PERFORMANCE ASSESSMENT OF NON-BANKING FINANCIAL COMPANIES IN INDIA: AN EMPIRICAL STUDY

Synopsis

A Non-Banking Financial Company (NBFC) is an institution having its main business of accepting deposits under any scheme of arrangement as per formulated rules in lump sum or in installments and using the same for financing specific schemes which is also directed by rules formulated by the appropriate authority. The functions of NBFCs are categorically restricted as per the guidelines of the Reserve Bank of India.

India has a bank-dominated financial system, but still there is a significant presence of NBFCs as financial intermediaries and playing a complementary role to banks rather than acting as competitors of the banks in bringing the different levels of savings and different areas of investing community taken together.

The RBI had classified the NBFCs into 7 categories from 1980, but from the year 2006, the NBFCs registered with RBI have been reclassified into three groups, namely, Asset Finance Companies (AFCs), Investment Companies (ICs), and Loan Companies (LCs). Out of these three categories of NBFCs, AFCs and ICs have significant roles in terms of coverage of the basic activities of NBFCs.

The present study makes an attempt to evaluate the financial performance of the two categories of NBFCs - AFCs and ICs, through an analysis of their assets and liabilities structure and growth of each of these two categories, both, group-wise and company-wise. In addition, the study evaluates the performance of NBFCs using the indicators like Return on Assets (ROA), Return on Capital Employed (ROCE), Return on Equity (ROE), Debt-Equity Ratio (DER), Net Profit Ratio (NPR), and Current Ratio (CR).

This performance assessment will bring out the current position of the selected NBFCs individually as well as the overall performance of this sector as a whole. The outcome of the study will, therefore, have immense policy implications and will surely guide the regulators to come up with appropriate policies to ensure growth and survival of this segment of financial system.

To analyze the data collected from secondary sources, we have used different statistical and econometric tools like ANOVA, Fisher's t-test, Data Envelopment Analysis (DEA), Stochastic Frontier Analysis (SFA), Cross Tabulation Analysis, etc.

On the basis of availability of data, 18 NBFCs (5 ICs and 13AFCs) have been selected that are registered with RBI as on 30th November, 2015, which form the sample size of our study. These categories of companies are mutually exclusive in nature. The study has been carried out for a span of nine years, i.e., from the financial year 2006-07 to the financial year 2014-15.

Company-wise as well as aggregative analyse of the structure of assets and liabilities of both the categories of NBFCs show almost the same pattern of movement over the study period. Satisfactory results are found in respect of growth rate of assets and liabilities at aggregative level as well as at company-wise level. But dissatisfactory results are found in respect of growth rate of different ratios considered as indicators of levels of financial performance of the companies under study. Despite significant growth of assets and liabilities, we have found lower rates of returns. So, this clearly indicates inefficient management of earning components i.e., ECs (revenues and expenditures) both at aggregative and company levels during the study period. It is also found in our study that capital structure of the NBFCs is not managed in the way it should have been, to keep the risk profile at the lowest levels. The growth performance of the profitability indicators has been found to be very much discouraging for each category of NBFCs. At the aggregate level, no significant difference has been found between the average performances of majority of the performance indicators of each category of NBFCs, although significant difference exists within the companies under each category of NBFCs.

However, considering the present operating position of the NBFCs, the DEA reveals that only 28% (approximately) of our sample companies are efficient but the only positive aspect is that they need some moderate modifications / improvements in respect of their financial health components, earning components, profitability ratios, and solvency ratios to become efficient. SFA model has been used to measure the overall efficiency of the selected ICs and AFCs and to identify the factors contributing to the differences in the efficiency levels of the companies. It is observed that the input variable ‘EC’ has an impact as a stochastic impulse on the efficiency level of the selected ICs and AFCs. As the overall mean efficiency of the selected ICs and the selected AFCs is less than the efficiency norm, they need to be enhanced with their given levels of inputs to become efficient. In this respect, it is found that the exiting level of efficiency varies more widely for the AFCs than for the ICs, although both are operating below the efficiency level. On the whole, it can be said from our study that there is no difference between the performances of each category of NBFCs despite the fact that there exists difference in the nature of their activities.

The study suggested that all the NBFCs (listed or non-listed) should publish some key annual information on financial activities so that the stakeholders and beneficiaries of the NBFCs are able to get little more useful financial information. This will act as a marketing tool to encourage their stakeholders and beneficiaries to get them more financially associated. This will result in the increase in the volume of business of the NBFCs. RBI issues a list of NBFCs only. It is suggested that RBI should publish financial information in aggregate as well as in disaggregate forms. This will help the investors to make correct financial decision with respect to their investment decisions.