COMPARISON OF FINANCIAL PERFORMANCE OF BAJAJ FINANCE LIMITED AND ITS NBFC COMPETITORS

[1]Mukund Dixit

[1]Student
[1]Operations and Supply Chain Management,
[1]Balaji Institute Of Modern Management, Pune, India

Abstract: NBFCs (non-banking financial companies) contribute largely to the economy by providing a fillip to transportation, employment generation, wealth creation, bank credit in rural segments and to support financially weaker sections of the society. NBFCs are financial mediators engaged in the business of accepting deposits delivering credit and play an important role in channelizing the scarce financial resources to capital formation. In India, despite being different from banks, NBFC are bound by the Indian banking industry rules and regulations and Bajaj Finance Limited (BFL) is one of that. BFL is one of the top performing NBFC in India. Present paper aims at analyzing the financial performance of BFL and its NBFC competitors to find out where BFL stands as compare to its competitors. Comparison has been on different parameters viz ROE, ROA, EPS, etc.

Key words- NBFC; financial performance; capital formation; channelizing; Mediators.

I. INTRODUCTION

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 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 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. A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).
The different types of NBFCs are as follows:

1.1. Asset Finance Company (AFC) : An AFC is a company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipment, moving on own power and general purpose industrial machines. Principal business for this purpose is defined as aggregate of financing real/physical assets supporting economic activity and income arising there from is not less than 60% of its total assets and total income respectively.

1.2. Investment Company (IC): IC means any company which is a financial institution carrying on as its principal business the acquisition of securities,

1.3. Loan Company (LC): LC means any company which is a financial institution carrying on as its principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company.

1.4. Infrastructure Finance Company (IFC): IFC is a non-banking finance company a) which deploys at least 75 per cent of its total assets in infrastructure loans, b) has a minimum Net Owned Funds of Rs 300 Cr., c) has a minimum credit rating of ‘A ‘or equivalent d) and a CRAR of 15%.

1.5. Core Investment Company (CIC-ND-SI): CIC-ND-SI is an NBFC carrying on the business of acquisition of shares and securities.

1.6. Infrastructure Debt Fund: Non- Banking Financial Company (IDF-NBFC): IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects. IDF-NBFC raise resources through issue of Rupee or Dollar denominated bonds of minimum 5 year maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.

1.7. Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI): NBFC-MFI is a non-deposit taking NBFC having not less than 85% of its assets in the nature of qualifying assets which satisfy the following criteria:
a. loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding Rs 1,00,000 or urban and semi-urban household income not exceeding Rs 1,60,000;
Loan amount does not exceed Rs 50,000 in the first cycle and Rs 1, 00,000 in subsequent cycles;
Total indebtedness of the borrower does not exceed Rs 1, 00,000;
tenure of the loan not to be less than 24 months for loan amount in excess of Rs 15,000 with prepayment without penalty;
Loan to be extended without collateral;
Aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs;
Loan is repayable on weekly, fortnightly or monthly installments at the choice of the borrower

1.8. Non-Banking Financial Company – Factors (NBFC-Factors): NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring. The financial assets in the factoring business should constitute at least 50 percent of its total assets and its income derived from factoring business should not be less than 50 percent of its gross income.

1.9. Mortgage Guarantee Companies (MGC) - MGC are financial institutions for which at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business and net owned fund is Rs 100 Cr.

1.10. NBFC- Non-Operative Financial Holding Company (NOFHC) is financial institution through which promoter / promoter groups will be permitted to set up a new bank .It's a wholly-owned Non-Operative Financial Holding Company (NOFHC) which will hold the bank as well as all other financial services companies regulated by RBI or other financial sector regulators, to the extent permissible under the applicable regulatory prescriptions.

BAJAJ FINANCE LIMITED:

The Bajaj Group is an Indian conglomerate founded by Jamnalal Bajaj in Mumbai in 1926. It comprises of 34 companies with Bajaj Auto being its flagship company. Bajaj Auto is a world leader in manufacturing 2 and 3-wheeler vehicles. The Bajaj group employs more than 25,000 employees working across home appliances, lighting, insurance, finance and travel. Rahul Bajaj is the current Chairman of the Bajaj Group who has been a member of Rajya Sabha since 2006. Bajaj Finance Ltd (formally known as Bajaj Auto Finance Limited) set up in 1987 is a subsidiary of Bajaj Finserv Ltd. Bajaj Finance Limited has been successful in obtaining FAAA rating by CRISIL and MAAA rating by ICRA. Bajaj Finance is registered with the Reserve Bank of India as a non-banking financial company (NBFC). Bajaj Finance is a deposit taking NBFC that is listed with BSE and NSE. Bajaj Finance has ventured into various lending segments now. It initially was just providing loans for two-and-three-wheelers manufactured by Bajaj Auto Limited. It has become a significant player in the retail asset financing industry.

Table 1.1: company profile table.

Type	Private Company
Industry	Financial Services
Founder	Jamnalal Bajaj
Headquarters	Pune, Maharashtra, India
Key People	Nanoo Pamnani- Chairman, Rajeev Jain – MD, CEO
Products	Financial Services, Wealth Services, Insurance
Revenue	71.5 Cr USD
Parent	Bajaj Holdings and investments Ltd
Sister organization	Bajaj Allianz General Insurance Ltd, *Bajaj Finserv Direct Limited* Bajaj Allianz Life Insurance Company Ltd.
Website	www.bajajfinserv.in

SHRIRAM TRANSPORT FINANCE COMPANY LIMITED:

STFC are a part of the "SHRIRAM" conglomerate which has significant presence in financial services viz., commercial vehicle financing business, consumer finance, life and general insurance, stock broking, chit funds and distribution of financial products such as life and general insurance products and units of mutual funds. STFC was incorporated in the year 1979 and is registered as a Deposit taking NBFC with Reserve Bank of India under section 45IA of the Reserve Bank of India Act, 1934.

HDB FINANCIAL SERVICES:

HDB Financial Services (HDBFS) is a leading Non-Banking Financial Company (NBFC) that caters to the growing needs of an Aspirational India, serving both Retail & Commercial Clients. Incorporated in 2007, HDBFS are a well-established business with strong capitalization. HDBFS is accredited with CARE AAA & CRISIL AAA ratings for its long-term debt & Bank facilities and an A1+ rating for its short-term debt & commercial papers, making it a strong and reliable financial institution. HDB Financial Services Limited is a subsidiary company of HDFC Bank.

MAHINDRA AND MAHINDRA FINANCIAL SERVICES LIMITED:

Mahindra & Mahindra Financial Services Limited (MMFSL) is a Rural NBFC headquartered in Mumbai, India. It is amongst the top tractor financer in India and offers a wide range of financial products to address varied customer requirements. The NBFC has 1000+ offices spread across 1 in every 3 villages across India with a total of more than 4.7 Million customers till date.

Mahindra Finance started on 1 January 1991, as Maxi Motors Financial Services Limited. They received the certificate of commencement of business on 19 February 1991. On 3 November 1992, Mahindra Finance changed their name to Mahindra & Mahindra Financial Services Limited. Mahindra Finance is registered with the Reserve Bank of India as an asset finance, deposit taking NBFC.

MUTHOOT FINANCE:

The Muthoot Group is an Indian multinational conglomerate headquartered in Kochi, Kerala. It has interests in Financial Services, Information Technology, Media, Healthcare, Education, Power Generation, Infrastructure, Plantations, Precious metal, Tourism, and Hospitality. Muthoot Group operates in 29 states in India, and has presence in Nepal, Sri Lanka, USA, UK and UAE. The group manages assets of over $4.5 billion. It is owned and managed by the Muthoot Family.

The Group takes its name from the Muthoot Family based in Kerala. The Company was set up by Muthoot Ninan Mathai in 1887 at Kozhencherry, a small town in the erstwhile Kingdom of Travancore (Kerala). It was then later taken over by his son M George Muthoot who incorporated the Finance division of the group, which was until then primarily involved in wholesale of grains and timber. The company is now managed by the third and fourth generation of its family members.

II. Literature Review

For the purpose of current study, the following literature is reviewed:

1) **Davinder Kaur** in his article in 'International journal of Management, IT and Engineering' studied the financial performance of NBFCs on parameters like expenses, incomes, taxes, profits, assets etc.

2) **Akanksha Goel** in her article in 'ELK Asia Pacific Journal' studied the growth prospects of NBFCs in India.

3) **Sunita yadav** in her article in 'International journal of recent scientific research' studied the financial performance of selected NBFCs on parameters like Net profit ratio, Return on Investment, Annual growth rate etc.

4) **Seema Saggar**, "Financial Performance of Leasing Companies, During the Quinquennium Ending1989-90" Reserve Bank of India: Occasional Papers, Vol. 16, No. 3 September 95, pp. 223-236.

5) **Amita S. Kantawala**, "Financial performance of non-banking finance companies in india" research paper explains about different matrices to compare NBFC.

III. Objective

1. To study the financial performance of Bajaj Finance Limited.
2. To compare BFL financial performance with its competitors.

IV. Research Methodology

The secondary data has been collected from annual reports of companies and other related journals.

V. Data Analysis

Data has been presented and analyzed using tables and graphs. The various indicators of financial performance of NBFCs viz return on equity, return on assets, earning per share, current ratio, debt to equity ratio, NPA have been taken and analyzed for 2018-19 financial year. The indicators are as follows:

5.1. Return on equity (ROE): It is a measure of financial performance calculated by dividing net income by shareholders' equity. Because shareholders' equity is equal to a company's assets minus its debt, ROE could be thought of as the return on net assets. ROE is considered a measure of how effectively management is using a company's assets to create profits.

5.2. Return on assets (ROA): It is an indicator of how profitable a company is relative to its total assets. ROA gives a manager, investor, or analyst an idea as to how efficient a company's management is at using its assets to generate earnings. Return on assets is displayed as a percentage. Best used when comparing similar companies or comparing a company to its previous performance. ROA takes into account a company's debt, while ROE does not.

5.3. Earnings per share (EPS): It is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability. It is common for a company to report EPS that is adjusted for extraordinary items and potential share dilution. The higher a company's EPS, the more profitable it is considered.

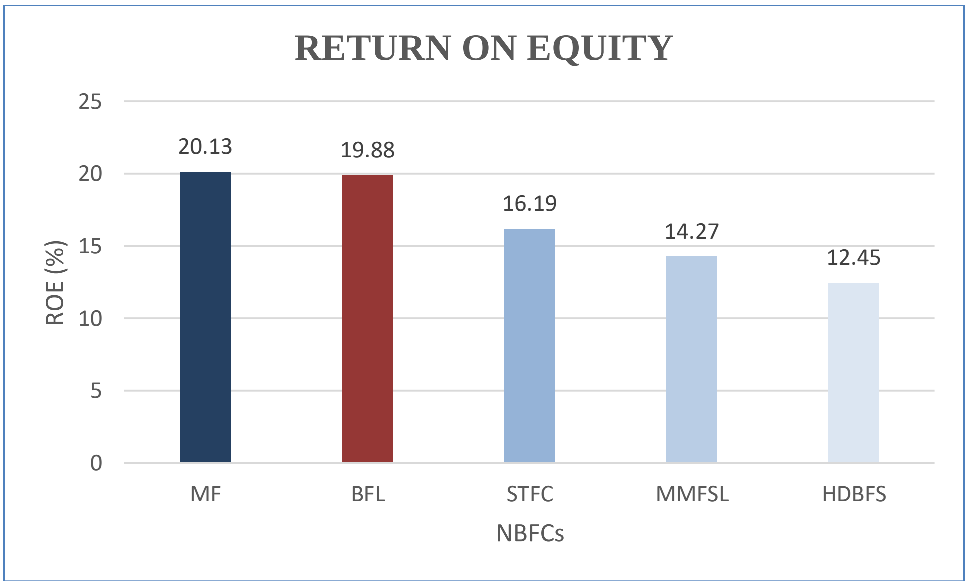
5.4. The current ratio (CR): It is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year. It tells investors and analysts how a company can maximize the current assets on its balance sheet to satisfy its current debt and other payables.

5.5. Debt-to-Equity (D/E) ratio: It is calculated by dividing a company's total liabilities by its shareholder equity. These numbers are available on the balance sheet of a company's financial statements. The ratio is used to evaluate a company's financial leverage. The D/E ratio is an important metric used in corporate finance. It is a measure of the degree to which a company is financing its operations through debt versus wholly owned funds. More specifically, it reflects the ability of shareholder equity to cover all outstanding debts in the event of a business downturn.

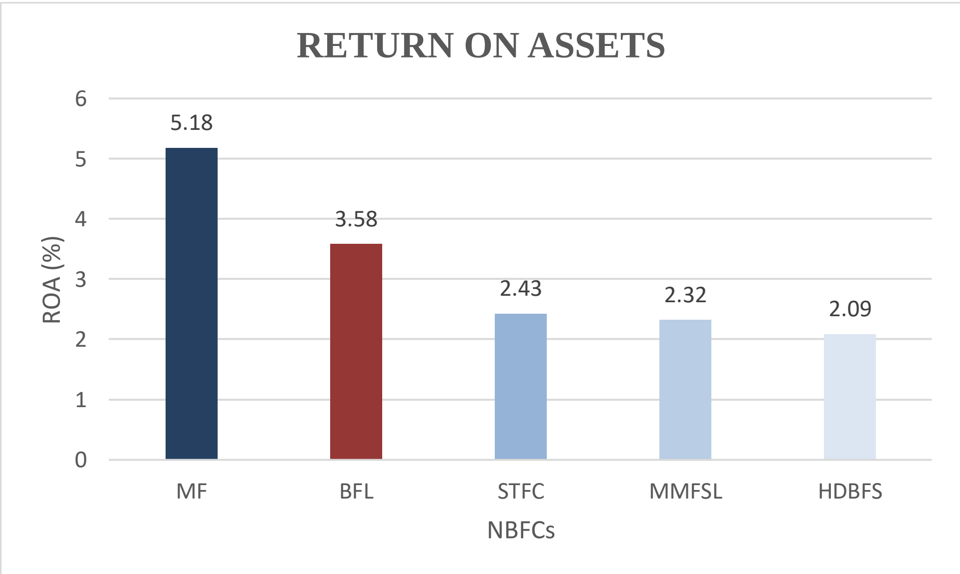
5.6. Non-performing assets (NPA): A non-performing asset (NPA) refers to a classification for loans or advances that are in default or are in arrears on scheduled payments of principal or interest. In most cases, debt is classified as non-performing when loan payments have not been made for a period of 90 days. While 90 days of nonpayment is the standard, the amount of elapsed time may be shorter or longer depending on the terms and conditions of each loan.

Table 5.1: Comparative matrix

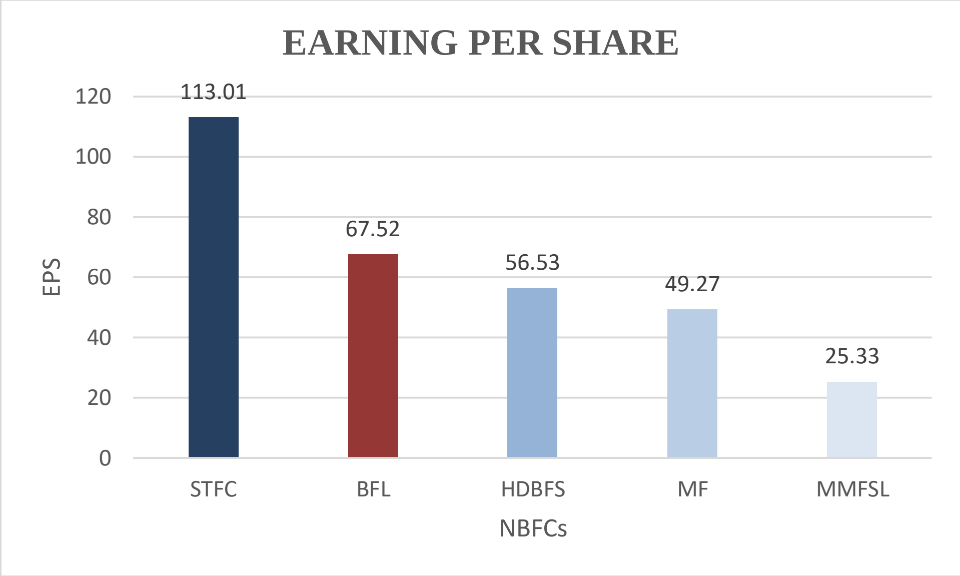
	BFL	STFC	HDBFS	MMFSL	MF
ROE (%)	19.88	16.19	12.45	14.27	20.13
ROA (%)	3.58	2.43	2.09	2.32	5.18
EPS	67.52	113.01	56.53	25.33	49.27
CR	1.21	1.18	1.19	5.41	1.34
NNPA (%)	0.38	5.68	1.12	4.8	0.63
D/E	4.41	5.55	4.72	4.84	1.88



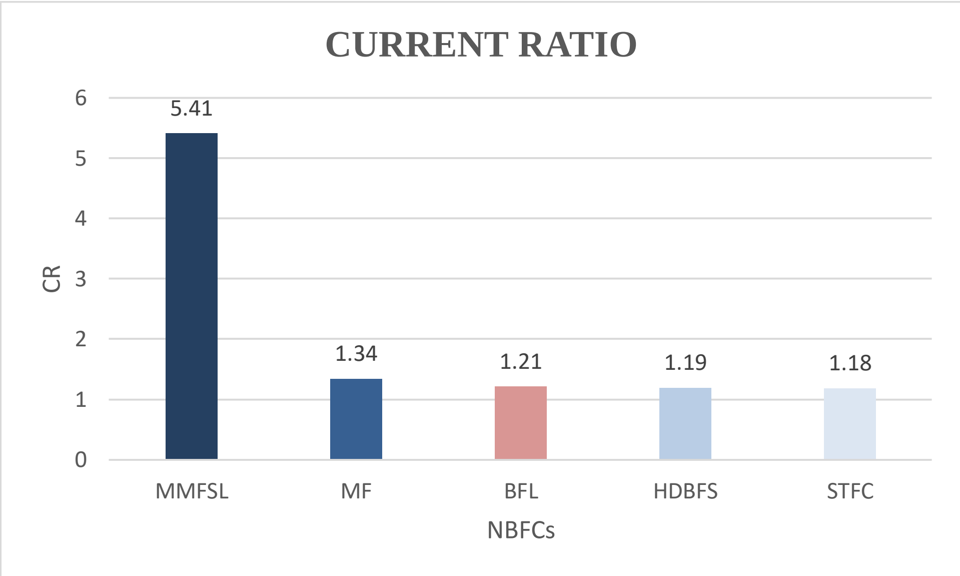
Graph 5.1: Return on equity



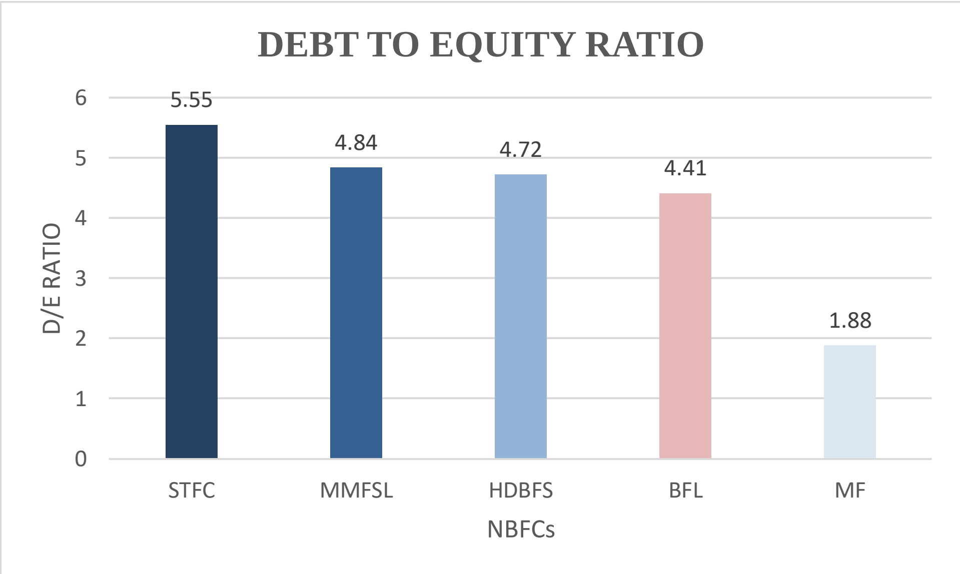
Graph 5.2: Return on Assets



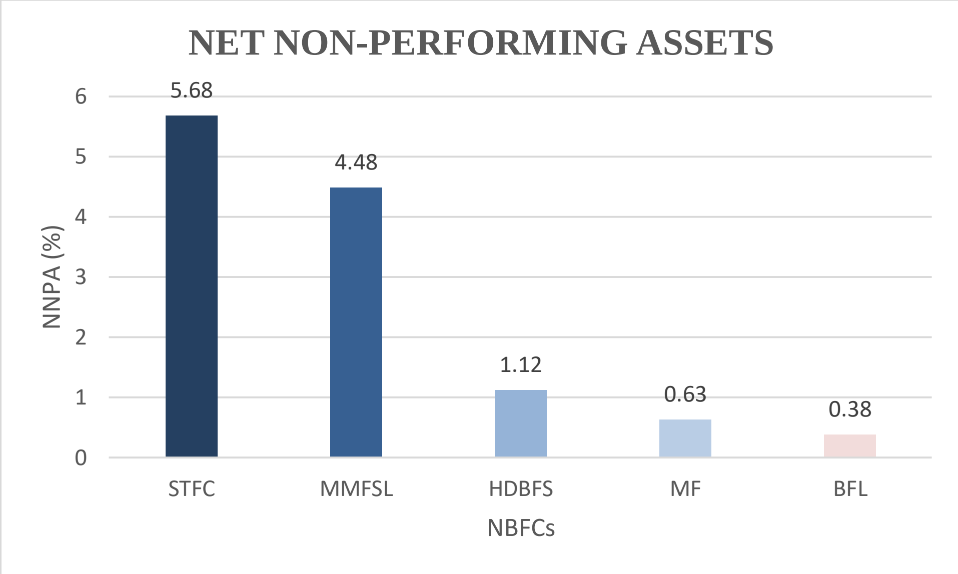
Graph 5.3: Earning per Share



Graph 5.4: current ratio



Graph 5.5: Return on equity



Graph 5.6: Return on equity

VI. Findings

1) ROE of BFL is 19.88%. For every rupee of overall assets from investors that BFL has return of 19.88%. Muthoot Finance ROE is 20.13% which is highest from the all five companies. BFL stands second and HDBFS is last with 12.45% ROE.

2) ROA of BFL is 3.58%. BFL is able to generate 3.58% returns from its total assets under management (AUM) which is less as compare to Muthoot Finance (5.18%). BFL stands second among all five companies. HDBFS is lowest with 2.09% ROA.

3) EPS of BFL is 67.52. EPS is indicator of a company's profitability. The higher a company's EPS, the more profitable it is considered. STFC's EPS is 113.01 which is highest and MMFSL is lowest with 25.33. BFL stands on second position.

4) Company's ability to pay short-term obligations or those due within one year is presented by CR and it should be more than 1. BFL's CR is 1.21 against 5.41 of MMFSL which is on highest. BFL stands third position and STFC stands last.

5) D/E ratio is used to evaluate a company's financial leverage. More the ratio more risky company to invest BFL's D/E ratio is 4.41. MF is lowest with 1.88 and STFC is most risky to invest with CR of 5.55. BFL is second good company to invest.

6) In terms of NPA, BFL is least with 0.38% across industry. STFC is highest with 5.68%.

VII. Conclusion

Following table shows comparative analysis of all five NBFCs together. Ranking is given based on below scale:

1 – Best performance
2 – Good performance
3 – Satisfactory performance
4 – Average performance
5 – Poor performance

Table 7.1: Performance matrix

RANK	BFL	STFC	HDBFS	MMFSL	MF
ROE (%)	2	3	5	4	1
ROA (%)	2	3	5	4	1
EPS	2	1	3	5	4
CR	3	5	4	1	2
NNPA (%)	1	5	3	4	2
D/E	2	5	3	4	1

To sum up, the financial performance of BFL is good. All the parameters like ROE, ROA, EPS, D/E ratio fall in the year 2018-19 are showing that BFL stands on second position and first in case of NNPA as compare to its competitors which is a good indicator of sound financial position. With this sound financial position and good financial performance NBFCs can and are contributing in the economic growth of country..

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