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A Study on Financial Performance Using Ratio Analysis in NBFC

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ABSTRACT:

In this study we are looking at the Financial Performance Analysis in a NBFC Company. The process of identifying a company's strengths and weaknesses is referred to as financial analysis. By determining the relationship between the items on the balance sheet and profit and loss account of the business. The Company has revealed the great deal of their various financial aspects for five years. The comparative analysis unlocks the overall performance methodology. The purpose of financial analysis is to diagnose the information content in financial statements so as to judge the profitability and financial soundness of the firm. The comparative analysis unlocks the overall performance methodology.

INTRODUCTION

Financial performance analysis is a thorough assessment of a business's position across various areas, including assets, liabilities, equity, costs, revenue, and overall profitability of the company. Financial performance analysis is the process of deciding a company's financial strengths and weaknesses by correctly defining the relationship between the balance sheet and profit and loss account components. The smooth operation of the firm depends on finances.

OBJECTIVE OF THE STUDY:

1. To assess Overall Financial Health
2. To analyze Financial Ratios
3. To identify Profitability Drivers
4. To identify Trends and Patterns

LIMITATION OF THE STUDY

1. Data Availability:
2. Changes in Accounting Practices:
3. Forecasting Uncertainties:
4. External Economic Factors:

REVIEW OF LITERATURE

Kennedy and Muller (2012), has explained that “The analysis and interpretation of financial statements are an attempt to determine the significance and meaning of financial statements data so that the forecast may be made of the prospects for future earnings, ability to pay interest and debt maturines (both current and long term) and profitability and sound dividend policy.”

Jothi, K. &Geetha Lakshmi, A. (2016) this study tries to evaluate the profitability & financial position of selected companies of Indian automobile industry using statistical tools like, ratio analysis, mean, standard deviation, correlation. The study reveals the positive relationship between profitability, short term and long term capital.

Kumar Mohan M.S, Vasu. V. and Narayana T. (2016) the study has been made through using different ratios, mean, standard deviation and Altman's Z score approach to study the financial health of the company. The study reveals there is a positive correlation between liquidity and profitability ratios except return on total assets as well as Z score value indicate good health of the company.

Amita S. Kantawala (2001) Financial Performance of Non Banking Finance Companies in India, Micro finance is catering banking services to low income group of society who lack access to conventional financial services. Microfinance Institutions are viewed primarily as instruments of social renovation, their performance is often calculated by non-financial factors

Kaur Davinder (2018) A study of financial performance of NBFCS(Non-bank financial companies) play a very vital role in participating in the development of an economy by providing a fillip to transportation, employment generation, wealth creation, bank credit in rural segments and to support financially weaker sections of the society.

RESEARCH METHODOLOGY:

The study follows the descriptive method of research to measure, evaluate, and compare the financial performanceof the company. The study is based on secondary data that has been collected from audited annual reports. The data collected covers the period from 2019 to 2023, spanning 5 years. Here, Ratio Analysis is used to analyze the financial performance, including the Net profit Margin ratio, Return on asset ratio, debt equity ratio and CAR ratio.

TOOL USED:

Ratio Analysis:

Ratio Analysis is taken as an tool to study financial performance and Ratios are calculated by using various formulas. Ratios are calculated and ranks are grouped by using Average and Charts are used for Analysis of Rank under the priority. Ratio analysis is a quantitative method of gaining insight into a company's operational efficiency, and profitability by studying its financial statements such as the balance sheet and income statement.

1. Net margin ratio
2. Return on asset ratio
3. Debt to equity ratio
4. Capital Adequacy Ratio (Car)

DATA ANALYSIS AND INTERPRETATION

1. NET PROFIT MARGIN:

1. Table Net Profit Margin for the period of 2019-2023 (Rs. In Lakhs)

YEAR	NET INCOME	REVENUE	RATIO
2019	27,564	2,56,064	10.76
2020	29,197	2,92,748	9.97
2021	27,013	2,77,482	9.74
2022	23,215	2,66,046	8.73
2023	27,681	2,75,525	10.05

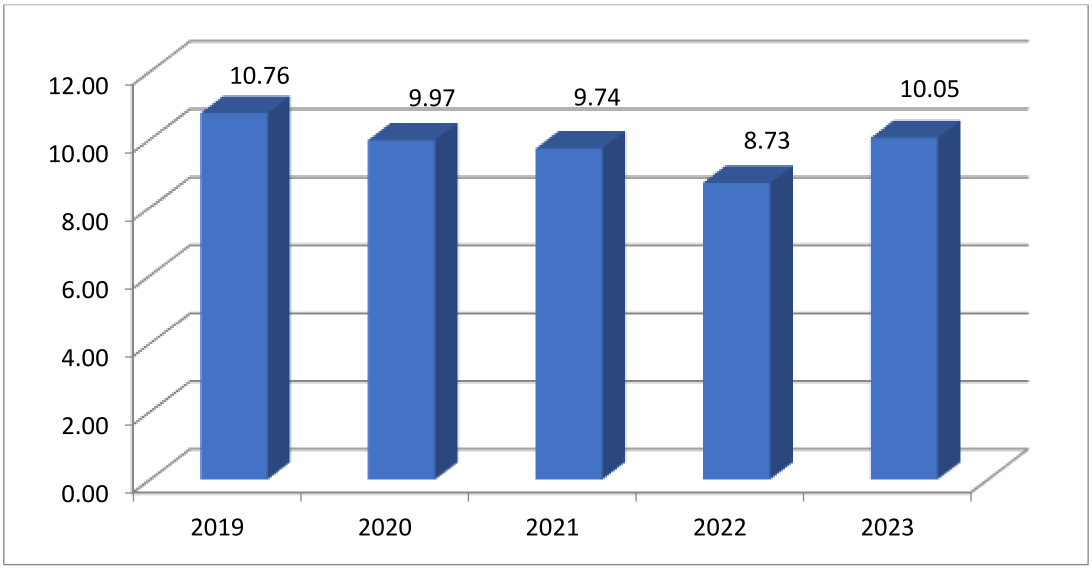
SOURCE: SECONDARY DATA

INTERPRETATION:

The above table shows that the Net Profit Margin in the year 2019 was 10.76 and it

decrease to 9.97 in the year 2020, further move downwards to 8.73 in the year 2022.In the year 2023 Net profit Margin again increases to 10.05. The company is more efficient at converting sales into actual profit.

NET PROFIT MARGIN



2. RETURN ON ASSET:

2. Table Return on Asset for the period of 2019-2023 (Rs. In Lakhs)

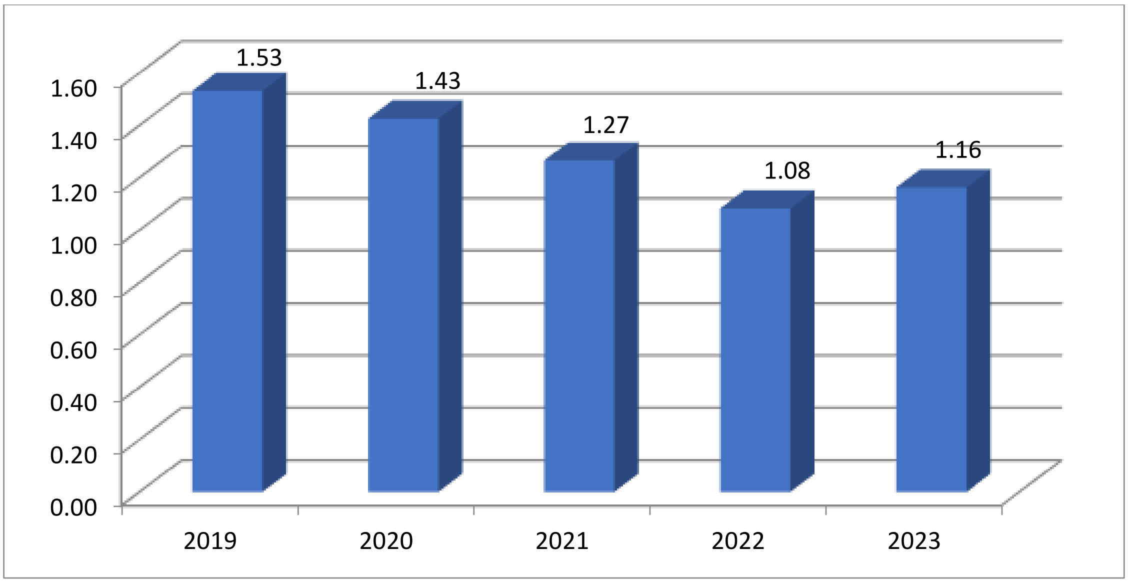
YEAR	NET INCOME	AVERAGE TOTAL ASSET	RATIO
2019	27,564	17,99,841	1.53
2020	29,197	20,48,066	1.43
2021	27,013	21,34,162	1.27
2022	23,215	21,44,195	1.08
2023	27,681	23,81,081	1.16

SOURCE: SECONDARY DATA

INTERPRETATION:

The above tables shows that the Return on Asset in the year 2019 was 1.53 and it decrease to 1.43 in the year 2020, further move downwards to 1.08 in the year 2022.In the year 2023 Return on Asset increases to 1.16. The company is either boosting its profit margin or using its assets to increase sales.

RETURN ON ASSET



3. DEBT TO EQUITY RATIO:

3. Table Debt to Equity Ratio for the period of 2019-2023 (Rs. In Lakhs)

YEAR	TOTAL DEBT	SHAREHOLDERS EQUITY	RATIO
2019	16,77,785	2,72,384	6.16
2020	16,98,681	3,24,635	5.23
2021	17,40,320	3,82,521	4.55
2022	16,30,724	3,85,164	4.23
2023	20,69,961	5,13,315	4.03

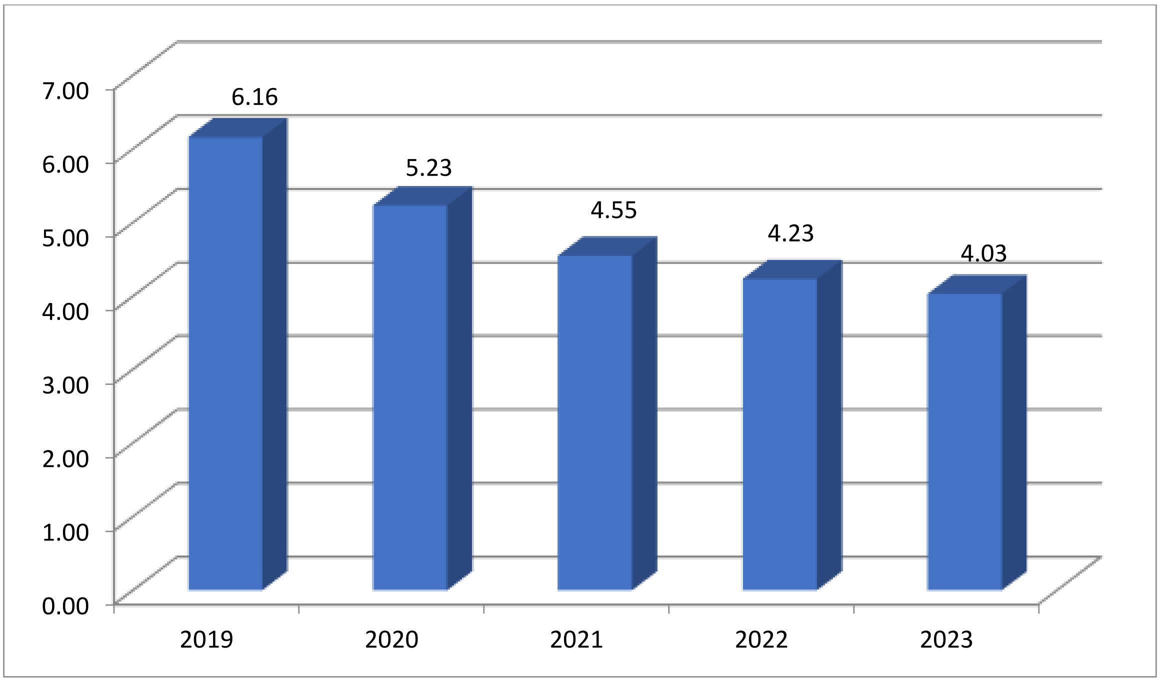
SOURCE: SECONDARY DATA

INTERPRETATION:

The above table shows that the Debt to Equity Ratio in the year 2019 was 6.16 and it decrease to 5.23 in the year 2020, further move downwards to 4.03 in the year 2023.

The company is using less debt and is funded more by shareholder equity

DEBT TO EQUITY RATIO



4. CAPITAL ADEQUACY RATIO (CAR):

4. Table Capital Adequacy Ratio (CAR) for the period of 2019-2023 (Rs. In Lakhs)

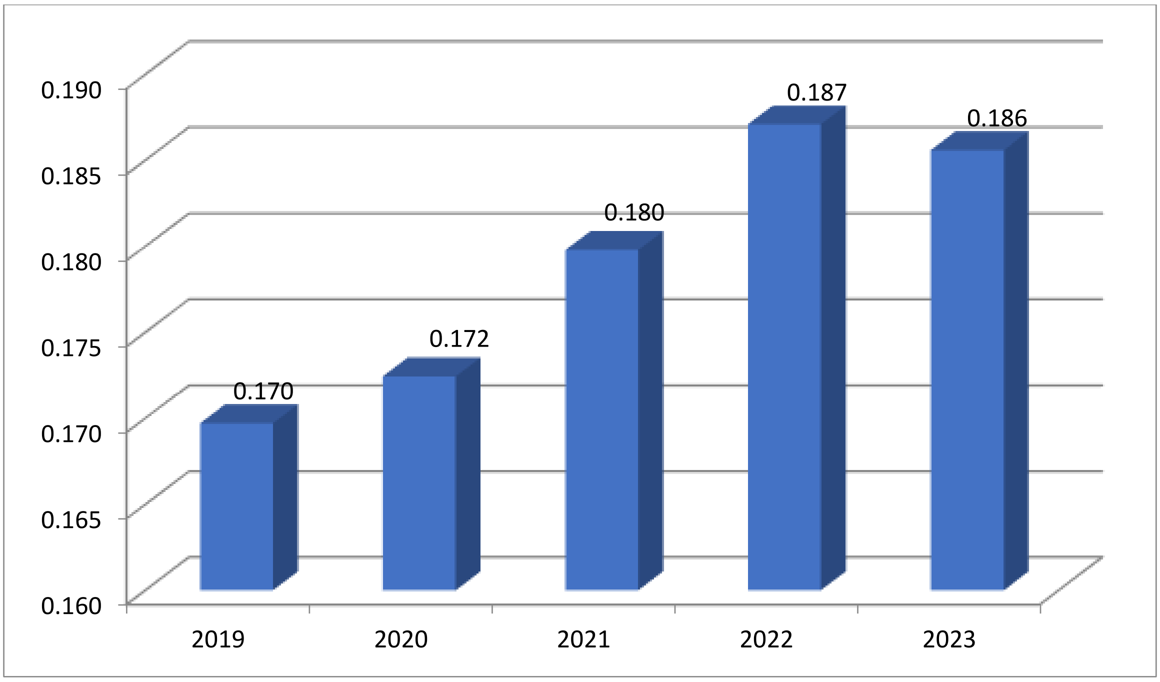
YEAR	TIER 1 + TIER 2 CAPITAL	RISK WEIGHTED ASSET	RATIO
2019	3,32,948	19,61,873	0.170
2020	3,26,530	18,93,450	0.172
2021	3,54,073	19,69,239	0.180
2022	3,50,566	18,73,804	0.187
2023	4,48,569	24,17,001	0.186

SOURCE: SECONDARY DATA

INTERPRETATION:

The above table shows that the Capital Adequacy Ratio (CAR) in the year 2019 was 0.170 and it increase to 0.172 in the year 2020, further move upwards to 0.187 in the year 2022.In the year 2023 Capital Adequacy Ratio decreases to 0.186.

CAPITAL ADEQUACY RATIO



FINDINGS:

- The Net Profit Margin for the period from 2019 to 2023, experiencing a decline from 2019 to 2020, a further decrease in 2022, and a subsequent recovery in 2023.
- Return on Assets for the period from 2019 to 2023, experiencing a decline from 2019 to 2020, a further decrease in 2022, and a subsequent increase in 2023.
- Cost to Income Ratio for the period from 2019 to 2023, initially increasing in 2020, decreasing in 2021, and then rising again in 2023.
- Capital Adequacy Ratio (CAR) for the period from 2019 to 2023, showing an initial increase from 2019 to 2020, a further rise in 2022, and a slight decrease in 2023.

SUGGESTIONS:

- Net profit Margin:

The rising net profit margin and gross profit margin ratios indicate improving profitability. This suggests that the company is effectively managing its costs and generating higher profits. To further capitalize on this trend, the company should continue to focus on cost management and operational efficiency.

- Return on assets:

While the company has experienced significant growth in total assets over the years, it's essential to ensure that this growth is sustainable and aligned with the company's strategic objectives. Regularly review asset composition, investment decisions, and capital expenditure to optimize asset utilization and mitigate risks associated with over-expansion.

- Debt to equity ratio:

The decreasing debt to equity ratio signals improved financial health and reduced risk of default. This is a positive sign for investors and lenders alike. However, it's essential for the company to maintain a healthy balance between debt and equity financing to avoid overleveraging.

- Capital adequacy ratio:

Despite a decrease in the capital adequacy ratio, it remains relatively healthy. The increasing interest coverage ratio indicates a stronger ability to meet interest payments, reducing financial risk. However, the company should maintain prudent capital management practices to ensure sufficient liquidity and financial stability.

CONCLUSION:

The company exhibits several positive trends in profitability, financial health, and operational efficiency. However, there are areas such as asset quality, return metrics, and cost management that require attention and improvement. To sustain its growth trajectory and enhance shareholder value, the company should focus on optimizing its asset utilization, managing costs effectively, and maintaining a healthy balance between debt and equity financing. Additionally, continuous monitoring and proactive measures to address emerging challenges will be crucial in navigating the dynamic business environment effectively.

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