately predict the outcome variable.

Table-3 i.e. Anova reports how well the regression equation fits the data.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	967673.610	6	161278.935	44.680	.005a
	Residual	10828.933	3	3609.644		
	Total	978502.543	9			

Total equity, deposits, loans and advances, total income, total expenditure, and total assets are all predictors. a. b. Determinant Factor: Financial Gain

The information in the Coefficients table-4 allows us to forecast net profit from a number of other factors and to evaluate whether or not net profit makes a statistically meaningful contribution to the model. The numbers in the "B " column of the Unstandardized Coefficients table may also be used to formulate the regression equation as:

Table-4 Provides Us With The Necessary Information To Predict Net Profit Fromvarious Variables

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
1 (Constant)	-20.538	354.418		-.058	.957	-1148.453	1107.377
Assets	.014	.021	.256	.691	.539	-.052	.080
Deposits	-.034	.066	-.054	-.515	.642	-.243	.175
Loans and Advances	-.144	.026	-.958	-5.581	.011	-.226	-.062
Total Income	.761	.100	2.089	7.592	.005	.442	1.080
Total Expenditure	-.802	.091	-2.158	-8.808	.003	-1.091	-.512
total equity	.095	1.011	.027	.094	.931	-3.122	3.311

revenue is the dependent variable.

Profit after tax = -20.538 + 0.14 * Assets * -.0034 * Deposits * -.144 * Loans and Advances * -.761 * Total Income * -.802 * Total Expenses * -.095 * Net Profit (Total Equity)

Regression: With a R value of 0.998 in Table-5, we can confidently state that there is a high degree of connection. A very large fraction, 99.1 percent, is also explicable.

Table-5 high degree of correlation

		GDP	Net Profit
GDP	Pearson Correlation	1	.952**
	Sig. (2-tailed)		.000
	N	9	9
Net Profit	Pearson Correlation	.952**	1
	Sig. (2-tailed)	.000	
	N	9	10

The significance threshold for the correlation is 0.01. (2-tailed)

This is seen in Table 6 below. How well the regression equation fits the data is reported by Anova. Based on this data, it seems that the regression model provides very accurate predictions for the dependant variable. This shows that the regression model has strong statistical significance. In this case, the p-value is less than 0.05, therefore we can conclude that the regression model provides a good fit for the data and provides a statistically significant prediction of the outcome variable.

Table-6 anova

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26502025.879	6	4417004.313	159.708	.001a
	Residual	82970.247	3	27656.749		
	Total	26584996.126	9			

The following variables are used as predictors: a. Total Equity, Deposits, Loans and Advances, Total Expenditure, Assets, Total Income, and b. Total Income, Expenditures, and Assets (Constant). Net Profit Is The Determinant

The information in the Coefficients table-7 allows us to forecast net profit from a number of other factors and to assess whether or not net profit makes a meaningful contribution to the model. We may also make use of the numbers found in the "B" column of the UnstandardizedCoefficients table.

Table-7 To present the regression equation as

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
1 (Constant)	1002.231	343.981		2.914	.062	-92.471	2096.933
Assets	.072	.048	1.390	1.511	.228	-.080	.224
Deposits	.126	.128	.111	.984	.398	-.281	.533
Loans and Advances	-.077	.028	-1.756	-2.710	.073	-.167	.013
Total Income	.831	.105	9.990	7.889	.004	.496	1.166
Total Expenditure	-1.017	.136	-8.900	-7.462	.005	-1.450	-.583
Total Equity	.507	1.261	.159	.402	.715	-3.506	4.519

The formula for calculating Net Profit is as follows: a. Dependent Variable: Net Profit Net Profit = 1002.231 +0.72(Assets) +0.126(Deposits) -0.077(Loans and Advances) +0.831(Total Income) -1.017(Total Expenses)+0.507 (Total Equity)

Growing bank advances to NBFCs

Banks have been a significant source of finance for NBFCs, and the fast expansion of bank advances is indicative of the NBFCs' growing reliance on bank leverage. The chart below shows the upward trend in NBFCs' access to bank advances over the last seven years. The Reserve Bank of India has implemented new measures to combat systemic risks in response to the growing interdependence of financial institutions.

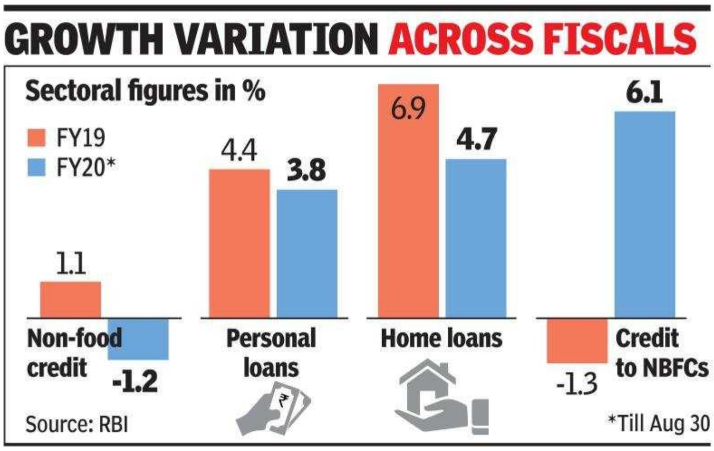


Fig growth in bank advances obtained by NBFCs

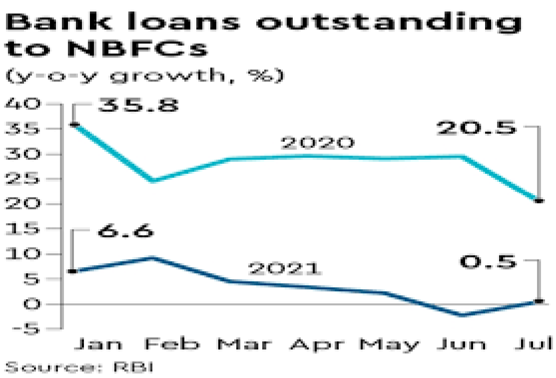
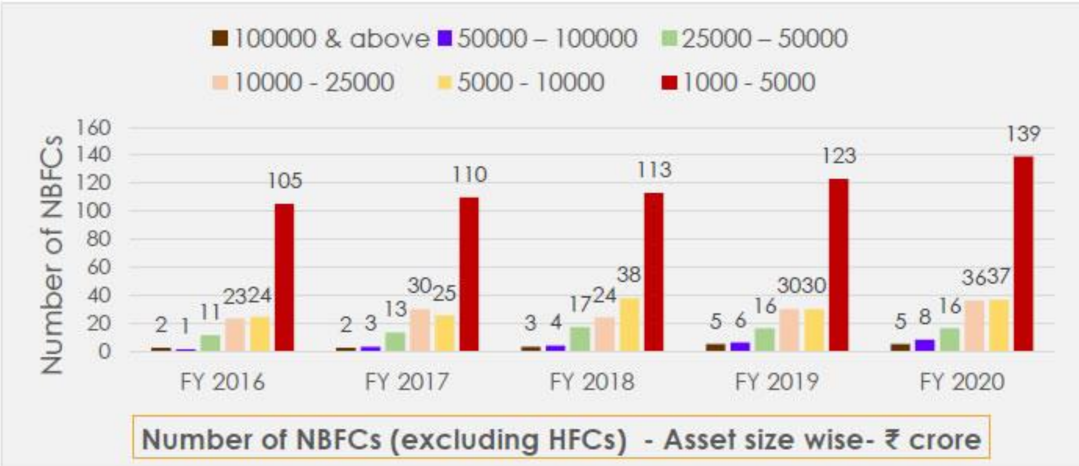


Fig 7 Bank loans outstand by NBFC

The aggregate net value of the top ten non-specialized NBFCs has increased at a CAGR of 20.6% over the previous six years, outpacing the 17.1% growth of small and medium-sized government banks. While government banks in the sample expanded at an annualized rate of 15.3%, NBFCs saw a compound annual growth rate of 22.9% in their assets under management over the same time period.

Non-Banking Financial Company-

Driving up economic expansion When it comes to protecting and managing the money of regular people, banks play a key role. For the protection of their hard-earned cash, individuals put their faith in the banking sector, whether it be a public or private bank. However, another organisation, the Non-Banking Financial Company, is making waves in this industry.



Source: Supervisory Returns, RBI

Fig 8 NBFCs' assets under management grew

Demand deposits, which are comparable to current accounts or savings accounts in that the money is available on demand, are not something an NBFC may take.

Since NBFCs are not part of the transaction system, they are unable to provide their clients with checks, and their clients' deposits are not insured in the same way that bank customers' deposits are. In India, a non-bank financial company (NBFC) must first get a licence to operate from the country's central bank, the Reserve Bank of India (RBI). However, NBFCs such as venture capital funds, merchant banks, stock brokers, insurance businesses with a current certificate of registration from the Insurance Regulatory and Development Authority of India, etc. are excluded from having to register with the RBI.

CONCLUSION

These non-bank financial institutions (NBFCs) have recently come to be recognized as a critical component of our financial system. From the perspective of traditional financial institutions, these companies service a "undeserved" clientele: retail clients who cannot qualify for a loan owing to their low credit score and inadequate or nonexistent documents. Through the process of functional specialization, the operations of NBFCs in India have experienced qualitative shifts throughout time. Since NBFCs can make decisions more quickly, take on more risk, and tailor their services and fees to each individual customer, they are widely acknowledged as efficient financial intermediaries.

It's no secret that non-bank financial companies (NBFCs) in India have risen to prominence in a variety of industries, from hire purchase financing and equipment leasing to loans and even investing. Fee-based business is growing faster than fund-based business for NBFCs. They are currently concentrating on the retail sector, particularly in the areas of mortgage lending, unsecured consumer loans, and insurance distribution. The robust NBFCs have quickly been established as "financial institutions," and they are now transforming into "financial supermarkets," or one-stop financial shops.

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