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A Study on Fundamental Analysis of Non-Banking Financing Companies in India

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ABSTRACT

Non-Banking Financial Companies are financial companies, which perform like banks, but they are not actual bank. These types of financial companies have to be registered under Companies act, 1956. A Non-Banking Financial Companies have head business of accepting stores under any plan or course of action in one singular amount or in portions by method for commitments or in some other way, is additionally a non-banking budgetary organization. The main objectives of the study are to know past 5 years performance of selected non-banking financing companies in the stock market and to know future potential performance of selected NBFCs Bajaj finance ltd,Mahindra& Mahindra Financial Service ltd ,Muthoot finance ltd, Aditya Birla finance ltd, Cholamandalam to analyze all the scripts, fundamental analysis is used. In the fundamental analysis, economic indicators, NBFCs analysis, ratios of the companies are studies. These are studied to interpret to take investment decisions. NBFCs are susceptible to credit risk due to the lack of vital information. Additionally, there is a need to bring the essential legislative amendments in order for these companies to leverage the utility payments database in the credit assessment process. This is one of the major challenges faced by NBFCs. As the inflows got dried, the repayment to the borrower became difficult. The problems got worsen when the big borrowers (such as DHFL and Reliance) either delayed or defaulted in their repayment. These are the primary reason for the NBFC crisis in India. Study aims to analyze the liquidity, profitability, solvency position of the company and efficiency which it converts its resources into service. The study aims to find out the ratios between the services and net profit of the company. Liquidity ratio like current ratio, quick ratio etc. are prepared to analyze the financial performance of the company. Profitability of the company is found out using ratios like gross profit ratio, net profit ratio etc. The analysis of financial statements helped to judge the financial strength of the company. This study further gives valuable suggestions to the union to increase its performance by making a comparison with a company in the same industry. The study will help the company to know whether the performance creates value there by looking for the opportunities to increase the investment.

Key words: Fundamental analysis of Non-banking Financing Companies

1.Introduction

The NBFCs garnered the attention of the Reserve Bank of India (‘RBI’) when several depositors lost their money, during the failure of several banks in the late 1950s and early 1960s. In order to prevent the large number of depositors, RBI initiated regulating them by introducing Chapter IIIB in the Reserve Bank of India Act, 1934.In March 1996, there were around 41,000 NBFCs in India and they were not recognized as a separate class. However, due to the failure of some of the institutions RBI constricted the regulatory structure along with the reporting and supervision. In the late 90s, sweeping changes were brought to protect the interest of depositors and ensuring the desired functioning of NBFCs. The capital requirement was changed in the year 1999, NBFCs getting registered on or after the issue anceo of notification dated April 21, 19991 were required to have the minimum net owned funds of ` 200 lakhs in order to commence the business of an NBFC. Due to snowballing trend in the sector and to ensure the growth of the sector in a healthy and efficient manner various regulatory measures were taken for identifying the systemically important companies and bringing them under the austere norms.The NBFC-ND with asset size of `100 crores or more were considered to be systemically important companies. During the FY 2011-12, two new categories of NBFCs were introduced viz., IDF and MFI.

Incorporation of non-banking financial firm is essential as they are small players who provide loans, chit funds etc, as 70% of population comes from the rural part of India. Many companies have come forward ad registered themselves with RBI to attain the status of NBFC. NBFCs are integral part of our Indian Economy and Financial Sector. Contribution towards Indian economy from NBFC sector is increasing, recently it has been contributed 12.5% towards GDP of Indian economy. This recent success of NBFC can be attributed to its lower cost, swiftness in providing strong risk management services and their reach in the sector where public sector banks don’t.

1.2Statement of the Problem

The main objectives of the study are to know past 5 years performance of selected non-banking financing companies in the stock market and to know future potential performance of selected NBFCs. To analyze all the scripts, fundamental analysis is used. In the fundamental analysis, economic indicators, NBFCs analysis, ratios of the companies are studies. These are studied to interpret to take investment decisions.

NBFCs are susceptible to credit risk due to the lack of vital information. Additionally, there is a need to bring the essential legislative amendments in order for these companies to leverage the utility payments database in the credit assessment process. This is one of the major challenges faced by NBFCs. As the inflows got dried, the repayment to the borrower became difficult. The problems got worsen when the big borrowers (such as DHFL and Reliance) either delayed or defaulted in their repayment. These are the primary reason for the NBFC crisis in India.

1.3 Objectives of the Study:

- To analyze the solvency position of non-banking financing companies
- To analyze the profitability position of non-banking financing companies
- To analyze the liquidity position of non-banking financing companies.
- Growth of the NBFC Sectors in financial markets

1.4 Research Methodology

The Secondary methods of data collection that is From Balance sheet and profit and loss account was used to collect the data required.

Research Design

Quantitative research

The present study deal with Quantitative research. Quantitative research is the process of collecting and analyzing numerical data. It can be used to find patterns and averages, make predictions, test causal relationships, and generalize results to wider populations

Time Period

The present study was made for a period of 5 accounting years from 2018 to 2022.

Size Of Sample

- 5NBFC Companies.

Sampling techniques: -

Simple Random sampling

Methods of Data: -

Secondary data

The secondary data relating to the study were collected from Rediff money.com, Investing.com books, journals, research articles, magazines, reports, newspaper and websites.

1.5 Scope ofthe Study

Study aims to analyze the liquidity, profitability, solvency position of the company and efficiency which it converts its resources into service. The study aims to find out the ratios between the services and net profit of the company. Liquidity ratio like current ratio, quick ratio etc. are prepared to analyze the financial performance of the company. Profitability of the company is found out using ratios like gross profit ratio, net profit ratio etc. The analysis of financial statements helped to judge the financial strength of the company. This study further gives valuable suggestions to the union to increase its performance by making a comparison with a company in the same industry. The study will help the company to know whether the performance creates value there by looking for the opportunities to increase the investment.

1.6 ReviewofLiterature

(Makhijani, 2014)writes on “Non-Banking Finance Companies: Time to Introspect” in ‘Analytique’. Over the last few years the Non Banking Finance Companies (NBFC) sector has gained significant advantages over the banking system in supplying credit under-served and unbanked are- as given their reach and niche business model. However, off late the Reserve Bank of India has introduced and suggested various changes in the existing regulatory norms governing NBFCs with a view to bring NBFCs regulations at par with the banks. The ongoing and proposed regulatory changes for the NBFCs in terms of increased capital adequacy, tougher provision norms, removal from priority sector status and changes in securitization guidelines could bring down the profitability and growth of the NBFC sector. NBFCs will need to introspect and rethink their business models as they will now not only have to combat stringent regulatory norms but also Companies in India. The book is good source in getting information on businesses, classification, management of assets, risk coverage, etc of the NBFCs in India.

(Dash Saroj K, 2014)writes on "Housing Loan Dis- bursement in India: Suggestive Metrics to Prevent Bad Debts" in 'International Journal of Management, IT and Engineering'. Non-Banking Financial Corporation (NBFC) in each of the countries involved in the business of lending mort- gage loans took stock of their policies and terms & conditions while disbursement of loans. Critics and some experts might argue that given the technologically advanced systems in place to do credit scoring, it is enough to have certain set of quantitative parameters to do a check. The parameters, which are discussed in the credit scoring software, are primarily quantitative parameters and some qualitative features whose measurements are also quantified.

(Soris, 2013)"A Fundamental Analysis of NBFCs in India" in 'Outreach'. The study was made to analyze the performance of five NBFCs in India. The annual reports of these companies are evaluated so as to ascertain investments, loans disbursed, growth, return, risk, etc. To sum up, the study is concluded that the NBFCs are earning good margins on all the loans and their financial efficiency is good.

(Goel, 2012)write privilege that commercial banks exercise in on "Functioning and Reforms in Non-Banking Financial Companies in India". Non-Banking Financial Companies do offer all sorts of banking services, such as loans and credit facilities, retirement planning, money markets, underwriting and merger activities. These companies play an important role in providing credit to the un- organized sector and to the small borrowers at the local level. Hire purchase finance is by far the largest activity of NBFCs. The rapid growth of NBFCs has led to a gradual blurring of dividing lines between banks and NBFCs, with the exception of the exclusivethe issuance of cheques. This paper pro- vides an exhaustive account of the functioning of and re- centreforms pertaining to NBFCs in India.

(Goswami, 2012)writes on "Financial Evaluation of Non-Banking Financial Institutions: An Insight "in 'Indian Journal of Applied Research'. The Indian financial system consists of the various financial institutions, financial instruments and the financial markets that facilitate and ensure effective channelization of payment and credit of funds from the potential investors of the economy. Non-banking financial institutions in India are one of the major stakeholders of financial system and cater to the diversified needs by providing specialized financial services like investment advisory, leasing, asset management, etc. Non-banking financial sector in India has been a considerable growth in the recent years. The aim of the present study is to analyze the financial performance and growth of non-banking financial in- situations in India in the last 5 years. The study is helpful for the potential investors to get the knowledge about the financial performance of the non-banking financial institutions and be helpful in taking effective long-term investment decisions.

1.7 Findings of The Study

Cholamandalam Investment & Finance Company Ltd

- In 2019 EPS is 75.86 and which the highest ratio is during the five years.
- In 2020 Price to earnings ratio 47.41 is the highest ratio which indicates the good P/E ratio.
- In 2018 the book value is 4.53 which show the favourableresult .
- In 2022 the price to book ratio is 394.57 which is the highest ratio and favourable result.
- In 2022 Price to sales ratio is 4.53 which is the highest 19.20 p/s ratio .
- In 2018 it has the highest Return on equity which is 61.71 %.
- In 2018 it has the highest Return On Equity Capital Employed 10.67

BAJAJ FINANCE Ltd

- In 2022 EPS is 105.26 and which the highest ratio is during the five year.
- In 2020 Price to earnings ratio 417.41 is the Highest ratio which indicates the good P/E ratio.
- In 2022 the book value is 697.20 which show the favorableresult .
- In 2021 the price to book ratio is 8.96 which is the Highest ratio and favorable result.
- In 2019 Price to sales ratio is 19.88 which is the Highest p/s ratio .
- In 2020 it has the highest Return on equity which is 17 is 239.99

- In 2022 it has the highest Return On Equity Capital Employed 4.39 %

Aditya Birla Capital Ltd

- In 2022 EPS is 1.96 and which the highest ratio is during the five year.
- In 2020 Price to earnings ratio 7.41 is the highest ratio which indicates the good P/E ratio.
- In 2022 the book value is 41.01 which show the favorableresult .
- In 2018 the price to book ratio is 5.43 which is the highest ratio and favorable result.
- In 2022 Price to sales ratio is 3.47 which is the highest 19.20 p/s ratio .
- In 2019 it has the highest Return on equity which is 13.60 %.
- In 2020 it has the highest Return On Equity Capital Employed 0.15 %

Mahindra & Mahindra Financial Services Ltd

- In 2019 EPS is 25.20 and which the highest ratio is during the five year.
- In 2020 Price to earnings ratio 13.45 is the highest ratio which indicates the good P/E ratio.
- In 2020 the book value is 183.67 which show the favorableresult .
- In 2018 the price to book ratio is 3.21 which is the highest ratio and favorable result.
- In 2019 Price to sales ratio is 14.31 which is the highest 19.20 p/s ratio .
- In 2020 it has the highest Return on equity which is 83.89 %.
- In 2021 it has the highest Return On Equity Capital Employed 8.29 %

Muthoot Finance Ltd

- In 2020 EPS is and which the highest ratio is during the five year.
- In 2020 Price to earnings ratio 81.36 is the highest ratio which indicates the good P/E ratio.
- In 2022 the book value is 457.69 which show the favorableresult .
- In 2020 the price to book ratio is 3.19 which is the highest ratio and favorable result.
- In 2020 Price to sales ratio is 26.11 which is the highest 19.20 p/s ratio .
- In 2022 it has the highest Return on equity which is 27.65 %.
- In 2019 it has the highest Return onEquity Capital Employed 6.80 %

1.8 Suggestions

- Investors can invest in Bajaj Finance Ltd because it has higher earnings per share ratio when compare to all other NBFCs. EPS is a good measure of profitability and it will help the investors s to take decisions on investment.
- The Muthoot Finance ltd also another option to invest because its fundamental analysis better compare to other cement companies
- It is notable that Bajaj Finance ltd, Muthoot Finance and Cholamandalam Investment finance Cement are the top performer of the industry As Their Eps Ratio and Book Value are High Compared to Others.
- . The Aditya Birla Finance Ltd not performing well because its Eps ratio, book value and return on equity is very less when compared to that of all other companies, hence we cannot much invest in those companies
- Bajaj Finance Ltd has good return on equity in past three years due to that we can make much investment in that share.
- Those who does not want to take high risk they can invests in Bajaj Finance Ltd because it has moderate in Price to Earnings Ratio, Price to Book and Price to Sales ratio
- Cholamandalam Investment & Finance Company Ltd has moderate in fundamental analysis due to Price to Earnings Ratio, Price to Book and Price to Sales ratio are moderate.

1.9 Conclusion

After analysing the financial statements of selected non-banking financing companies during the five financial years, it is cleared that the financial position of the companies is in fluctuation. We can say that there should be an efficient financial management system in the organizations. It should overcome the adverse condition and minimize its losses and protect firm from facing the negative condition of liquidity. In tomorrow's economy the world will belong to those who are open to creative, imaginative and flexible to changes, having open mindless, strength of taking risk and an innovative spirit. These entire characteristics can lead the company on a successful path. However, the management needs to focus more on the net profit and go for increase its revenue. Based on this study the major findings are that from the overall finance point of view, companies are performing to a very high degree level of achievement. This study indicated that in order to improve further the overall performance of company the management must take all possible steps to review and modify various policies, cash budgets, financial status This will enable the management to have a close control over the various operations.

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