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"A Study on Assessing the Financial Performance of Top 5 NBFCs in India"

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Abstract

This research paper describes about the financial performance of the top 5 Non-Banking financial companies in India, the NBFCs play a very significant role in the Indian financial sector. Non-banking financial companies are the companies that provide financial assistance to the people in the country just like any other traditional bank although they do not hold the complete license for banking.

This Research starts with the advantages and disadvantages of the NBFCs and what role it plays to enhance the economy of the country, and the risks involved in dealing with Non-Banking financial companies. And it continues with how the NBFCs work and how rapidly non-banking financial companies have emerged over a period of time and have become a major point in the Indian financial sector .It also explains the wide variety of services that are being facilitated by these NBFCs.

The main objective of this paper is to study and assess the financial performance of these Non-banking Financial companies, and how efficiently the non-banking financial companies are working.

This paper studies financial performance and evaluation of the financial efficiency and productivity of NBFCs and also study about the various types that are present in India and how the General public is making effective use of them.

The performance analysis of NBFCs in India is evaluated on various aspects which help us understand the financial strength and capacity of the non-banking financial companies stand in kind of uncertainties, and identify the earning generation from its operating activities; the amount of non-performing assets is the key indicator to evaluate the financial performance of the NBFCs.

This paper studies the data that are collected and evaluates the performance of the top 5 NBFCs, understands the regulation and activities that the NBFCs are involved in, and the ways that these financial institutions involve themselves in the promotion of their companies, and also understands the difference between the normal banks and NBFCs.

This research paper includes the data of top 5 NBFCs in India such as Bajaj Finance Ltd, HDFC Ltd, LIC Housing Finance Ltd, Mahindra, and Mahindra Financial Services¸ Sriram Transport Finance Company Ltd.

Top 5 Companies have been selected based on their performances during the recent times. And those companies will be used as the sample for the research.

In the end this paper also concludes with the required amount of changes to be bought in this Sector and the future of NBFCs in India.

KEYWORDS: Financial performance, economy, Non-Banking Financial companies, types of NBFCs, Non-performing Assets, Financial Institutions.

INTRODUCTION

A Non-Banking Financial Company (NBFC) is an organization which is under the Companies Act, of 1956 which are captivated by loans of business, stock acquisition, shares, bonds, debentures, and securities disseminated by the government or regional authority.

The NBFCs are a very important segment in the financial sector that plays a crucial role in offering many services to sole, firms, and other companies. Though they do not own a license for banking like the traditional banks they play a role important role in promoting financial facilities, increasing credibility, and making contributions to the growth of the country's economy. We can also consider that NBFCs are the major in driving factor of economic growth for a developing country like INDIA.

We can observe that NBFCs are divergent in nature and offer a wide range of financial aid which is as follows:

Loan facilities: The NBFCs provide loan services to individual person and business activities which also includes loan given for personal use auto loan and housing loans.

Wealth handling and investment: NBFCs are involved in the activities of offering wealth management services to their customers by providing investment products and portfolios and financial advice to help people to reach their financial goals.

Hire purchases and leasing facilities: NBFCs will provide services to those customers who will be a part of business activities to take assets through pre-structured payment options

Operations in Money Market: They take part in the money market activities by investing in short-term financial instruments and other money instruments

Foreign Exchange and Remittances: A few of the NBFCs involve themselves in foreign exchange services by exchanging foreign exchanges.

NBFCs lend money and make the investments like any other activities but we should also observe there are some differences:

NBFCs cannot accept demand deposits and they are not allowed to issue any kind of cheques

Though NBFCs act as financial institutions by providing services to the customer there few factors through we which they differ observe some of the major key differences between traditional banks and NBFCs

Licensing and Regulation

The traditional banks are strictly controlled by the Central Bank of India and other higher authorities to work as a bank they should hold a license for banking activities which includes very strict policies to ensure the safety of the customers whereas the NBFCs should be registered and controlled under the banking regulators and their requirements to be fulfilled will be less they do not come under the strict regulating policies

The structure and ownership

Traditional banks are owned by the governments or any shareholder or even a combination of both whereas the NBFCs are owned and controlled by the group of individuals which are usually comprised of a simpler ownership structure

Services provided

Traditional banks provide a wide variety of service of finance which included accepting deposits from the public providing loans facilities and giving out interest to savings account holders, they also provide services with regard to investing activities while the NBFCs just offer loans, credit facilities to their customers and also they do accept any kind of deposits from the general public.

Top 5 NBFCs in India are as below:

- Bajaj Finance Limited
- Muthoot Finance Limited
- Mahindra & Mahindra Financial Limited
- Shriram Transport Finance Company Limited
- HDFC Limited

BAJAJ FINANCE LIMITED

The well-known non-banking financial corporation (NBFC) Bajaj Finance Limited is established in India. Bajaj Finance is one of the biggest NBFCs in the nation and a member of the Bajaj Group as of my most recent information review in September 2021. It offers a comprehensive range of financial services, such as wealth management, commercial lending, SME loans, and consumer credit.

Numerous financial products are available from Bajaj Finance, including credit cards, insurance, personal loans, mortgages, and business loans. The business is renowned for its cutting-edge lending techniques, customer-focused philosophy, and digital efforts that increase the accessibility of financial services to a wider variety of clients.

Bajaj Finance purchased a 12.6 percent stake in MobiKwik, a mobile wallet provider, in 2017–18.[21][22][23] Due to the weak economy, Bajaj Finance and Sequoia Capital India had originally planned to sell MobiKwik shares through an IPO in 2021 for around 69 crore (US$8.6 million) and 95 crore (US$12 million) each.[24]

By combining main and secondary agreements, Mumbai-based SnapWork Technologies will be purchased by Bajaj Finance for 93 crore (about $12 million) in November 2022. Before December 31, 2022, it was anticipated that the transaction will be finished.

MUTHOOT FINANCE LIMITED

Another well-known non-banking financial corporation (NBFC) with headquarters in India is Muthoot Finance Limited. Muthoot Finance is a division of the Muthoot Group, which has a lengthy history of offering financial services in India as of my most recent knowledge update in September 2021. One of the biggest gold financing businesses in the nation is it.

Muthoot Finance's main area of expertise is gold loans, which entail giving loans to people and businesses in exchange for gold jewelry as security. Given the cultural and monetary significance of gold in India, this kind of lending is especially common there. Customers may pledge their gold possessions in exchange for a loan amount based on the gold's value.

In addition to offering gold loans, Muthoot Finance has increased the range of services it offers and services for money transfers. The business is well renowned for being easily accessible to customers throughout India thanks to its extensive branch network

Mahindra & Mahindra Financial Services Limited

Mahindra & Mahindra Financial Services Limited (MMFSL), a well-known Indian conglomerate, is the financial arm of the Mahindra Group as of my most recent update in September 2021. Financial services for cars and equipment produced by the Mahindra Group in addition to other autos and machinery on the market are the main areas of concentration for MMFSL.

The business provides a variety of financial goods and services, such as personal loans, business loans, equipment loans, and auto loans. The services provided by MMFSL include the financing of both non-Mahindra equipment and automobiles in addition to the financing of Mahindra vehicles.

SHRIRAM TRANSPORT FINANCE LIMITED

The company wants to help people and businesses buy automobiles and equipment, particularly in semi-urban and rural regions where access to traditional financing could be constrained. It is widely used to serve clients in various parts of India, it has an extensive chain of branches and offices.

A non-banking financial institution (NBFI) in India, Shriram Transport Finance Company Limited (STFC), focuses primarily on offering financing options for commercial vehicles. At the time of my most recent update in September of 2021, STFC was an affiliate of the Shriram Group, a well-known Indian banking behemoth.

The primary objective of STFC is to offer loans and other financial services to people and businesses for the acquisition of business vehicles like buses, trucks, and other heavy machinery. The business serves a diverse group of clients, including small fleet shareholders, lone truckers, and transport companies.

In addition to financing for vehicles, STFC also provides additional financial services and products such as business loans, tire financing, along with ancillary services for the logistics and transportation sector.In order to successfully serve its consumers, the company has established a considerable presence in both urban and rural areas of India. It has also constructed a strong network of branches and service centers.

HDFC

A prominent financial organization in India, Home Improvement Financing Company Limited (HDFC Ltd) focuses primarily on offering home finance along with associated services. HDFC Ltd. was one of the biggest and most reputable housing finance organizations in the nation as of my most recent report in September 2021. Home financing, loans for the acquisition of homes and businesses, loans for building and refurbishment, and other services relating to real estate are all offered by HDFC Ltd. Customers wishing to purchase, sell, or purchase real estate can also use the company's advising services and property insurance services.

Strong client focus, effective processing of loans, and an established system of locations and branches across the globe are the foundations of HDFC Ltd.'s reputation. The business is well-known for its dependability and is frequently recommended as a reliable option for people and families looking for mortgage financing.
HDFC Bank's parent firm, Housing Development Finance Corporation, invested Rs.1 billion in Yes Bank in March 2020.[27] 75% of the corporation's total investment would be locked in for three years under the Yes Bank rehabilitation plan. On March 14, Yes Bank distributed to the corporation 100 billion shares with a face value of 2 each at a price of 10 per share (including an 8 premium), representing a total of 7.97 percent of Yes Bank's post-issue equity share capital.

REVIEW OF LITERATURE

The importance of NBFCs in the financial sector has expanded dramatically over the years. Researchers (Smith, 2017; Gupta et al., 2019) note that NBFCs have bridged the gap in financial inclusion, particularly in emerging economies, by expanding financial services to underserved and distant locations.

Many financial performance criteria have been put forward to evaluate the stable and healthy NBFCs where the criterion commonly used return on assets, return on equity (ROE) net interest margin (NIM), and asset quality ratios which include gross non-performing assets ratio, to assess the profitability and efficiency

Various financial performance indicators have been developed to assess the health and stability of NBFCs. Researchers (Brown et al., 2015; Singh et al., 2018) typically utilize criterion metrics.

A comparison of the top five NBFCs is essential for determining their relative strengths and shortcomings. Financial ratios are frequently used in studies (Kumar et al., 2020; Sharma and Singh, 2021) to analyse the performance of different NBFCs, revealing information on variances in business strategies, risk management techniques, and overall financial health.

The regulatory environment in which NBFCs operate has a substantial impact on their financial performance. Researchers (Chatterjee, 2016; Verma and Dass, 2018) investigate the influence of regulatory changes on the financial performance of NBFCs, emphasizing the importance of a balanced regulatory environment that promotes expansion while ensuring stability.

Financial performance evaluation entails evaluating important financial indicators and ratios that provide insights into an NBFC's overall health and sustainability. To assess the financial performance of NBFCs, researchers have thoroughly examined various financial ratios such as liquidity ratios (current ratio, quick ratio), solvency ratios (debt-to-equity ratio, interest coverage ratio), profitability ratios (return on assets, return on equity), and efficiency ratios (asset turnover, operating expense ratio)

Market Perspective and Investor Trust: An NBFC's financial success can be significantly impacted by how the market perceives it. The association between confidence among investors, creditworthiness, and the financial condition of NBFCs is examined by Sarkar and Das (2020), underlining the significance of upholding market trust.

For NBFCs to remain competitive, incorporating technology-driven solutions has become essential. The effect of technological innovation on the operational effectiveness and client experience of NBFCs is studied by Ghosh and Jha (2018).

The top 5 NBFCs' financial performance is compared in order to identify their strengths and potential areas for development. Leading NBFCs are the subject of comparison research by Gupta et al. (2021), which examines their financial ratios, growth trends, and risk management procedures.

Objectives of the Study

- To understand and evaluate the financial performance of the top 5 selected NBFCs
- To study the Trend analysis and the future perspective of NBFCs
- To Understand and analyse the risk involved and the financial soundness of the company.

Need of the Study

- This study helps to understand the trend analysis of the NBFCs
- This study also explains about the future perspectives of NBFCs
- This Study includes the financial comparison of Top 5 NBFCs

Research Design

This paper is based on the quantitative method of research the data and information collected here are about the TOP 5 selected companies and their annual financial reports which have been published by the companies.

The top 5 NBFCs which this paper includes are listed below

- Bajaj Finance Limited
- Muthoot Finance Limited
- Mahindra & Mahindra Financial Limited
- Shriram Transport Finance Company Limited
- Hdfc Limited

Research Methodology

The paper is completely based on the secondary data that have been collected from the annual report and many available websites of the selected firms and also from the financial websites.

DATA ANALYSIS

EPS is a crucial financial indicator that shows how much profit a company makes for each share of its stock that is currently in circulation. It gives investors a sense of the company's per-share profitability. Let's examine the pattern for each business:

Bajaj Finance Ltd.

With an EPS of 67.52 at the beginning of 2019, Bajaj Finance saw a steady rise in EPS over the following few years.

The EPS increased significantly in 2022 (to 105.39), signaling a large rise in profitability.

With a significant increase in 2023 (170.37), the pattern persisted, demonstrating the company's strong growth and increased profitability during the preceding five years.

Muthoot Finance Limited

From 2019 to 2021, Muthoot Finance's EPS remained largely constant.

The EPS in decreased in 2022 (86.54), which can signify a brief drop in profitability.

The EPS returned in 2023 (86.54) though, indicating a stabilization in the business's profits the company Mahindra & Mahindra Financial Ltd.

Over a five-year period, Mahindra and Mahindra Financials EPS trend fluctuated.

The EPS decreased significantly in 2021 (2.25), which can be a worrying indication of decreased profitability or unusual conditions that have an impact on earnings.

The company improved in 2022 (41.28), pointing to a likely earnings recovery, and this pattern persisted in 2023 (54.7).

Shriram Finance Limited:

From 2019 to 2021, Shriram Finance's EPS showed very small changes.

EPS (101.74) increased in 2022, indicating higher profitability.

In 2023, the company's EPS (159.69) climbed even further, demonstrating significant growth and more profits.

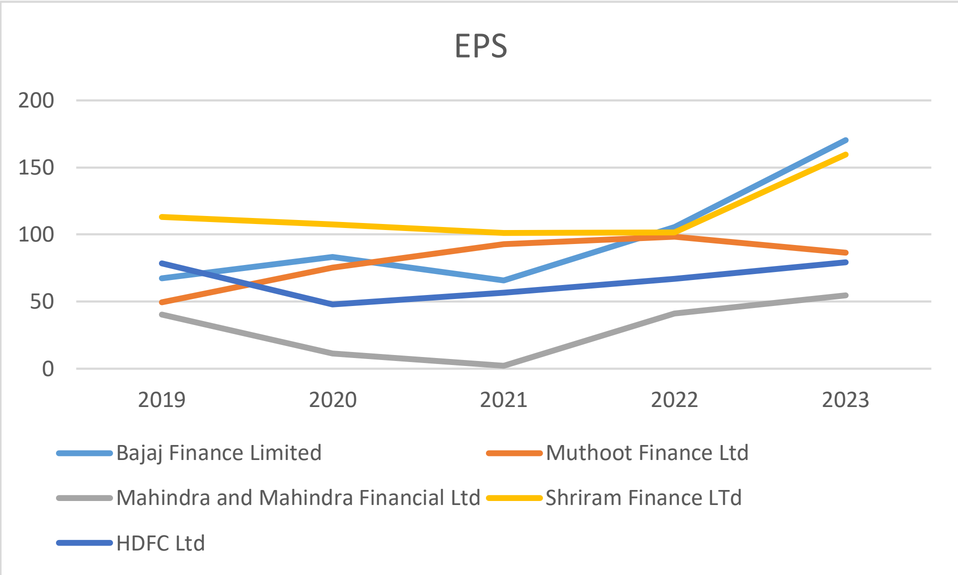
HDFC Limited

HDFC had an EPS of 78.65 when it began 2019; this decreased to 56.58 by 2021.

The EPS increased in 2022 (to 66.8), indicating a rise in profits.

HDFC's EPS climbed even more (to 79.25) in 2023, demonstrating continuous growth.

The trend analysis generally reveals that most of these businesses suffered EPS swings throughout the five-year span. While some businesses had constant growth, others occasionally encountered difficulties. When assessing these EPS patterns, it's crucial to take into account extraneous elements like external market circumstances, sector trends, and company-specific events. Additionally, for a thorough evaluation of a company's financial health, a single financial metric, such as EPS, should be examined in conjunction with other financial indicators.



Net Profit

A crucial financial ratio called net profit margin shows how much profit an organization keeps from its entire income after all costs have been paid. Better profitability is typically indicated by a bigger net profit margin.

Bajaj Finance Ltd. In 2019, Bajaj Finance began with a net profit margin that was comparatively high (22.37%).

In 2020, the margin saw a modest drop (20.48%) before improving (16.8%) in 2021.

The margin improved greatly in 2023 (28.83%) after rising in 2022 (22.79%). This implies that the business was successful in improving its profitability over the course of five years, as evidenced by the significant increase in net profit margin.

Muthoot Finance Limited

Over the course of the five years, Muthoot Finance continually achieved a high net profit margin.

The difference widened from 2019 (28.67%) to reach its maximum. in 2020 (34.63%).

Despite a minor dip (35.25%) in 2021, the company's profitability remained rather high.

In 2022, the margin stayed same (35.68%), while in 2023, it slightly shrank (33.03%). Overall, Muthoot Finance showed consistent and significant profitability over the time period.

Mahindra & Mahindra Financial Ltd.

Compared to certain other businesses, Mahindra and Mahindra Financial had a lower net profit margin.

The margin changed throughout time, reaching its lowest point in 2021 (0.59%), which could be an indication of difficulties or unique conditions that have an impact on profitability.

In 2022, there was a recovery (8.59%), indicating greater profitability, and in 2023, the margin improved even more (7.7%).

Shriram Finance Limited:

Over the course of the five years, Shriram Finance kept its net profit margin at a respectable level.

2020 (15.11%) saw a minor increase in the margin from 2019 (16.51%).The margin had a slight decline in 2021 (14.27%), but it recovered in 2022 (14.06%), and it increased significantly in 2023 (20.08%).

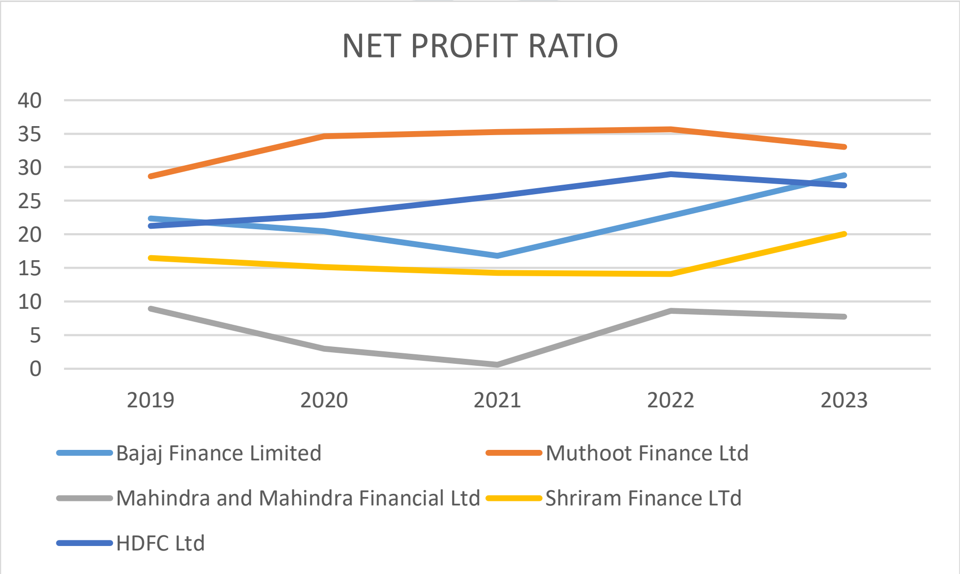
HDFC Limited

HDFC began the year with a healthy net profit margin (21.29%) and gradually increased.

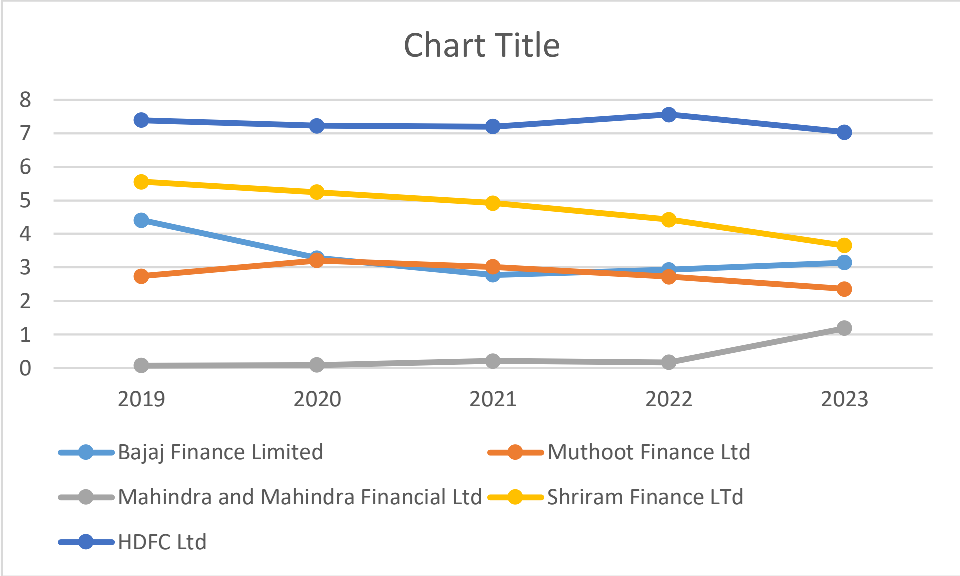
In 2020 (22.86%), the margin grew, and it continued to grow in 2021 (25.74%).

With further gains in 2022 (28.93%) and a little smaller but still significant margin in 2023 (27.29%), HDFC maintained its high profitability.

Overall, the trend analysis reveals that these businesses' net profit margins varied throughout the course of the previous five years. While some businesses maintained steady and robust profitability, others saw variations because of possible difficulties or economic recovery. When assessing financial data, it's crucial to take industry norms and other factors into account. These trends might help you get a complete picture of a company's financial health.



Debt Equity Ratio



A financial indicator called the debt-to-equity ratio (D/E) shows how much a company's overall debt compares to the equity owned by its shareholders. A larger debt-to-equity ratio shows that the company has more debt than equity, which may signify greater financial leverage and potential danger. Based on the provided information, the following is a concise explanation of the Debt-to-Equity ratios for the five different corporations across the five different years:

Bajaj Finance Ltd.

The company had a comparatively high amount of debt compared to equity in 2019, which suggests a potentially higher financial risk because of the heavy debt load. The D/E ratio was 4.41.

Muthoot Finance Limited

2020: A D/E ratio of 3.21 indicates that the debt to equity for the corporation was roughly 3.21 times its equity. This suggests a big debt with relation to the equity base.

Mahindra & Mahindra Financial Ltd.

A D/E ratio of 0.21 in the year 2021 indicates that the corporation has less debt than equity. This implies a more cautious strategy for financing its operations.

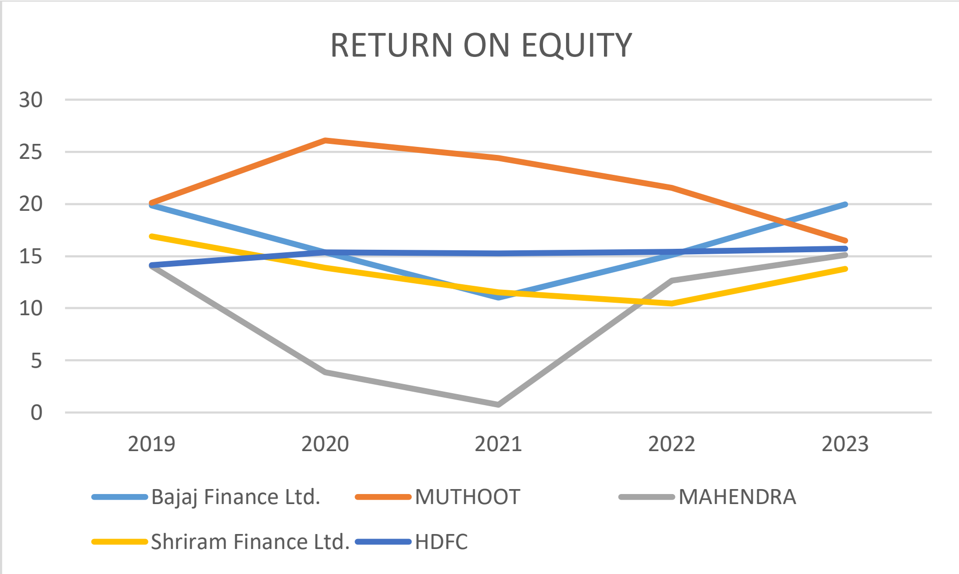
Shriram Finance Limited:

2022: A D/E ratio of 4.42 implies that there is a greater proportion of debt than equity, which may point to a higher level of financial risk because of the greater reliance on debt funding.

HDFC Limited2023:

A relatively high debt-to-equity ratio of 7.03 shows a large prevalence of debt relative to equity. This could indicate more financial leverage.

In conclusion, the debt-to-equity ratio aids in determining the capital structure and financial risk of an organization. Greater danger could be indicated by a higher ratio if A smaller ratio denotes a more cautious financial structure that relies less on debt, whereas a higher ratio suggests a debt burden. When analyzing D/E ratios, it's crucial to take industry norms and company-specific considerations into account.



A financial indicator called the Return on Equity (ROE) ratio shows how well a company uses the equity of its shareholders to produce profits. Based on the supplied statistics, the following is a brief explanation of the ROE ratios for the five various companies across the five distinct years:

Bajaj Finance Ltd.

2019: An ROE of 19.88% indicates that the business achieved a return of 19.88% for each share of equity invested by shareholders during that year.

MUTHOOT:

2020: ROE of 26.08% indicates that the company's equity produced a comparatively higher return of 26.08% in 2020, showing effective profit generation.

MAHINDRA:

2021: A lower return on equity (ROE) of 0.77% shows that the corporation had a harder time producing significant earnings in relation to its equity during that year.

Shriram Finance Limited

An ROE of 10.44% in 2022 denotes a respectable level of efficiency in using shareholders' money and shows modest profitability relative to equity investment.

HDFC:

2023: An ROE of 15.74% indicates that in 2023, the company's equity produced a return of 15.74%, demonstrating reliable and effective profit-generating.

ROE gauges how successfully a business makes money from its shareholders' equity. Higher ROE percentages typically signify effective use of equity to produce profits, whilst lower percentages could suggest ineffective use of equity to produce profits. When analyzing ROE ratios, it's critical to take industry norms and company-specific considerations into account.

FINDINGS

- The study may run into problems with the availability and reliability of financial data. Comprehensive research could be challenging because certain NBFCs may not publish specific financial information.
- The absence of industry benchmarks for specific key performance metrics may represent a gap. It could be difficult to understand the importance of the data in the absence of industry standards.
- While financial measures offer insightful data, the study may have overlooked qualitative aspects like managerial effectiveness, client satisfaction, and company reputation.
- The study might not have considered how changes in interest rates, government regulations, and economic cycles can have a big impact on how well NBFCs function financially.
- The study may not fully include all risk factors related to combining credit risk, market risk, and operational risk, with the NBFC industry.
- A weakness could be the absence of analysis on the NBFCs' financial performance over the long term, beyond the time range covered by the study.

Conclusion

It can be concluded that from this research paper with the trend analysis that the EPS of BAJAJ FINANCE Ltd had higher and significant growth till the year 2023 compared to all the other companies and the second highest growth of EPS was of Shriram Finance Ltd, evaluating the net profit all the companies we see an increasing trend in the MUTHOOTH FINANCE LTD had high NET PROFIT RATIOS comparing to the other companies also the BAJAJ FINANACE LTD maintained the stable increasing order of the NET PROFIT RATIO, we can also observe that the BAJAJ FINANCE LTD had the high rate of DEBT EQUITY RATIO comparing to the other companies, determining the return on equity ratio we can interpret that the BAJAJ FINANCE LTD had stable and higher growth of return on equity and had generated the higher profit margin.

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