Major Research Project

A COMPREHENSIVE ANALYSIS OF FINANCIAL PERFORMANCE AND GROWTH IN NBFCS

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CERTIFICATE

This is to certify that **HIMANSHU MODI (2K22/DMBA/49)** has submitted his major research project titled **"A Comprehensive Analysis of Financial Performance and Growth in NBFCs"** in partial fulfillment of the requirements for the award of the degree of Master of Business Administration (MBA) from Delhi School of Management, Delhi Technological University, New Delhi during the academic year 2023-24.

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DECLARATION

I, **HIMANSHU MODI (2K22/DMBA/49),** student of Delhi School of Management, Delhi Technological University hereby declare that the Major Research Project on **'A Comprehensive Analysis of Financial Performance and Growth in NBFCs'** submitted in partial fulfillment of the requirements for the award of the degree of Master of Business Administration (MBA) is the original work conducted by me. I further declare that the information collected from various sources has been duly acknowledged in this project.

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ABSTRACT

Playing a crucial part in the financial ecosystem of the nation, the NBFC industry industry in India has experienced significant expansion in recent times. NBFCs' financial performance and growth patterns will be thoroughly examined in this research report. This study looks into important financial variables like profitability, asset quality, liquidity, and capital sufficiency across a wide sample of Indian NBFCs through a combination of quantitative analysis and qualitative evaluation. Furthermore, taking regulatory frameworks, industry-specific dynamics, and macroeconomic considerations into account, this research explores the growth drivers and bottlenecks for NBFCs. The research findings add to the current body of information regarding non-bank finance companies (NBFCs) and provide practical suggestions for policymakers, industry practitioners, and stakeholders to improve the sector's sustainability and resilience in the face of changing economic conditions.

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EXECUTIVE SUMMARY

Non-banking financial firms are important players in the Indian financial system, lending money to the unbanked segments of the population, particularly to micro, small, and medium-sized enterprises. They are split up into different groups based on their roles and main activities. This article attempts to analyse the five different types of NBFCs in India from 2019 to 2023. The performance is evaluated by looking at important performance metrics like the debt to equity ratio, profitability ratio, and liquidity ratio.

The findings indicate that the selected NBFC groups' profitability and liquidity ratios differ noticeably from one another.

Since many people in India, a developing country, do not have access to banking services, a range of financial intermediaries, including non-banking financial enterprises, have emerged. A Non-Banking Financial Company (NBFC) is an entity that is registered under the Companies Act of 1956 and is involved in the lending and advancing of stocks, equities, debt, etc. issued by the government or any local authority, or other marketable securities like leasing, hire purchase, insurance business, or chit business. Within the NBFC sector, there has been a significant evolution in terms of size, operations, technological sophistication, and penetration into new financial services and product categories.

Evaluating and measuring NBFC expansion is critical to understanding how financial intermediaries are evolving within the context of the Indian banking system. Ratios of profitability and solvency are helpful tools for gauging financial performance, and the data can be interpreted statistically. An economy's ability to advance is heavily reliant on NBFCs. They meet the needs of people who live in both rural and urban areas by offering a range of programs that help close credit gaps. Compared to banks, NBFCs have more operational flexibility. Among the top NBFCs in India are Power Finance Corporation Limited, Mahindra & Mahindra Financial Services Limited, Muthoot Finance Ltd., and others.

This project's main objective is to investigate the rise of NBFCs and figuring out the reasons or factors that influence whether they succeed or fail. The financial performance is examined using ratio

CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION OF NON BANKING FINANCIAL COMPANIES

Non-banking financial companies refer to financial institutions that function similarly to banks but do not have the official status of being banks. According to the Companies Act of 1956, specific types of financial companies must undergo registration. These financial institutions engage in various business activities, including providing loans and advances, investing in marketable securities issued by local or government authorities, leasing, hire-purchase, insurance, and chit business. However, they exclude companies that primarily engage in the buying or selling of goods or operate in the agricultural or industrial sectors. A non-banking financial institution is an organization that primarily engages in accepting deposits as payment for pledges or in some other manner, either in full or in part.

The Reserve Bank of India (RBI) became cognizant of Non-Banking Financial Companies (NBFCs) following the occurrence of financial losses suffered by numerous depositors due to bank failures in the late 1950s and early 1960s. The Reserve Bank of India (RBI) began regulating depositors by introducing Chapter IIIB into the Reserve Bank of India Act, 1934, with the aim of curbing the excessive number of depositors. In March 1996, India had approximately 41,000 Non-Banking Financial Companies (NBFCs), although they were not officially recognized as a separate category. Nevertheless, the RBI imposed restrictions on the regulatory framework, reporting, and supervision as a result of the failure of certain institutions. In the late 1990s, substantial reforms were enacted to protect the interests of depositors and ensure the proper functioning of Non-Banking Financial Companies (NBFCs).

As of April 21, 19991, a notification mandated that NBFCs registering on or after that date must possess a minimum of ~200 lakhs in net owned funds in order to commence their business operations. This altered the minimum amount of capital that non-banking financial companies (NBFCs) are required to maintain. In order to ensure the industry's sustainable and effective growth, several regulatory measures were taken to identify and impose strict guidelines on systemically important businesses, due to the industry's tendency to rapidly increase in size. Companies with assets valued at a minimum of ~100 crores were categorized as systemically important Non-Banking Financial Companies - Non-Deposit taking (NBFC-ND). The two new categories of Non-Banking Financial Companies (NBFCs) introduced in the fiscal year 2011-12 are IDF and MFI.

The Reserve Bank of India establishes clear definitions for:

A non-banking financial company refers to an entity that carries out banking operations, yet it does not operate as a physical bank. The Reserve Bank of India has provided the following definition for Non-Banking Financial Companies (NBFCs). The Reserve Bank of India (RBI) provided clarification on the matter.

Each term, including "financial institution," has been precisely defined in a systematic manner. Non-banking refers to activities or services that are not directly related to traditional banking operations. It encompasses a wide range of financial activities that are conducted by entities other than banks, such as insurance companies

An NBFC, short for Non-Banking Financial Company, refers to a company that engages in financial institution activities and is registered under either the Companies Act of 1956 or the Companies Act of 2013.Non-Banking Financial Companies are specifically defined by Section 45I(f) of the Reserve Bank of India Act, 1934:

(i) A corporate financial institution;

(ii) A non-banking financial institution that primarily engages in deposit-taking or lending activities through various schemes or arrangements;

(iii) Any other non-banking financial institution or category of such institutions, as authorized by the central government and published in the Official Gazette. Section 45I(c) of the Reserve Bank of India Act of 1934 provides a definition for the term "Financial Institution."

According to this definition, any non-banking institution that carries out the specified activities either as a part of its business or as its main activity is considered a financial institution. The activities encompassed in this category are as follows:

(i) engaging in financing activities that are not self-financed, which may involve providing loans, advances, or utilizing other methods;

(ii) acquiring marketable securities such as stocks, bonds, debentures, or securities issued by local or state governments;Clause (c) of section 2 of the Hire Purchase Act, 1972 provides a definition for a hire-purchase agreement. It states that a hire-purchase agreement involves the act of letting or delivering goods to a hirer, engaging in any type of business activity, and managing, conducting, or supervising chits or kooris (as defined by any current state law) or any similar business.

(iii) Collecting funds for any purpose, through any scheme or arrangement, under any denomination, by means of subscription, unit sales, or other methods, and any other means; and awarding prizes or gifts, in the form of goods or money, or disbursing funds in any other manner, to individuals from

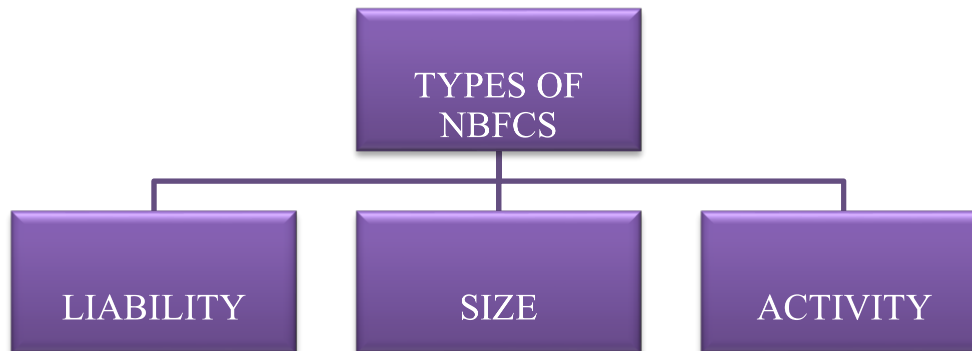
Money can be received by any individual, excluding organizations that conduct business on a personal basis. The institution does not generate any additional revenue from funding the acquisition, development, or sale of real estate by third parties, but it is involved in purchasing, building, or selling real estate. The activities that are included are agricultural operations, industrial activity, buying or selling goods (excluding securities), and providing services.

1.2 Criteria for RBI Registration

According to Section 45-IA of the RBI Act, 1934, it is mandatory for any non-banking financial company to obtain a certificate of registration and have net owned funds of Rs. 2 crores in order to operate as a non-banking financial institution. Prior to the notification issued on April 21, 1999, the minimum requirement for Net Owned Funds was revised from 25 lakh to 2 crore.As per the revised regulatory framework, non-banking financial companies (NBFCs) with a Net Owned Fund (NOF) of less than Rs. 2 crore are required to raise it by specific amounts. They must increase it by Rs. 1 crore by April 1, 2019, and by Rs. 2 crores by April 1, 2020.

The company is obligated to submit an application for registration to the RBI for review, following the specified format and including the necessary paperwork. RBI has provided a distinct list of supporting materials for applications to become an NBFC-MFI (Micro Finance Company), NBFC-Factors, NBFC-CIC (Core Investment Companies), and other NBFCs. However, the Reserve Bank of India (RBI) has granted an exemption to a specific group of companies, allowing them to avoid the requirement of registering with the RBI. This exemption is aimed at preventing the occurrence of dual registration.

1.3 TYPES OF NBFCS



LIABILITY

There are two classifications of NBFCs based on their liability.

1. Non-Banking Financial Companies that accept deposits
2. Non-deposit accepting Non-Banking Financial Companies (NBFCs)

Not all Non-Banking Financial Companies accept deposits. Only Non-Banking Financial Companies (NBFCs) that possess a valid Certificate of Registration (COR) and have been authorized to accept Public Deposits are permitted to accept and hold public deposits.

Section 45-I(bb) of the Reserve Bank of India Act, 1934 provides a definition for the term "deposits". It states that deposits include any receipt of cash in the form of a deposit or credit, regardless of the structure. However, there are certain exclusions: - Amounts raised through share capital. - Amounts contributed as capital by partners of a firm. - Amounts received from scheduled banks, co-operative banks, or any other banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949. - Any amount received from a State financial corporation, a financial institution specified in or under section 6 an of the IDBI Act, 1964, or any other institution specified by the bank.

Money acquired through legitimate business transactions, such as security deposits, dealership deposits, earnest money, and advances against orders for goods, properties, or services. Any amount received from an individual, firm, or unincorporated association registered under any financial lending institution currently in effect in any state;

SIZE

Classification NBFCs are classified into two distinct categories: deposit accepting and non-deposit accepting. The non-deposit-taking non-banking financial companies (NBFCs) are further divided into:
• **Systemically Important**: The term "systemically important non-deposit taking non-banking financial company" refers to a non-banking financial company that does not accept or hold public

deposits and has total assets of Rs. 500 crores or more.

• **Non-systematically important**: The term "non-systematically important non-deposit taking non-banking financial company" refers to a non-banking financial company that does not accept or hold public deposits and has total assets less than Rs. 500 crores.

ACTIVITY

ASSET FINANCING COMPANY

- Pledging one or more assets as collateral in order to obtain credit .
- The primary focus of the business is providing financing for tangible assets such as automobiles, tractors, and generator sets.
- Examples of companies in this sector include Magma Fincorp Ltd and Edelweiss Assets Management.

INVESTMEN COMPANY

- Engaged in business of pooled capital of investors in financial securities.
- It can be corporation, partnership, business trust, or L.L.P
- E.G. TATA Investment corporation ltd.

LOAN COMPANY

- Provide finance by making loans and advances.
- Offer different types of loans as per individual's preference.
- Accept deposits at higher interest rate and further give loansgive loans on higher interest to retailers, wholesalers, and self-employed persons

INFRASTRUCTU REFINANCE COMPANY

- Non-Deposit taking NBFC
- Deploys 75% of its total assets in infrastructural loans.
- Minimum Net Owned fund Rs.300 crores, minimum creditrating of 'A' or equivalent, and CAR should be 15 %. E.g.L&T, IDFC Ltd

CORE INVESTMENT COMPANY

- Asset size 100 crores and accept public deposit.
- Does not hold less than 90% of its total assets in the formof investment in shares
- Principal business, acquisition of shares and securities
- E.G. TATA capital limited

MICRO FINANCE INSTITUTIONS

- Non-deposit taking NBFC with minimum net owned fundsof 5 crores.
- Loans to be extended without collateral.
- Indebtedness should not be exceeded Rs. 1,00,000
- E.G. Unnati Micro Finance private limited

HOUSING FINANCE COMPANY

- Principal business of financing of acquisition orconstruction of houses.
- Regulated by national housing financing
- Net owned fund of Rs. 10 crores
- E.G. HDFC ltd. India Bulls Housing Finance

1.4 THE CURRENT STATUS OF NON- BANKING FINANCIALCOMPANIES.

Prudential norms:

In January 1998, the Reserve Bank introduced a new regulatory framework that defined precise rules and standards for Non-Banking Financial Companies (NBFCs) that engage in deposit-taking activities. The objective of these norms is to guarantee that these Non-Banking Financial Companies (NBFCs) function in a financially robust and safe manner. The regulatory and supervisory attention was specifically aimed at the 'deposit taking NBFCs' (NBFCs - D) to enable the Reserve Bank to effectively fulfill its responsibilities of protecting the interests of depositors. Deposit-taking NBFCs, which are classified as Non-Banking Financial Companies (NBFCs), must adhere to specific regulations that are comparable to those imposed on banks. These regulations encompass various aspects, including the recognition of income, classification of assets, provision for potential losses, maintenance of adequate capital, adherence to exposure limits, and compliance with accounting and disclosure requirements. However, the 'non-deposit taking NBFCs' (NBFCs - ND) are subject to minimal regulation.
The application of prudential guidelines and limits differs among the banking and non-banking financial company (NBFC) sectors, as well as within the NBFC sector itself. The implementation of the prudential guidelines/norms exhibits distinct variations, as described below:

i) Banks are required to comply with regulations that govern the recognition of income, classification of assets, and provisioning. In addition, they must comply with capital adequacy standards, borrower limits for both individual and group borrowers, limits on capital market exposures, and norms for classifying and valuing their investment portfolio. In addition, banks are obligated to meet the criteria for cash reserve ratio (CRR) and statutory liquidity ratio (SLR), adhere to accounting and disclosure standards, and fulfill supervisory reporting obligations.

ii) Non-Banking Financial Companies (NBFCs) are regulated similarly to banks, except for the absence of Cash Reserve Ratio (CRR) obligations and restrictions on capital market exposures. Nevertheless, even in situations where they are applicable, the standards are enforced with less rigor compared to the standards imposed on banks. Investments made by Non-Banking Financial Companies (NBFCs) are subject to certain limitations, such as restrictions on investing in real estate properties and unlisted shares.

iii) Non-Banking Financial Companies - Non-Deposit taking are not required to comply with capital adequacy norms, Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) requirements, limits on lending to single and group borrowers, prudential limits on investments in the capital market, and restrictions on investments in land, buildings, and unquoted shares.

iv) Companies borrowing money without providing collateral are subject to the regulations established under the Companies Act. Although NBFCs are governed by the Companies Act, they are not bound by the aforementioned Rules because they are under the regulatory jurisdiction of the RBI, which operates under the Reserve Bank of India.
The legislation known as the Bank of India Act. While Non-Banking Financial Companies - Deposit taking (NBFCs - D) have their ability to borrow money limited to some extent by the Capital to Risk-Weighted Assets Ratio (CRAR) regulation, there are no restrictions on the amount of debt that Non-Banking Financial Companies - Non-Deposit taking (NBFCs - ND) can utilize, even though they operate in the financial services industry.

Financial Linkages between Banks and NBFC:

There are financial connections between banks and non-banking financial companies (NBFCs) because they compete for similar types of business opportunities related to assets. Non-Banking Financial Companies (NBFCs) offer a diverse array of financial products and services, including leasing and hire-purchase, corporate loans, investment in non-convertible debentures, IPO funding, margin funding, small ticket loans, and venture capital. However, Non-Banking Financial Companies (NBFCs) do not provide services such as managing savings and current accounts, offering cash credits, overdrafts, and similar banking facilities.
Non-Banking Financial Companies (NBFCs) secure funding from banks for their operations either through loans or by banks making investments in debentures and commercial paper issued by the NBFCs.
To mitigate the potential risks arising from the divergent cost-incentive systems of banks and NBFCs, it is essential to implement protective measures that shield the depositors of banks from any indirect negative impacts caused by these differing structures. This is especially important due to the increasing competition between banks and NBFCs in overlapping business sectors, particularly in relation to assets, and the varying regulatory frameworks that govern them. As a result, there are certain limitations on the activities of non-banking financial companies (NBFCs) that banks can provide funding for.

i) Non-Banking Financial Companies (NBFCs) can discount or rediscount bills, except for bills resulting from the sale of commercial vehicles (including light commercial vehicles) and two-wheeler and three-wheeler vehicles, subject to specific conditions. NBFCs can also make investments in any company/entity through shares, debentures, etc., with certain exceptions. These investments can be both short-term and long-term.
ii) NBFCs can provide unsecured loans or inter-corporate deposits to any company.
iii) Non-Banking Financial Companies (NBFCs) extend loans and advances to their subsidiaries, group companies, and other entities.

iv) Offering financial assistance to Non-Banking Financial Companies (NBFCs) to facilitate lending to individuals interested in subscribing to Initial Public Offerings (IPOs).

v) Bridge loans, which can take the form of interim financing against capital/debenture issues or as loans with a bridging purpose, are extended to all types of Non-Banking Financial Companies (NBFCs). These encompass entities such as equipment leasing and hire-purchase finance companies, loan and investment companies, and Residuary Non-Banking Companies (RNBCs). The objective of these loans is to offer short-term financing while the Non-Banking Financial Companies (NBFCs) obtain long-term funds from the market via capital, deposits, and other means.

vi) Engaging in lease agreements directly with equipment leasing companies on a departmental level is not recommended.

Interrelationships between banks and non-banking financial companies (NBFCs) at a fundamental level:

Financial institutions in the country, such as banks and non-banking financial companies (NBFCs), are owned and established by entities in both the private sector (domestic and foreign) and the public sector.

Many non-banking financial companies (NBFCs) are affiliated with banks, including foreign banks, either as subsidiaries, associates, or joint ventures. These banks may or may not have a tangible operational presence within the country. Lately, there has been an increasing interest in the establishment of Non-Banking Financial Companies (NBFCs) in general, particularly by banks.
The bank's investment in a financial services company must not exceed 10% of its total paid-up share capital and reserves. Furthermore, the total investments in these companies, financial institutions, stock exchanges, and other exchanges must not surpass 20% of the bank's paid-up share capital and reserves.

Banks in India must obtain prior approval from the regulatory department of the Reserve Bank in order to receive a Certificate of Registration for establishing a Non-Banking Financial Company (NBFC) or for making a strategic investment in an NBFC in India. Foreign entities, including the central offices of foreign banks operating branches in India, are permitted to establish Non-Banking Financial Institutions (NBFI) in India without prior approval, provided they acquire a Certificate of Registration from the Reserve Bank.

Non-Banking Financial Companies (NBFCs) possess the capacity to partake in activities that banks are either prohibited from undertaking or can only undertake with restrictions. These activities encompass the provision of funds for acquisitions and mergers, engagement in activities related to the capital market, and other related endeavors. The disparities in regulatory oversight between banks and NBFCs, despite their involvement in comparable operations, give rise to substantial prospects for

regulatory arbitrage. Hence, routing transactions through Non-Banking Financial Companies (NBFCs) would essentially undermine banking regulation.

The problem of non-banking financial companies (NBFCs) that are affiliated with banking groups is partially resolved by enforcing prudential norms that are applicable to these banking groups.

1.5 The Role of Non-Banking Financial Companies.

1. Optimal deployment of savings by promoters:

Non-Banking Financial Companies (NBFCs) have a significant role in promoting efficient utilization of public savings. Non-Banking Financial Companies (NBFCs) possess the capacity to tap into particular deposit sectors, such as the unorganized sector and small borrowers, that are beyond the reach of commercial banks. These companies advocate for frugality and responsible financial management, discouraging unnecessary spending and promoting savings. They offer attractive programs to meet the needs of various segments of the population. In addition, they attract inactive funds by offering attractive interest rates. Idle money refers to funds that individuals reserve but do not actively employ. It is surplus funds.

2. Provides convenient, expeditious, and distinctive credit alternatives:

Non-Banking Financial Companies (NBFCs) provide expedient and expeditious credit to individuals in need. The formalities and procedures required for Non-Banking Financial Companies (NBFCs) are minimal. Non-Banking Financial Companies (NBFCs) also provide alternative credit options that are not commonly offered by traditional banks, such as financing for wedding expenses, religious ceremonies, and similar purposes. Non-Banking Financial Companies (NBFCs) are available to all individuals. People from various socioeconomic backgrounds can use them according to their specific needs.

3. Financial Supermarket:

Non-Banking Financial Companies (NBFCs) play a vital role as important financial institutions. Non-Banking Financial Companies (NBFCs) create an extensive financial marketplace for customers by offering a wide array of services. Presently, non-banking financial companies (NBFCs) are providing a wide array of services such as mutual funds, counselling, merchant banking, and others, alongside their traditional services. Several non-banking financial companies (NBFCs) manage their risks by diversifying their range of products and expanding their operational scope.

4. Investing in productive ventures:

Non-Banking Financial Companies (NBFCs) direct modest savings towards productive ventures. Productive purposes involve investing people's savings into businesses with the capacity to generate significant profits. When leasing companies offer equipment to industrialists, the industrialists can maintain their production with less capital, while the leasing company also gains advantages.
Generate significant financial gains.

5. Provide mortgage services specifically for residential housing purposes:

Non-Banking Financial Companies (NBFCs), especially Housing Finance companies, provide housing finance with advantageous terms and conditions. They exert a substantial influence on fulfilling the essential human need for housing finance. Housing finance is typically needed by individuals belonging to the middle-class and lower middle-class. Hence, Non-Banking Financial Companies (NBFCs) are a blessing for these individuals.

6. Provide advice and direction regarding investment choices:

Non-banking financial companies (NBFCs), which are mainly investment firms, provide advice on wise fund investment and risk diversification through investments in different securities. They protect the financial interests of small investors by distributing their funds among different securities. They provide indispensable services to investors by carefully choosing the suitable securities that will allow them to attain the utmost rate of return. Hence, Non-Banking Financial Companies (NBFCs) play a crucial role in providing wise and shrewd investment advice.

7. Improve the overall standard of living:

Non-Banking Financial Companies (NBFCs) play a crucial role in enhancing the standard of living in India. People with limited financial means are unable to afford and benefit from various products that were once considered luxuries but are now considered essential, such as consumer durables like televisions, refrigerators, air conditioners, kitchen equipment, and so on. Non-Banking Financial Companies (NBFCs) improve the standard of living by providing consumer goods through convenient installment schemes. Non-Banking Financial Companies (NBFCs) also contribute to the improvement of transportation services by offering hire-purchase finance, among other methods. An improved and enlarged transportation infrastructure enables the smooth transportation of goods across various locations, thereby enhancing the availability of goods and elevating the overall quality of life in society.

8. Streamline the process of accepting deposits in various formats:

Non-Banking Financial Companies (NBFCs) accept deposits in various convenient forms for the public. Usually, they gather funds from individuals by accepting loans from depositors. Therefore, NBFCs provide debentures, certificates of units, savings certificates, and units to the general public.

9.Promote and foster economic growth:

Non-Banking Financial Companies (NBFCs) play a vital role in promoting the economic development of the country. They expedite the rate of growth in the financial market and serve a wide array of investors. Their operations are guided by the principle of optimizing returns on savings while minimizing risk. Thus, they enhance the sustainability of businesses in the economy by fostering a vibrant and active capital market. In addition, they foster the growth of meticulously organized business ventures by investing their funds solely in efficient and financially robust enterprises. An important benefit of NBFCs is their involvement in speculative business, which entails investing in high-risk activities. Investment firms place a high importance on maintaining stable prices, which gives non-banking financial companies (NBFCs) significant influence in the stock market. Non-Banking Financial Companies (NBFCs) exert a substantial and ever-changing influence on the advancement of our country.

1.6 Functions of Non-Banking Financial Companies:

1. **Gaining benefits:**

The primary objective of a Non-Banking Financial Company (NBFC) is to gather funds from the general public by means of issuing debentures, savings certificates, subscriptions, unit certifications, and other similar methods. Hence, the deposits of Non-Banking Financial Companies (NBFCs) comprise of funds obtained from the general public through various channels such as deposits, loans, investments, or any other type of financial contribution.

2. **Offering financial loans:**

Another pivotal function of Non-Banking Financial Companies (NBFCs) is to extend loans to the general populace. Non-banking financial companies provide financial assistance.

3. Hire purchase financing

It refers to a method of purchasing goods or assets where the buyer pays for them in installments over a period of time.Non-banking financial companies (NBFCs) offer hire purchase finance to support small-scale entrepreneurs, professionals, and individuals with moderate incomes in acquiring equipment through hire purchase agreements. Once the buyer finishes paying the last installment of the hire purchase agreement, they become the owner of the equipment.

4**. Financial leasing:**

In leasing finance, the borrower is given authorization to use the capital equipment as a rental. The borrower is not obligated to obtain the capital equipment, but rather purchases the right to use it.

5**. Housing finance**:

Non-Banking Financial Companies (NBFCs) provide housing finance services to the general public. They offer financial support for a range of purposes, including building houses, developing plots, and acquiring land.

6**. Non-Banking Financial Companies (NBFCs) also provide a range of additional financial services, including**:

Consumer finance encompasses the allocation of financial assets for a range of purposes, including religious ceremonies, weddings, social events, and debt settlement. Non-Banking Financial Companies (NBFCs) provide expedient and expeditious financial services, primarily targeting customers who are unable to obtain financing from conventional banks.

1.7 TOP NBFCS IN INDIA

1. Power finance corporation ltd.

Power Finance Corporation Ltd is a prominent public financial institution that operates specifically in the power sector. Additionally, it is a non-banking financial institution that provides both monetary and non-monetary support for the development of the power industry in India. The company focuses on offering financial services for the power industry and is engaged in the holistic development of the power and related sectors. Their range of financial offerings includes project term loans, lease financing, direct bill discounting, short-term loans, and consultancy services. These offerings specifically target power projects in the generation, transmission, and distribution sectors, as well as the refurbishment and modernization of existing power projects

2. Rural Electrification Corporation

Rural Electrification Corporation Ltd is a Navratna Central Public Sector Enterprise that functions under the Ministry of Power. The company engages in financing and promoting projects pertaining to the transmission, distribution, and generation of electricity throughout India. Their main objective is to offer financial resources and assistance to initiatives that strive to bring electricity to remote regions across the entire nation. Financial aid is provided to State Electricity Boards, State Government Departments, and Rural Electric Cooperatives for rural electrification projects that they support. The company provides financial assistance to State Electricity Boards (SEBs) or State Power Utilities to facilitate their investments in projects aimed at electrifying rural areas. This aid is offered via the corporation's extensive network of 23 offices nationwide.

3. Mahindra Finance Limited

Mahindra & Mahindra Limited is the leading company of the Mahindra Group, which has diverse global business interests and a total revenue of around USD 19.4 billion. The company functions in nine separate divisions. The automotive sector encompasses the trade of automotive components and associated services for motor vehicles. The farm equipment segment primarily concentrates on the sale of spare parts and associated services for tractors. The IT services segment offers services within the IT and telecom sectors. The financial services division provides services pertaining to the financing, leasing, and hire purchase of automobiles and tractors. The steel trading and processing segment is involved in the buying and selling of steel, as well as the various operations involved in preparing and transforming steel. The infrastructure segment encompasses the activities of operating commercial complexes, managing projects, and undertaking development initiatives. The hospitality sector primarily emphasizes the marketing and sale of timeshare properties. The Sys tech segment focuses on automotive components and associated products and services. Finally, the "others" category encompasses logistics, after-market two wheelers, and investment.

4.Muthoot Finance Limited

Muthoot Finance Limited holds the position of being the largest gold financing company in India based on its loan portfolio. The company offers secured personal and business loans, known as Gold Loans, to individuals who own gold jewellery but are unable to obtain traditional credit in a timely manner or have no access to credit at all. These loans are designed to meet their immediate or short-term liquidity needs.

5.Larsen & Toubro

Larsen & Toubro is a prominent multinational conglomerate that operates globally in the fields of technology, engineering, construction, manufacturing, and financial services. The company is a prominent and highly regarded entity in India's private sector, known for its size and reputation. The company functions in three distinct segments. Segment focused on engineering and construction. The machinery and industrial products segment includes electrical and electronics equipment, among other items.

6.Siemens financial services

Siemens Financial Services (SFS) is a subsidiary of Siemens. The company's worldwide headquarters is located in Munich, Germany. SFS provides global financial solutions in the business-to-business sector. Financial Services provides services to Siemens and other companies, with a primary focus on the energy, industry, healthcare, and infrastructure & cities markets. The division of Siemens AG is responsible for funding infrastructure, equipment, and working capital investments, as well as managing financial risks. Siemens Financial Services GmbH in Munich oversees a network of financing companies with approximately 3,150 employees globally.

7.Reliance capital

Reliance Capital, which is included in the MSCI Global Small Cap Index, is a component of the Reliance Group. It is one of the top and most valuable financial services companies in the private sector in India. Reliance Capital is involved in various sectors of the financial services industry, including life, general, and health insurance; commercial and home finance; equities and commodities broking; wealth management services; distribution of financial products; asset reconstruction; proprietary investments; and other related activities. Reliance Nippon Life Insurance and Reliance General Insurance are prominent private sector insurers in India. Reliance Securities is a prominent retail broking firm in India that specializes in distributing financial products and services. Reliance Money and Reliance Home Finance are among the fastest-growing enterprises in the lending industry.

8.Bajaj Finance

Bajaj Finance Limited (Bajaj Finance) is a prominent Indian non-banking financial institution headquartered in India. The company provides a diverse range of financial products and services, with a specific emphasis on consumer lending, SME lending, commercial lending, and wealth management. Bajaj Finance offers financing solutions for various purposes, encompassing consumer durables, lifestyle products, personal loans, home loans, and business loans. The company operates through different business divisions, including Consumer Finance, Commercial Lending, and Wealth Management, each catering to specific customer needs. Bajaj Finance has established a widespread presence across the entire country by setting up a network of branches and digital platforms, thus ensuring easy access for customers in urban, semi-urban, and rural areas. Founded on March 25, 1987, as Bajaj Auto Finance Limited, the company has evolved and expanded to become a prominent player in the financial services sector in India. Bajaj Finance is listed on the stock exchanges and is highly esteemed for its innovative products, customer-centric approach, and commendable financial performance.

9.Industrial Finance Corporation of India (IFCI)

The Industrial Finance Corporation of India (IFCI) is the inaugural financial institution established by the government following independence. The primary objective of incorporating IFCI was to furnish long-term financial support to the manufacturing and industrial sectors of the nation. The Industrial Finance Corporation of India, which was originally established in 1948, underwent a transformation into a public company on 1 July 1993 and is currently recognized as Industrial Finance Corporation of India Ltd. The primary objective of establishing this

development bank was to offer support to the industrial sector in fulfilling their medium and long-term financial requirements.

10.Arman Financial Services Limited (Arman)

Arman Financial Services Limited is an Indian non-banking financial institution. The Company offers financing options for two-wheelers, three-wheelers, inter-corporate deposits (ICDs), micro financing, and personal financing. The Company is divided into two segments: JLG Microfinance and Asset-backed Microfinance, which focuses on financing two-wheeler and three-wheeler vehicles. Arman's Micro Finance operates 14 branches across urban, semi-urban, and rural areas in Gujarat. Arman Financial Services Limited was initially established on November 26, 1992 under the previous name of Arman Lease & Finance Ltd. The company is a publicly traded corporation.

1.9 Theoretical Background

A comprehensive examination of ratio analysis

Ratio analysis is a technique used to evaluate the relationships between various components in financial statements. Ratios are utilized to identify temporal patterns within a single organization or to compare two or more organizations at a particular point in time. Ratio analysis evaluates three key aspects of a business: liquidity, profitability, and solvency. Ratio analysis is an essential tool for all business organizations.

1. Liquidity ratios are financial ratios that evaluate a company's ability to meet its short-term debt obligations. These ratios evaluate a company's ability to promptly pay off its short-term debts.

2. Solvency ratios are crucial metrics that evaluate a company's ability to meet its debt obligations. These ratios are commonly used by prospective business lenders to assess an enterprise's capacity to repay its debts. The solvency ratio evaluates whether a company's cash flow is sufficient to meet its immediate and long-term financial commitments. Liabilities or monetary commitments. A company with a lower solvency ratio is more prone to defaulting on its debt obligations.

3. Activity ratios are quantitative indicators that assess a company's effectiveness in utilizing its balance sheet assets to generate income and cash flow. Activity ratios, also referred to as efficiency ratios, are employed by analysts to evaluate a company's capacity to efficiently handle inventory. It is imperative to maintain seamless operations and safeguard the company's financial stability.

4. Profitability ratios are quantitative measures used to assess a company's ability to generate profits in relation to its revenue, operating expenses, assets on its balance sheet, and shareholder's equity over a specific time period. These ratios are computed based on data collected at a specific point in time.

Advantages of ratio analysis

- Financial analysis allows for the scrutiny and understanding of a company's financial status and direction, encompassing its past performance, and aids in forecasting its future condition.
- The evaluation of financial health involves examining indicators such as liquidity, solvency, and profitability. This allows management to assess the financial requirements and capabilities of various business units. It serves as a conduit for linking the past, present, and future.
- It serves as a valuable instrument in the management control process by comparing the performance of a business to that of comparable business. Ratio analysis is an essential element in cost accounting, financial accounting, budgetary control, and auditing.

- It accelerates the process of establishing and developing financial management practices within an organization, while also emphasizing the concentration on specific areas of expertise. Accounting ratios consolidate and structure accounting data to improve their clarity and coherence. Accounting statements demonstrate the interdependence among various components of a business.

Limitations of ratio analysis

It stem from its dependence on the abilities and intentions of the individuals who employ it. The prejudice of such an individual will have a substantial influence on it.

- Ratios are computed exclusively using financial figures. They neglect to take into account the precise values of the various items involved. Thus, the technique lacks practicality in its approach.
- When computing various ratios, historical values, especially in balance sheet ratios, are considered. Disregarding the impact of price fluctuations on various items renders comparisons and performance evaluations based on ratios unrealistic and unreliable.
- Ratios are only as accurate as the financial records on which they are based. Hence, if the accounts are not meticulously prepared by accurately assigning values to assets and liabilities, the resulting statements would be erroneous and the established relationship would be untrustworthy.

ANOVA TABLE

An Analysis of Variance (ANOVA) table is a statistical tool used to assess the differences in means among multiple groups. A one-way ANOVA utilizes one independent variable, while a two-way ANOVA involves the utilization of two independent variables.

Exemplification of a unidirectional analysis of variance (ANOVA)

As a crop researcher, your objective is to assess the influence of three different fertilizer combinations on crop productivity. One can utilize a one-way ANOVA to ascertain if there is a discrepancy in crop yields among the three groups.

ANOVA is a statistical test that assesses whether there is a significant association between the levels of the independent variable and the dependent variable.

For example:

The study's independent variable is the degree of social media usage, which is classified into three groups: low, medium, and high. The objective is to investigate if there is any variation in the duration of nightly sleep among these groups. The study's independent variable is the soda brand, namely Coke, Pepsi, Sprite, and Fanta. Your task is to gather data in order to assess whether there are any discrepancies in the price per 100ml among these brands.

The variable that you are manipulating and testing in your study is the type of fertilizer. You administer combinations 1, 2, and 3 to the agricultural fields to ascertain any disparities in crop productivity.

The null hypothesis (H0) in ANOVA asserts that there is no statistically significant difference in the means of distinct groups.

The alternative hypothesis (Ha) states that there exists a substantial disparity between at least one group and the overall average of the dependent variable.
If your sole intention is to compare two groups, it is advisable to utilize a t-test instead.

How does an ANOVA test work?

An ANOVA test, also known as analysis of variance test, is a statistical technique employed to compare the means of two or more groups. It assesses if there are any notable disparities among the average values of the groups by examining the variability within and between the groups.

The F-statistic is computed to compare the inter-group variability with the intra-group variability. ANOVA evaluates the statistical disparities among groups created by the levels of the independent variable by comparing the means of the treatment levels with the overall mean of the dependent variable. If any of the group means deviate substantially from the overall mean, then the null hypothesis is rejected.

ANOVA utilizes the F-test to ascertain the statistical significance. By computing the error for the entire set of comparisons instead of each individual pairwise comparison, this allows for the simultaneous comparison of multiple means, unlike a t-test.
The F-test evaluates the disparity in variance between the average values of each group and the overall variance of the entire group. If the variance within groups is smaller than the variance between groups, the F-test will produce a higher F-value, suggesting a higher likelihood that the observed difference is authentic rather than a result of random variation.

When to use a one-way ANOVA

A one-way ANOVA is appropriate when there is a requirement to compare the means of three or more groups in order to ascertain the presence of any significant disparities among them.Apply a one-way ANOVA when you have collected data related to a single categorical independent variable and a single quantitative dependent variable. The independent variable must have a minimum of three levels, indicating that it should include at least three distinct groups or categories.
ANOVA assesses the presence of a statistically significant association between the dependent variable and the various levels of the independent variable.

Assumptions of ANOVA

The assumptions of the ANOVA test are consistent with the general assumptions of any parametric test.
Independence of observations: The data were collected using rigorous statistical methods, ensuring that there are no hidden relationships between the observations. If your data does not satisfy this assumption because of the existence of a confounding variable that requires statistical control,

Apply an analysis of variance (ANOVA) that includes blocking variables. Normally-distributed response variable: The values of the dependent variable follow a normal distribution.
Homogeneity of variance pertains to the uniformity of variability within each group being compared. If there is heterogeneity in the variances among the groups, then ANOVA may not be appropriate for analyzing the data.

Overview of One-way Analysis of Variance (ANOVA)
The ANOVA output provides an estimate of the degree to which the independent variable can explain the variability in the dependent variable.
The first column displays the independent variable along with the model residuals, which are also referred to as the model error.

The Df column displays the degrees of freedom for the independent variable. This value is calculated by subtracting 1 from the number of levels within the variable. The degrees of freedom for the residuals are determined by subtracting the number of levels in each independent variable from the total number of observations minus 1.

The Sum Sq column represents the aggregate difference between the means of the groups and the mean of the entire dataset, which is also referred to as the sum of squares. The Mean Sq column represents the arithmetic mean of the sum of squares. The value is derived by dividing the sum of squares by the degrees of freedom.

The F-value column denotes the test statistic derived from the F test. The calculation involves dividing the average squared value of each independent variable by the average squared value of the residuals. A higher F value signifies a higher probability that the observed variation in the independent variable is authentic and not due to random chance.

Source of variation	Degress of freedom	Sums of square	Means of square	F
Between the classes	H-1=v1	S.S.C	M.S.C=M1	F=m1/m2
Within classes	N-h=v2	S.S.E	M.S.E=M2	
Total	N-1			

CHAPTER 2

LITERATURE REVIEW

REVIEW OF LITERATURE

A consensus exists that a properly operating financial system is indispensable for a thriving modern economy (Kroszner, 2010). The financial systems in advanced economies are highly developed and offer a diverse range of financial services. These systems play a vital role in promoting stability in the overall economy and fostering long-term economic growth and prosperity (World Bank, 2003). In addition, the advanced financial markets facilitate the pooling of savings by offering savers and investors a wider array of investment choices. Non-Banking Financial Companies (NBFCs) have provided investors with the chance to allocate their funds and achieve superior returns in comparison to conventional bank deposits.

Greenspan (1999) argued that Non-Bank Financial Institutions (NBFIs) can enhance the resilience of the financial system by serving as a dependable backup resource during times of economic turbulence. Furthermore, the banking system facilitates the provision of short-term loans that are necessary for the industry and agriculture sectors. On the other hand, non-banking financial companies (NBFCs) and similar institutions provide a range of additional services required by the industry and other sectors of the economy, such as factoring and venture finance.

In 2013, Hasriman Kaur A. and Dr. Bhawdeep Singh Tanghi conducted an analysis that determined that Non-Banking Financial Companies (NBFCs) significantly influence the macroeconomic outlook and overall stability of the Indian monetary system. The industry has undergone consolidation and implemented a more targeted regulatory framework.Dr. Amardeep's 2013 analysis highlights the significant role of Non-Banking Financial Companies (NBFCs) in contributing to the development of valuable national assets, emphasizing their importance. This is evident from the fact that most developed economies worldwide have relied extensively on lease finance to support their growth.

Dr. Yogesh Maheshwari argues in his 2013 paper that the changing financial environment has opened up possibilities for Non-Banking Financial Companies (NBFCs) to expand their international presence by means of self-expansion and strategic partnerships. The adoption of monetary reforms has led to the synchronization of the Indian monetary system with global standards. The publication titled "Sornaganesh and Maria Navis Soris17 (2013) B" is authored by Sornaganesh and Maria Navis Soris17. The article titled "A Comprehensive Study of Non-Banking Financial Companies (NBFCs) in India" was published in the journal 'Outreach'. The study was undertaken to evaluate the efficacy of five Non-Banking Financial Companies (NBFCs) in India. The annual reports of these companies are evaluated to ascertain investments and loans.

Disbursed, growth, return, risk, etc. To summarize, the study finds that the NBFCs are generating significant profits on all loans and exhibiting robust financial efficiency.

In her study, Jency (2020) sought to examine the operational efficiency of non-banking financial institutions. She has found that the Non-Banking Financial Company (NBFC) sector plays a vital role in advancing financial inclusion through the provision of a wide array of financial services, particularly

in areas where traditional banks have limited access. Moreover, the profitability of Non-Banking Financial Companies (NBFCs) has significantly surged in comparison to that of conventional commercial banks.
A study was conducted by Akanksha Goel to assess the growth potential of Non-Banking Financial Companies (NBFCs) in India, as outlined in her article published in the 'ELK Asia Pacific Journal'.
Sunita Yadav conducted a study on the financial performance of certain Non-Banking Financial Companies (NBFCs) in her article published in the 'International Journal of Recent Scientific Research'. The study focused on evaluating metrics such as Net Profit Ratio, Return on Investment, and Annual Growth Rate.Ranjan Kshetrimayum conducted a study in the 'A Journal of Radix International Educational and Research Consortium' that analyzed the progression, expansion, and advancement of Non-Banking Financial Companies (NBFCs) in India.
Shollapur M.R has reintroduced the concept of Non-Banking Financial Companies (NBFCs) in his article published in 'The Indian Journal of Commerce'. He stated that Non-Banking Financial Companies (NBFCs), which are abstract entities, constitute a significant portion of the financial system in India and serve as a complement to the services offered by commercial banks. The effectiveness of financial services and their ability to adjust allowed them to build a significant customer base, including both small borrowers and larger corporate entities. Financial liberalization has increased competition. As a result, Non-Banking Financial Companies (NBFCs) have shifted their marketing process to focus more on strategic considerations. This viewpoint enables them to predict the future ramifications of change and facilitate the shift from areas of weakness to capitalize on new opportunities through an ongoing monitoring system.
R.M Srivastava and Divya Nigam's book "Management of Indian Financial Institutions" offers comprehensive information on economic growth and financial institutions. It covers various types of financial institutions and provides insights into recent developments in the Indian financial market. He highlighted the substantial transformation and advancement that the money market has experienced in recent years.K.C Shekhar and Lakshmy Shekhar's book provides a detailed explanation of the role of Non-Banking Financial Companies (NBFCs) in India, emphasizing their substantial expansion during the 1990s. Their growth can be attributed to their unwavering emphasis on meeting consumer demands and adhering to regulatory mandates. The efficiency of Non-Banking Financial Companies (NBFCs) as financial intermediaries has been widely recognized due to their inherent ability to undertake

Enhance decision-making speed, assume risk, and customize the bank's services and market them based on conceptual components.E. N. Murty examines the advantages and potential of Non-Banking Financial Companies (NBFCs). Surgeons possessing exceptional expertise, like those employed at M&M Finance, DBS Chula, Sundaram Finance, and Sri Ram Transport Finance, are required to adhere to stringent production standards and fulfill prudential limits and capital adequacy requirements. Non-Banking Financial Companies (NBFCs), such as the ones mentioned, are currently investigating potential avenues for future expansion. They are seeking to be granted regulatory treatment that is comparable to that given to banks. The prominent non-banking financial institution (NBFC) will convert and extend credit to borrowers.

L M Bhole defines Non-Banking Financial Companies (NBFCs) as entities that engage in a broad spectrum of diversified activities and offer diverse financial services to individual, corporate, and institutional clients. Additionally, it plays an advantageous role in reaching specific segments of depositors and fulfilling the credit requirements of borrowers. Additionally, it delves into the prominent financial market in India. This encompasses a range of financial instruments and services, including call money, call loans, and other short-term interest rate instruments, as well as the most recent developments in the money market.

According to Shashi K. Gupta, Nisha Gupta, and Neeti Gupta, the money market is a mechanism that connects investors who have extra funds for a short period of time with borrowers who have short-term financial requirements. Money market investments possess different levels of liquidity. Non-Banking Financial Companies (NBFCs) have a significant impact on the process of financialintermediation because of their capacity to make quick decisions, assume greater risks, and customize their products to suit the requirements of customers.

CHAPTER 3

RESEARCH METHODOLGY

RESEARCH AND METHODOLOGY

3.1 Definition of research methodology

Research methodology refers to the precise procedures or techniques employed to identify, select, process, and analyze information pertaining to a particular topic. The methodology section of a research paper enables the reader to assess the study's overall validity and reliability in a critical manner.

3.1.1 Definition of research:

Research is the process of generating novel knowledge or applying existing knowledge in an innovative manner to develop new concepts, methodologies, and understandings. Research is a methodical and structured approach to discovering solutions to inquiries. The process is systematic because it involves a clear and specific set of procedures and steps that must be followed. There are specific procedures in the research process that are consistently followed to obtain the most precise outcomes.

3.2 The study's objective:

1. To assess the immediate ability of the chosen Non-Banking Financial Companies (NBFCs) to meet their financial obligations.
2. To evaluate the selected NBFCS's ability to maintain solvency over an extended period of time.
3. The financial performance of Non-Banking Financial Companies (NBFCs) in relation to their profitability.
4. The financial performance of Non-Banking Financial Companies (NBFCs) in relation to their return on net worth equity and return on capital employed.
5. The objective is to analyze the differences or similarities among NBFCs in terms of their debt-to-equity ratio, current ratio, return on net worth ratio, and return on equity ratio. Net profit ratio refers to the measure of profitability that indicates the percentage of net profit earned by a company in relation to its total revenue.

3.3 The issue that needs to be investigated in this research.

The initial stage in conducting research involves the meticulous delineation of the research problem. The proverb "To err is human" signifies that imperfection is inherent to all individuals in this world. Researchers encounter numerous challenges during the course of conducting research. To identify the specific difficulties they may encounter, a problem statement is formulated. According to popular belief, a well-defined problem is already halfway solved. The problem statement is focused on conducting a study that examines the financial performance and growth of non-banking financial companies.

3.3.1 Research methodology

Research design refers to the conceptual framework within which research is conducted. It serves as the framework for gathering, quantifying, and examining data. Research design encompasses the plan and structure of a study, including the formulation of the hypothesis and its practical implications, as well as the subsequent stages of data collection and analysis. A strategy is a plan that determines the method for collecting and analyzing data**.** The research design employed in this project is a Descriptive Research Design. A descriptive study relies on preexisting knowledge of the subject matter.

3.3.2 The methodology used to select samples for data collection.

Sampling is essential due to the impracticality of examining the entire parent population, which refers to the entire universe. Factors such as time constraints, cost considerations, and the purpose of the study compel researchers to select a sample. The size should be neither excessively small nor excessively large. It should be feasible. The present study utilizes a sample size consisting of data from the past 6 years.

3.3.3 The process of gathering information

Additional data has been gathered from a variety of sources, such as RBI Publications, the Money control Website, and Journals and Reports on NBFCs. In order to conduct the study, a total of 10 companies from five distinct categories were selected based on the availability of data. The selected categories of NBFCs are Asset Finance Companies and Core
Investment companies, non-banking financial companies (NBFCs), infrastructure finance companies, and microfinance companies. Throughout this study, a range of accounting and statistical techniques have been utilized for analysis. Ratio analysis, mean, standard deviation, and ANOVA have been utilized. The chosen variables for evaluating the performance of Non-Banking Financial Companies (NBFCs) are the Current ratio, Debt-Equity Ratio, and Net profit Ratio.

3.3.4 Study Limitations:

- The study is limited to a specific time period of five years: 2018, 2019, 2020, 2021, 2022, and 2023.The study relies entirely on secondary data, and the accuracy of the analysis is contingent upon the quality of the data acquired.
- The study may lack comprehensiveness in addressing all the ratios necessary for evaluating the financial stability of the NBFCs.

CHAPTER 4

DATA ANALYSIS

CURRENT RATIO

Current Ratio is a liquidity ratio that measures ability of the enterprise to pay its short-term financial obligations i.e. liabilities. The Formula for calculating the ratio is
current Ratio = Current Assets/Current Liabilities

The generally accepted standard of current ratio is 2:1 i.e. current assets should be twice the current liabilities. Table provides the data related to current ratios calculated for the sample NBFCs taken for the study. These ratios are calculated for 5 consecutive years (2018 to 2023).

COMPANIES	2018	2019	2020	2021	2022	2023
Armaan Financial Ltd	1.36	1.28	1.02	0.96	2.05	2.77
Mahindra & Mahindra	1.18	1.27	1.25	3.19	2.72	2.24
L&T finance Holdings Ltd	1.09	1.1	0.90	845.51	1679.92	37.70
Reliance	1.22	0.85	1.01	31.63	28.62	7.72
IFCI	1.299	0.93	1.23	11.9	9.57	213.88
Siemens	1.54	1.85	1.99	1.95	2.12	2.20
REC	0.678	1.22	1.17	51.63	15.5	13.82
Power Finance	1.006	1.21	1.32	48.74	58.27	4.21
Muthoot Finance	1.91	1.76	1.56	20.95	33.14	1.78
Bajaj Finance Ltd	1.64	1.73	1.46	1.60	1.69	2.46

Source of variation	Sum of Squares	Degrees of Freedom	Mean square	F
Between Groups	1116664	9	124073.8	2.19
Within Groups	2265576	50	56639.39	
Total	3382240	59		

The current ratio of IFCI was highest in the year 2023 followed by L & T financial holding in 2023. All the other companies have similar ratios. In 2022, L&T Finance Holdings had thehighest current ratio followed by power finance . The current ratio of Power Finance has continuously increased with subsequent years. The current ratio of REC decreased to 15.57 in 2022. The current ratio of Bajaj Financials limited was similar in all five years and was close to the accepted standard ratio of 2:1.

ANOVA

Hypothesis: There is not any significant difference in current ratios of NBFCs under study. **Alternative Hypothesis**: There is a significant difference in current ratios of NBFCs under study.
The table value of F for degree of freedom 50 at 5 per cent level of significance is 2.38. Sincethe calculated value of F (2.2) is less than the table value, the null hypothesis is accepted and alternative hypothesis is rejected . It is concluded that there is no significant difference in the current ratio of NBFCs under study.

LONG TERM SOLVENCY

DEBT-EQUITY RATIO

Debt to equity ratio is computed to assess long term financial soundness of the enterprise. The ratio is computed as follows:

Debt to Equity Ratio= Debt/Equity (Shareholder's Funds)

A high Debt to Equity Ratio means that the enterprise is depending more on borrowings ordebts as compared to shareholder's funds. In effect, lenders are at high risks. On the other hand, low debt to Equity ratio means that the enterprise is depending more on shareholder'sfunds than external equities. In effect, lenders are at a lower risk and have high safety.

COMPANIES	2018	2019	2020	2021	2022	2023
Armaan Financial Ltd	1.14	0.90	1.18	1.94	3.07	1.41
Mahindra & Mahindra	3.47	3.56	4.20	4.17	4.84	5.23
L&T finance Holdings	0.15	0.15	0.24	0.06	0.15	0.44
Reliance	1.31	1.31	1.25	2.13	2.19	5.14
IFCI	3.75	3.78	3.37	3.98	3.48	3.15
Siemens	0	0	0	0	0	0
REC	5.31	5.07	4.49	6.33	7.12	8.16
Power Finance	5.83	5.61	4.86	6.41	6.82	6.87
Muthoot Finance	2.85	2.43	2.61	2.71	2.74	3.21
Bajaj finance Ltd	0.79	0.60	0.77	0.72	0.64	0.62

Source : money control

Source of variation	Sum of Squares	Degrees of Freedom	Mean square	F
Between Groups	269.53	9	29.94	35.64
Within Groups	42.027	50	0.84	
Total	311.557	59		

Power Finance and REC do good business throughout all the six years. In case of Mahindra& Mahindra, the debt equity ratios of all the five years do not vary widely i.e. the annual debtequity ratios are around the mean only. In case of REC the growth rate of equity exceeds thatof debt and as a result the debt equity ratios of REC have shown wide variations from the mean ratio.

We can see that the debt of Power Finance, REC and Mahindra & Mahindra is higher than their equity. All the three companies are well established NBFCs and hence its debt level is more than its equity. As growing NBFCs they are vibrant in terms of both debt and equity and register continuous growth over the years. The debt to equity ratio was lower for Bajaj finance ltd, L&T Finance Holdings ltd, Armaan Finance ltd. Bajaj finance ltd and L&T Finance Holdings ltd maintain its equity almost at a constant level throughout the period of study. As the debt is negligent in these 2 companies, their solvency position is highly sound.In case of Reliance and Muthoot, the growth trend both in debt and equity with a moderate debt equity ratio exhibit an acceptable solvency position.

ANOVA

Hypothesis: There is not any significant difference in Debt Equity Ratio of NBFCs under study.
Alternative Hypothesis: There is significant difference in Debt Equity Ratio of NBFCs under study.
The table value of F for degree of freedom 50 at 5 per cent level of significance is 2.38. Sincethe calculated value of F (35.64) is more than the table value, the null hypothesis is rejected. It is concluded that the debt equity ratio do differ significantly for the NBFCs under study.

PROFITABILITY RATIO

Net Profit Ratio

Net Profit Ratio establishes the relationship between Net Profit and Revenue from Operations.
It shows the percentage of Net Profit earned on Revenue from Operations.

The ratio is computed as follows:
Net Profit Ratio = Net Profit after Tax /Revenue from Operations * 100

If the Net Profit Ratio is higher the business will be better. This ratio helps in determiningthe operations of the business.

COMPANIES	2018	2019	2020	2021	2022	2023
Armaan Financial Ltd	18.23%	15.66%	15.08%	11.74%	26.51%	27.17
Mahindra & Mahindra	15.02%	11.49%	6.48%	16.22%	17.85%	8.97%
L&T finance Holdings Ltd	90.02%	108.47%	89.58%	58.52%	55.39%	56.11%
Reliance	19.17%	23.96%	21.41%	-222.99%	6.79%	-393.44
IFCI	16.04%	8.83%	-16.73%	13.58%	-20.57%	-12.37
Siemens	20.8%	42.24%	13.92%	16.30%	17.67%	16.05%
REC	26%	23.80%	26.47%	19.68%	22.77%	16.40%
Power Finance	23.97%	22.25%	7.90%	16.88%	24.10%	16.95%
Muthoot Finance	15.54%	16.65%	20.54%	28.36%	28.67%	30.67%
Bajaj finance Ltd	32.18%	30.56%	32.76%	33.93%	34.17%	27.85%

Source : money control

Source of variation	Sum of Squares	Degrees of Freedom	Mean square	F
Between Groups	34244.32	9	3804.924	3.00
Within Groups	50711.74	50	1267.793	
Total	84956.06	59		

In terms of Net Profit Ratio L&T Finance Holdings is performing good followed by Bajaj finance ltd. L&T Finance Holdings has the highest net profit ratio of 108.47% in 2019. The net profit ratio of Reliance witnessed a negative growth rate in 2021. Bajaj finance ltd has maintained a stable growth rate in terms of net profit ratio for the five years. REC witnessed various ups and down in terms of NPR ratio but managed a good NPR in 2022 at 22.77%.

ANOVA

Hypothesis: There is not any significant difference in Net Profit Ratio of NBFCs under study.
Alternative Hypothesis: There is significant difference in Net Profit Ratio of NBFCs under study.

The table value of F for degree of freedom 50 at 5 per cent level of significance is 2.38. Since the calculated value of F (3) is more than the table value, the null hypothesis is rejected .It is concluded that the net profit ratio differ significantly for the NBFCs under study.

RETURN ON CAPITAL EMPLOYED

Return on the capital employed ratio is one of the few profitability ratios that an investor evaluates to understand the rate of returns and profitability of a company. ROCE is a financial ratio that can be used to assess a company's profitability and capital efficiency. ROCE helps understand how efficiently a company is using its total capital to generate profits.

The Return on Capital Employed ratio consists of two components and their calculations: Earnings before Interest and Tax (EBIT) and Capital Employed.

Return on Capital Employed
= Earnings Before Interest and Taxes (EBIT) / TotalCapital Employed X 100

Investors calculate the ROCE to evaluate how well a company is using its capital and financial strategies. A company's returns should always be higher than the rate of borrowings or loans that they have taken to fund their assets. In case the ROCE is lower, itmeans that the company is not operating healthily and cannot generate returns for itself or its investor.

COMPANIES	2018	2019	2020	2021	2022	2023
Armaan Financial Ltd	6.64	6.66	22.39	22.27	23.06	23.48
Mahindra & Mahindra	17.78	2.76	1.38	12.80	14.79	14.83
L&T finance Holdings Ltd	5.32	7.28	5.46	4.95	5.03	4.38
Reliance	11.92	12.82	6.79	-11.84	7.75	-18.65
IFCI	1.75	1.12	5.61	10.25	5.21	6.94
Siemens	21.51	42.24	13.92	16.30	17.67	10.51
REC	3.34	3.33	12.07	8.10	8.51	8.07
Power Finance	2.99	2.90	9.77	8.31	11.14	10.85
Muthoot Finance	5.15	6.73	36.90	16.28	28.70	30.69
Bajaj finance Ltd	13.91	12.53	27.17	27.05	20.08	18.15

Source : money control

In terms of return on capital employed Armaan financial ltd and siemens is performing good followed by Mahindra and Mahindra. The net profit ratio of Reliance witnessed a negative growth rate in 2021. Bajaj finance ltd has maintained a stable growth rate in terms of returnon capital employed ratio for the five years. REC witnessed various ups and down in termsof returns on capital employed.

Source of variation	Sum of Squares	Degrees of Freedom	Mean square	F
Between Groups	2878.21	9	319.80	4.720
Within Groups	3387.49	50	67.74	
Total	6265.7			

ANOVA

Hypothesis: There is not any significant difference in return on capital employed of NBFCs under study.
Alternative Hypothesis: There is significant difference in return capital employed of NBFCs under study.
The table value of F for degree of freedom 50 at 5 per cent level of significance is 2.38. Since the calculated value of F (4.720) is more than the table value, the null hypothesis is rejected .It is concluded that the differ significantly for the NBFCs under study.

RETURN ON NETWORTH EQUITY

Return on Net Worth is a ratio developed from the perspective of the investor and not the company. By looking at this, the investor sees whether the entire net profit is coming to him or how much return would he be getting. It explains the efficiency of the shareholders' capital to generate profit. Return on Net Worth (RONW) is a measure of the profitability of a company expressed in percentage.

RONW = Net Income / Shareholders' Equity

A rising RONW reflects that a company is increasing its ability to generate profit without having as much capital. It also means how well a company's management is using the shareholders' capital. In other words, the higher the RONW the better the company prospectus. Falling RONW is generally a problem.

COMPANIES	2018	2019	2020	2021	2022	2023
Armaan Financial Ltd	8.09	6.98	6.54	7.97	23.36	15.10
Mahindra & Mahindra	14.676	11.04	6.17	11.18	14.27	7.97
L&T finance Holdings Ltd	7.37	9.51	6.04	3.4	3.41	3.4
Reliance	6.01	7.35	3.05	-62.54	1.77	-161.97

IFCI	8.70	5.5	-8.06	9.25	-9.58	-7.11
Siemens	23.08	43.87	14.71	10.76	12.01	7.98
REC	21.16	19.66	18.74	13.68	16.80	13.92
Power Finance	18.49	17.69	5.83	11.87	16.06	12.52
Muthoot Finance	13.09	14.40	18.10	22.75	20.13	26.08
Bajaj finance Ltd	13.97	12.59	13.56	14.11	11.06	10.07

Source : money control

In terms of Net Worth Equity Muthoot finance is performing good followed by REC Financeltd. The net profit ratio of Reliance witnessed a negative growth rate in 2021. Bajaj financeltd has maintained a stable growth rate in terms of net profit ratio for the five years. REC witnessed various ups and down in terms of net worth ratio.

Source of variation	Sum of Squares	Degrees of Freedom	Mean square	F
Between Groups	13596.16	9	1510.68	3
Within Groups	25049.52	50	500.99	
Total	38645.68	59		

ANOVA

Hypothesis: There is not any significant difference in Net worth equity t Ratio of NBFCs under study.

Alternative Hypothesis: There is significant difference in Net worth equity Ratio of NBFCs under study.

The table value of F for degree of freedom 50 at 5 per cent level of significance is 2.38. Since the calculated value of F (3) is more than the table value, the null hypothesis is rejected. It is concluded that the net profit ratio do differ significantly for the NBFCs under study.

CHAPTER 5

FINDINGS AND CONCLUSION

5.1 FINDINGS

⇒ According to the analysis, it can be inferred that both asset finance companies and infrastructure finance companies have high current ratio levels. Microfinance companies demonstrated a reduced debt-to-equity ratio.

⇒ Core Investment companies exhibit a higher dependence on shareholder's funds, which suggests reduced risk for lenders.

⇒ Infrastructure finance companies and micro finance companies exhibit a high Net Profit Ratio, indicating favourable returns in these sectors.

⇒ Microfinance companies and asset finance companies have a higher return on capital. This illustrates the degree to which a company is efficiently using its total capital to generate profits.

⇒ Microfinance companies and asset financing companies exhibit a superior return on equity in relation to their net worth. This exemplifies the adeptness with which the company's management is employing the capital provided by the shareholders.

⇒ According to the table, it can be inferred that for all calculated ratios other than current ratio, the F value is higher than the critical F value at a significance level of 5%. This implies that the null hypothesis is disproven, indicating the presence of a substantial disparity in the majority of chosen ratios across various categories of NBFCs.

⇒ Different categorizations of Non-Banking Financial Companies (NBFCs) display unique patterns of behaviour.

5.2 CONCLUSION

The solvency analysis indicates that the sampled Non-Banking Financial Companies (NBFCs) engage in high-risk business practices. Specifically, they maintain a low percentage of total assets as their own funds and rely heavily on borrowed funds. Additionally, they hold a higher proportion of current assets compared to liquid assets in relation to their current liabilities.

The level of profit generated is directly proportional to the level of risk undertaken. Therefore, these Non-Banking Financial Companies (NBFCs) assume greater risks in order to generate profits. Nevertheless, the NBFCs' performance demonstrates their adequate solvency, as they effectively mitigate risks and possess the ability to generate cash. Nevertheless, these Non-Banking Financial Companies (NBFCs) must enhance their profitability ratios and cash management. Non-Banking Financial Companies (NBFCs) must prioritize their primary areas of expertise while working on areas where they are lacking. Currently, the MSME sector appears to be the most severely affected by the economic disruptions caused by the coronavirus outbreak, as both businesses have come to a halt and consumer spending has decreased. Since Micro, Small, and Medium Enterprises (MSMEs) make up a significant portion of the loan portfolio of Non-Banking Financial Companies (NBFCs), any default by MSMEs would hinder the ability of NBFCs to repay loans to other financial lenders.

Nevertheless, Indian authorities and regulators have implemented various measures to alleviate the financial burden of borrowers. The Reserve Bank of India has implemented a three-month moratorium on loan repayments for financially troubled bank and NBFC borrowers. An infusion of Rs 3.74 trillion into the system is expected to enhance liquidity in the local credit markets.

CHAPTER 6

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