International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

A STUDY ON FINANCIAL PERFORMANCE AND GROWTH OF NON- BANKING FINANCIAL COMPANIES

MD SAUKAT ALI[1], DR. SITANSU PANDA[2]

B.B.A. (Sem 6) (FINANCE)
Admission No.:-22GSOB1010061
[2] Guided by:
Professor, Galgotias University,Uttar Pradesh

ABSTARCT :

Non-Banking Financial Companies (NBFCs) have emerged as a vital component of the Indian financial ecosystem, offering credit access to segments often overlooked by conventional banks—particularly micro, small, and medium enterprises (MSMEs). These institutions are categorized based on their core activities and regulatory status, such as asset finance, loan companies, investment companies, and infrastructure finance companies. This study analyzes the financial performance of five key categories of NBFCs over a ten-year period from 2015 to 2025. Key financial indicators such as Liquidity Ratio, Profitability Ratio, and Debt-to-Equity Ratio have been used to assess their performance. The analysis highlights significant variations across different NBFC types, especially in terms of liquidity management and profitability trends.

India's diverse and expanding economy still includes large sections of the population that remain outside the purview of formal banking. This gap has paved the way for financial intermediaries like NBFCs to provide critical credit and financial services. Registered under the Companies Act, 1956, NBFCs engage in diverse operations including loans and advances, investments in shares and bonds, leasing, hire purchase, insurance, and chit fund operations. Over the years, NBFCs have expanded in scale, embraced technological innovations, and entered newer financial service domains. Their role in fostering financial inclusion and supporting the informal sector has become even more crucial in the post-pandemic era. The last decade witnessed both growth and regulatory tightening, especially after the IL&FS crisis in 2018 and the impact of COVID-19 in 2020–2021, which led to increased focus on liquidity management and risk assessment.

This research uses ratio analysis to assess solvency and profitability, with findings that shed light on both successful practices and challenges faced by NBFCs. The period from 2022 onwards also reflects the impact of digital transformation, government policy shifts, and increased scrutiny from the Reserve Bank of India (RBI), all of which have reshaped operational frameworks. NBFCs have been instrumental in bridging credit gaps across both urban and rural sectors. Their flexible operating models allow them to design need-specific financial products, often outperforming traditional banks in speed and adaptability. Some of the top-performing NBFCs in India include Power Finance Corporation Limited, Mahindra & Mahindra Financial Services Limited, and Muthoot Finance Ltd.This project primarily focuses on examining the growth trajectory of NBFCs from 2015 to 2025 and identifying the factors contributing to their performance and non-performance. By applying financial analysis tools across a decade, this study provides valuable insights into the evolving role of NBFCs in India's financial sector.

INTRODUCTION

1.1Overview and Evaluation of Non Banking Financial Companies in India

Non-Banking Financial Companies (NBFCs) are financial institutions that perform functions similar to banks but do not hold a banking license. These entities are mandated to register under the Companies Act, 1956, and are primarily engaged in offering loans and advances, as well as investing in shares, bonds, debentures, and other marketable securities issued by government bodies or local authorities. NBFCs also carry out services such as leasing, hire-purchase, insurance, and chit fund operations. However, any company whose core activity involves agriculture, industry, or the purchase/sale of goods and services is not categorized as an NBFC.

Another classification includes companies that accept public funds or contributions, either as a lump sum or in installments, under a scheme or arrangement—these are also recognized as NBFCs, even though they may not function as traditional deposit-accepting institutions. The importance of regulating NBFCs was recognized by the Reserve Bank of India (RBI) following the collapse of multiple financial institutions in the late 1950s and early 1960s, which resulted in losses for numerous depositors. In response, RBI brought NBFCs under its regulatory ambit by inserting Chapter IIIB into the Reserve Bank of India Act, 1934. By March 1996, there were nearly 41,000 NBFCs operating across the country. However, due to weak regulation and oversight, many of them operated without accountability. Consequently, the RBI tightened its regulatory framework, emphasizing stricter reporting, compliance, and monitoring standards.

A significant reform came in April 1999, when NBFCs registering after that date were required to maintain a minimum Net Owned Fund (NOF) of ₹200 lakhs to operate legally. With the rising influence of NBFCs on the economy, RBI implemented further regulations to distinguish systemically important

NBFCs—those with assets of ₹100 crores or more—subjecting them to more stringent norms. In FY 2011–12, two additional types of NBFCs were introduced: Infrastructure Debt Funds (IDFs) and Micro Finance Institutions (MFIs). These categories aimed to promote specialized financial services, catering to infrastructure development and low-income groups, respectively.

Definition and Regulatory Framework of Non-Banking Financial Companies (NBFCs)

A Non-Banking Financial Company (NBFC) is a financial entity that carries out banking-related functions such as lending and investing, but it is not categorized as a bank and does not hold a banking license. These entities are regulated by the Reserve Bank of India (RBI) and are required to be incorporated under the Companies Act, 1956 or Companies Act, 2013. The RBI provides a detailed classification and legal foundation for NBFCs, explaining what constitutes a financial institution and the scope of non-banking activities.

Statutory Definition of NBFC (as per RBI Act, 1934)

According to Section 45I(f) of the RBI Act, 1934, a "Non-Banking Financial Company" includes:

1. Any financial institution which is a company;
2. A non-banking institution whose primary business is to receive public deposits under any plan or scheme, or to provide loans in various forms;
3. Any such institution or class of institutions as may be notified by the RBI with prior approval from the Central Government and published in the Official Gazette.

In addition, Section 45I(c) of the RBI Act defines a financial institution as any non-banking entity involved in any of the following:

- Granting loans or advances to activities other than its own operations;
- Investing in government-issued securities, bonds, debentures, shares, or other marketable securities;
- Conducting hire-purchase activities as defined in the Hire Purchase Act, 1972;
- Engaging in various financial services;
- Operating chit funds or similar schemes as a foreman or agent;
- Collecting funds under any scheme or arrangement and distributing cash, prizes, or gifts.

However, institutions primarily involved in agriculture, industrial activities, trade of goods (excluding securities), services, or real estate transactions are not classified as NBFCs, unless a substantial portion of their income comes from financial services.

1.2 REQUIREMENT FOR REGISTRATION WITH RBI

Under Section 45-IA of the RBI Act, 1934, no company can begin or carry on the business of a Non-Banking Financial Institution unless it:

- Obtains a Certificate of Registration (CoR) from RBI; and
- Maintains a Net Owned Fund (NOF) of at least ₹2 crores.

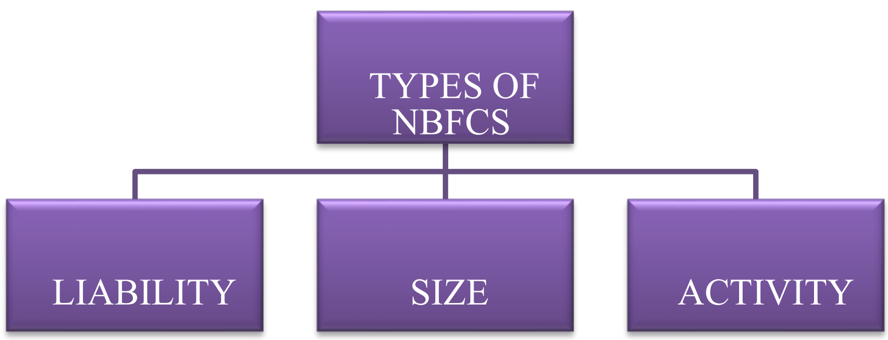
Previously, the required NOF was ₹25 lakhs, which was increased to ₹2 crores after the notification dated April 21, 1999. In the transition phase, the RBI allowed companies to raise their NOF in two stages:

- Reach ₹1 crore by April 1, 2016;
- And achieve ₹2 crores by April 1, 2017.

To register, the company must submit an application in the prescribed format along with all necessary documentation. The RBI has outlined specific requirements for different categories such as:

- NBFC-CIC (Core Investment Companies),
- NBFC-MFI (Micro Finance Institutions),
- NBFC-Factors, and
- Other specialized NBFCs.

1.3 TYPES OF NBFCS



Classification of NBFCs Based on Liability

Non-Banking Financial Companies (NBFCs) can be categorized into two types based on their liability structure:

- Deposit-Accepting NBFCs (NBFCs-D)
- Non-Deposit Accepting NBFCs (NBFCs-ND)

Not all NBFCs are permitted to accept public deposits. Only those companies that possess a valid Certificate of Registration (CoR) from the Reserve Bank of India (RBI) and are explicitly authorized can legally accept or hold public deposits.

Definition of 'Deposits' as per RBI

As per Section 45-I(bb) of the Reserve Bank of India Act, 1934, the term 'deposits' refers to any receipt of money, whether in the form of a deposit, credit, or any other arrangement. However, the following are excluded from the definition of deposits:

1. Funds raised through share capital;
2. Capital contributions made by partners in a partnership firm;
3. Amounts received from scheduled commercial banks, co-operative banks, or other banking entities as defined under Section 5© of the Banking Regulation Act, 1949;
4. Money received from institutions such as:
   - State Financial Corporations,
   - Financial institutions under Section 6A of the IDBI Act, 1964, or
   - Any other institution notified by the RBI;
5. Amounts received during normal course of business, such as:
   - Security deposits,
   - Dealership deposits,
   - Earnest money,
   - Advance payments for goods, services, or property;
6. Any funds received from individuals, firms, or associations (not being a body corporate) which are registered under a state money-lending law.

This distinction between deposit-taking and non-deposit-taking NBFCs is crucial for regulatory supervision and risk management within the financial sector.

Classification of NBFCs Based on Size

Non-Banking Financial Companies (NBFCs) are broadly divided into two main categories:

- Deposit-Accepting NBFCs (NBFCs-D)
- Non-Deposit Accepting NBFCs (NBFCs-ND)

The Non-Deposit Accepting NBFCs are further classified based on their asset size into the following sub-categories:

1. Systemically Important NBFCs-ND (NBFCs-ND-SI):

These are NBFCs that do not accept public deposits but have a total asset size of Rs. 500 crore or more. Due to their large asset base, they are considered significant to the financial system and are subject to stricter regulatory oversight by the Reserve Bank of India (RBI).

2. Non-Systemically Important NBFCs-ND:

These are NBFCs which also do not accept public deposits and have total assets less than Rs. 500 crore. Being smaller in scale, they are subject to a lighter regulatory framework in comparison to their systemically important counterparts.

This classification helps regulators monitor risk levels and apply appropriate controls based on the potential impact of each NBFC on the broader financial ecosystem.

Classification of NBFCs Based on Activities

NBFCs in India are categorized based on the type of financial services or activities they perform. This classification helps in regulating and monitoring their operations effectively. The major types of NBFCs by activity are:

1. Asset Finance Company (AFC):These NBFCs primarily deal in financing physical assets that support productive or economic activity, such as automobiles, tractors, generators, and other machinery. They play a vital role in asset creation in the economy.
2. Investment Company (IC):These companies focus mainly on acquiring securities such as shares, stocks, bonds, and other financial instruments. Their primary objective is to earn income from investments held.
3. Loan Company (LC): Loan companies provide finance in the form of loans or advances for various purposes, excluding asset financing. These may include personal loans, business loans, or working capital assistance.

4. Infrastructure Finance Company (IFC): An NBFC is classified as an IFC when it deploys at least 75% of its total assets in infrastructure projects. It must also meet specific net owned funds and credit rating requirements as per RBI guidelines.

5. Systemically Important Core Investment Company (CIC-ND-SI): These NBFCs hold not less than 90% of their assets in the form of investments in shares and securities, out of which at least 60% must be in group companies. They don't engage in trading but only hold investments.

6. Infrastructure Debt Fund – NBFC (IDF-NBFC): This type of NBFC focuses on refinancing infrastructure projects that have completed the construction phase and have begun generating revenue. It raises resources through long-term bonds and lends to infrastructure companies.

7. Micro Finance Institution (NBFC-MFI): NBFC-MFIs provide loans to low-income individuals or groups, especially in rural and semi-urban areas, without the need for collateral. These loans are typically for small amounts aimed at promoting self-employment.

8. NBFC-Factor: These companies are engaged in the business of factoring, where they purchase receivables or invoices from businesses and offer them immediate funds. They help improve the liquidity of small and medium enterprises (SMEs).

This classification helps in the efficient supervision and tailored regulation of NBFCs based on the nature of their financial activit

1.4 Present Scenario of NBFCs in India

In January 1998, the Reserve Bank of India introduced a revised regulatory framework for Non-Banking Financial Companies (NBFCs) that accept public deposits. This initiative aimed to ensure that these entities operate on sound and prudent lines. The focus was primarily on deposit-taking NBFCs (NBFCs-D), with the objective of safeguarding depositor interests. These entities are subject to prudential norms similar to banks in areas like income recognition, asset classification and provisioning, capital adequacy, exposure limits, and disclosure requirements.
On the other hand, non-deposit taking NBFCs (NBFCs-ND) face significantly lighter regulatory requirements. The application of these prudential norms is not uniform across the banking sector and the NBFC landscape, creating regulatory divergence.

Key Regulatory Distinctions
1. Banks are subject to stringent norms covering income recognition, asset classification and provisioning, capital adequacy, limits on borrower exposure, investment portfolio regulations, CRR/SLR mandates, and full-scale accounting and reporting standards.

2. NBFCs-D follow many of these norms, excluding CRR obligations and capital market exposure limits. Even where norms are applicable, they are less stringent compared to banks. They also face investment restrictions in land, buildings, and unlisted shares.

3. NBFCs-ND are exempt from several key regulations such as capital adequacy ratios, CRR/SLR, borrower limits, and investment restrictions in real estate and unquoted shares.

4. Unsecured Borrowings by companies are generally governed under rules framed by the Companies Act. However, NBFCs are exempt from these provisions as they fall under RBI jurisdiction. While CRAR norms restrict the borrowing capacity of NBFCs-D, there is no such limit for NBFCs-ND, allowing them higher leverage despite being part of the financial services sector.

Financial Linkages Between Banks and NBFCs

Banks and NBFCs often operate in overlapping spaces, particularly on the lending side. NBFCs typically offer leasing, hire purchase, personal and business loans, debenture investments, IPO funding, and small-ticket lending. However, they do not offer transactional banking services such as savings accounts, current accounts, overdrafts, or cash credits. NBFCs rely on bank funding through loans, subscription to their debentures, and commercial paper. Since both entities compete in similar areas, though under different regulatory structures, safeguards are necessary to prevent indirect risks to bank depositors. To manage this, RBI has imposed certain restrictions on the type of NBFC activities that banks can fund: Banks should not finance NBFCs for bill discounting, except in cases related to sales of:

- Commercial vehicles
- Two and three-wheelers (under specified conditions)

Banks are restricted from funding NBFCs' investments in shares or debentures of other companies, with limited exemptions. Prohibition on financing unsecured loans or inter-corporate deposits made by NBFCs to other companies. Banks cannot fund NBFC lending to individuals for subscribing to Initial Public Offerings (IPOs).Prohibition on financing bridge loans or interim loans provided by NBFCs pending long-term fundraising, applicable to all NBFC categories.Banks must not engage in lease transactions directly with equipment leasing companies.

Structural Linkages Between Banks and NBFCs

NBFCs and banks in India are owned by both public and private players, including foreign institutions. Some NBFCs are subsidiaries, joint ventures, or associates of banks, including foreign banks without an operational branch in India. Interest in establishing NBFCs, particularly by banks, has increased over the years. Regulations cap a bank's investment in a single financial services company at 10% of its paid-up capital and reserves. The cumulative investment across all financial services entities, stock exchanges, and similar institutions is limited to 20%. For a bank to set up or invest in an NBFC, prior approval from the relevant RBI regulatory department is mandatory. Foreign entities or head offices of foreign banks, however, can establish NBFCs in India under the automatic Foreign Direct Investment (FDI) route after obtaining a Certificate of Registration from RBI.

NBFCs are permitted to engage in activities that banks cannot, or may do so with limitations—for example, funding mergers and acquisitions or participating in capital market activities. The uneven regulatory environment between banks and NBFCs, despite overlapping activities, raises concerns around regulatory arbitrage—where one sector bypasses stricter norms by routing business through the less-regulated counterpart. This challenge is partially addressed in cases where NBFCs belong to a banking group, as they are subject to consolidated prudential norms applicable to the group as a whole.

Importance and Role of NBFCs in Indian Economy

1. Promotion of Public Savings Utilization: Non-Banking Financial Companies (NBFCs) significantly contribute to mobilizing public savings. They tap into segments often neglected by traditional banks, such as small savers and the informal sector. By offering attractive schemes and higher interest rates, NBFCs encourage individuals to invest their idle funds—money kept aside but not actively used—into productive financial instruments. This fosters responsible spending and maximizes the use of surplus cash in the economy.

2. Easy and Flexible Credit Access: NBFCs are known for offering quick and hassle-free credit solutions. Their procedures are generally more relaxed compared to traditional banks, making them more accessible. They also cater to unique financial needs by offering credit for purposes like marriage expenses or religious ceremonies, which are not typically financed by banks. These institutions serve people from all economic backgrounds, thus broadening financial access.

3. Functioning as Financial Supermarkets: NBFCs operate as multi-functional financial hubs, offering a diverse range of services under one roof. Besides conventional lending and investment services, they provide mutual fund products, investment counseling, merchant banking, and more. By diversifying their offerings, NBFCs reduce risk and create a one-stop financial destination for customers.

4. Productive Investment of Funds: NBFCs channel small savings into productive economic ventures. They invest in projects and businesses that yield positive returns. For instance, leasing firms offer equipment to industrial clients, enabling production activities without upfront capital investments. This not only benefits the industries but also generates revenue for NBFCs.

5. Support for Housing Finance: Housing finance companies under the NBFC category provide affordable home loans. These institutions are instrumental in helping middle- and lower-income families fulfill their dream of owning a house. Their flexible terms and lower eligibility thresholds make them highly beneficial for the economically weaker sections.

6. Investment Advisory Services: NBFCs also act as investment advisors, especially for small investors. They help individuals allocate their funds wisely by spreading investments across various financial instruments, thereby reducing risks. Their expertise ensures better returns and financial safety, particularly for those unfamiliar with market dynamics.

7. Enhancing Living Standards: NBFCs play a vital role in uplifting living standards by providing consumer finance. Through hire-purchase and installment schemes, they make products like refrigerators, TVs, and air conditioners more affordable. Additionally, they contribute to improving transport infrastructure by financing vehicle purchases, which indirectly supports better goods movement and lifestyle upgrades.

8. Offering Flexible Deposit Options: NBFCs accept public deposits in diverse and convenient forms. These may include savings certificates, debentures, and other financial instruments tailored to investor preferences. This flexibility attracts a broader range of customers and enhances financial inclusion.

9. Driving Economic Development: NBFCs are pivotal in fostering national economic growth. By broadening financial access, they support entrepreneurship and business expansion. Their emphasis on investing in financially stable and efficient companies ensures sustainable market growth. NBFCs also positively influence capital markets by focusing on price stability and risk-managed speculative investments. Overall, they act as key enablers of economic progress in the country.

Core Functions and activities of NBFCs

1. Accepting Public Funds in Various Forms: One of the primary roles of NBFCs (Non-Banking Financial Companies) is to mobilize public funds through multiple instruments. These include issuing debentures, savings certificates, subscription units, and other investment products. The capital raised by NBFCs comes from public contributions in the form of deposits, loans, investments, or other financial arrangements.

2. Providing Financial Assistance: Another key function of NBFCs is extending credit and financial support to individuals and businesses. They cater to a wide spectrum of needs, often addressing segments that are underserved by traditional banks.

3. Hire Purchase Financing: NBFCs assist small entrepreneurs, professionals, and middle-income individuals by offering hire purchase schemes.

Under this system, customers can acquire essential equipment or goods by paying in instalments. Ownership is transferred to the buyer only after the final instalment is completed, making it a feasible option for those with limited immediate funds.

4. Lease Financing: Through leasing, NBFCs allow borrowers to use capital goods or equipment without requiring ownership. Instead of purchasing the asset, the user pays periodic rental charges for its use. This helps businesses access necessary tools or machinery without heavy upfront costs.

5. Housing Loans and Real Estate Finance: NBFCs also play an active role in supporting the housing sector. They offer loans for home construction, purchase of land, and plot development. Their simplified process and flexible terms are especially beneficial to middle- and lower-income families.

6. Specialized and Personal Financing: NBFCs cater to unique financial needs that are often overlooked by banks. These include loans for personal consumption, wedding expenses, religious ceremonies, social events, or even debt consolidation. With minimal documentation and quicker approvals, NBFCs become a go-to option for borrowers in urgent need.

7. Investing Idle Capital in Profitable Ventures: NBFCs wisely utilize their surplus funds by investing in revenue-generating opportunities. These could be in the form of equity, real estate, government securities, or corporate bonds. This helps ensure stable returns and sustained growth for the company.

1.7 Comparison Between Commercial Bank Non-Banking Financial Companies

While both Commercial Banks and Non-Banking Financial Companies (NBFCs) act as financial intermediaries by accepting funds from the public and providing loans, they differ significantly in structure and operations. Commercial banks are often regarded as the "big brother" in the financial sector due to their extensive regulatory oversight, larger customer base, and broad range of services. In contrast, NBFCs are considered the "small brother," operating on a relatively smaller scale with more flexibility but limited regulatory privileges. Despite performing similar roles in channelling savings into productive use, there are several key distinctions between the two entities in terms of regulatory authority, deposit handling, lending practices, and overall functions.

Sr no.	COMMERCIAL BANKS	NBFC
1	**Issue of cheques:** In case of commercial banks, **a cheque can be issued** against bank deposits	In case of NBFC's there is **no facility to issue cheques** against bank deposits
2	**Rate of interest:** Commercial bank offer **lesser rate of interest** on deposits and charge **less** rate of **interest on**	NBFC's offer **higher rate Of interest** on deposits and charge **higher** rate of **interest on loans** as compared to
	loans as compared to NBFC's.	Commercial banks.
3	NBFC's offer **higher rate of interest** on deposits and charge **higher** rate of **interest on loans** as compared to Commercial banks.	NBFC's are **not given** such facilities.
4.	**Law which governs them:** Commercial banks are **regulated by** Banking Regulation Act 1949 and RBI.	NBFC's are regulated by different regulation such as **SEBI,** Companies Act, National Housing Bank, Unit Fund Act and RBI.
5	**Types of assets:** commercial banks hold a variety of assets in the form of loans, cash credit, bill of exchange, overdraft etc.	NBFC's specialize in **one types of asset.** For e.g.: Hire purchase companies specialize in consumer loans while Housing Finance Companies specialize in housing finance only.

LITREATURE REIVIE

The Role of Financial Systems in Economic Development

A well-functioning financial system is universally acknowledged as essential for a thriving modern economy. In advanced economies, sophisticated financial systems efficiently deliver a broad range of financial services, contributing significantly to macroeconomic stability and sustained economic growth. The development of financial markets facilitates the mobilization of savings by offering savers and investors a wider choice of instruments. With the emergence of NBFCs, investors have additional avenues to invest their funds, often at more attractive returns compared to traditional bank deposits.

NBFCs as a Complement to Traditional Banking

Non-Banking Financial Institutions (NBFIs) enhance the resilience of the financial system by providing alternative financing options, especially during economic downturns. While banks typically offer short-term loans needed by industry and agriculture, NBFCs provide a range of services such as factoring and venture finance, catering to the diverse needs of the economy.

Contributions to Macroeconomic Stability

Research indicates that NBFCs play a vital role in macroeconomic stability by strengthening the structure of the monetary system. Consolidation in the sector and improved regulatory frameworks have enhanced their focus and efficiency. Furthermore, NBFCs contribute to the creation of productive national assets, with lease finance being a significant avenue through which developed economies have advanced their development processes.

Global Expansion and Strategic Alliances

The evolving monetary landscape has opened opportunities for NBFCs to expand their global presence through self-expansion and strategic alliances. Monetary reforms have aligned the Indian financial system more closely with global standards, enabling NBFCs to explore international markets and partnerships.

Performance Analysis of NBFCs

Studies analysing the performance of NBFCs in India have evaluated aspects such as investments, loans disbursed, growth, returns, and risk. These analyses conclude that NBFCs maintain good financial efficiency and earn substantial margins on loans. Additionally, the NBFC sector plays a critical role in financial inclusion, particularly in areas with limited penetration by commercial banks. Their profitability has shown significant growth, often surpassing that of traditional banks.

Financial Performance and Strategic Marketing

The evolution, growth, and development of NBFCs in India have been subjects of extensive study. NBFCs constitute a significant part of the financial system, complementing the services provided by commercial banks. Their efficiency and flexibility have enabled them to build a diverse client base, including small borrowers and large corporate establishments. The pace of financial liberalization has intensified competition, prompting NBFCs to adopt strategic marketing perspectives to anticipate changes and seize new opportunities.

Regulatory Framework and Prudential Norms

NBFCs in India are regulated by the Reserve Bank of India (RBI) under the Reserve Bank of India Act, 1934. They are required to adhere to specific capital adequacy norms, similar to banks, to safeguard against credit, market, and operational risks. These norms ensure that NBFCs maintain financial soundness and operational resilience.

Conclusion

NBFCs have emerged as pivotal players in India’s financial landscape, offering diversified financial services and contributing to economic growth and financial inclusion. Their ability to adapt to changing economic scenarios, coupled with regulatory support, positions them as integral components of the country’s financial system.

RESEARCH METHODOLG

3.1Concept of Research Methodology

Research methodology refers to the systematic approach used to conduct research. It includes the tools, techniques, and procedures for identifying, selecting, analysing, and interpreting data related to a specific subject. This section of a research paper helps evaluate the study’s overall validity, reliability, and scientific value.

Meaning of Research

Research is a structured investigation carried out to discover new facts or to update existing knowledge. It involves logical and critical analysis to solve a specific problem or answer a question. In simple words, research is a step-by-step process followed to achieve clarity, gather evidence, and form conclusions based on facts and reasoning.

Objectives of the Study

The main aims of this research are:

1. To assess the short-term solvency of selected NBFCs.
2. To evaluate the long-term financial stability of selected NBFCs.
3. To study the profitability of NBFCs over the last 10 years.
4. To analyse Return on Net Worth (RoNW), Return on Equity (RoE), and Return on Capital Employed (RoCE).
5. To compare NBFCs on the basis of financial ratios like Debt-to-Equity, Current Ratio, Return on Net Worth, Net Profit Ratio, and Return on Equity.

Research Problem

Clearly defining a research problem helps in guiding the direction of the entire study. Challenges and uncertainties often arise during research due to limitations of data, time, or interpretation.

Problem Statement:

A comprehensive study on the financial performance and growth trends of selected Non-Banking Financial Companies (NBFCs) in India from 2015 to 2025.

Research Design

A research design acts as a structured plan for how the research will be conducted. It includes the framework for data collection, measurement, and analysis.

Types of Research Design:

- Exploratory Design – Used for identifying problems and opportunities when limited knowledge is available.
- Experimental Design – Tests relationships between variables under controlled conditions.
- Descriptive Design – Used to describe characteristics of a population or a phenomenon.
- Diagnostic Design – Determines the cause and frequency of a particular event or situation.

Design Used:

This study follows a Descriptive Research Design, as it is based on existing knowledge and aims to describe the current financial status of NBFCs.

Sampling Design

Due to practical constraints such as time and availability, a full population study is not feasible. Therefore, a representative sample is selected.

Sample Selection:

The study includes 10 NBFCs from five different categories. The selection is based on availability of financial data from 2015 to 2025.

Categories Covered:

- Asset Finance Companies
- Core Investment Companies
- Infrastructure Finance Companies
- Microfinance Institutions
- Factoring Companies

Data Collection

- The study uses secondary data collected from reliable and authentic sources such as:
- Reserve Bank of India (RBI) reports
- Company annual reports
- Financial websites like Money control, Screener. In
- NBFC industry reports and journal publications

Analytical Tools Applied:

- To interpret the financial performance, the following tools have been used:
- Ratio Analysis: (Debt-Equity, Current Ratio, Net Profit Ratio)
- Statistical Methods: Mean, Standard Deviation, and ANOVA (Analysis of Variance) for comparison across multiple NBFCs.

Limitations of the Study

- The study period is limited to the financial years from 2015 to 2025.
- Analysis is entirely based on secondary data, which may have limitations regarding accuracy or completeness.
- The focus is only on a limited set of financial ratios; a broader range could yield deeper insights.
- Findings may not be generalized to the entire NBFC sector due to the selective nature of the sample.

Research methodology is the specific procedures or techniques used to identify, select, process, and analyse information about a topic. In a research paper, the methodology section allows the reader to critically evaluate a study's overall validity and reliability.

DATA ANALYSIS

CURRENT RATIO

The Current Ratio is a financial metric used to evaluate a company's short-term liquidity position. It indicates the firm's ability to meet its short-term liabilities with its short-term assets. A higher ratio signifies better liquidity and a stronger ability to repay obligations as they come due.

Formula:
Current Ratio = Current Assets / Current Liabilities

A commonly accepted benchmark for this ratio is 2:1, meaning that a company is generally considered financially healthy if its current assets are double its current liabilities.

In this study, the current ratios for the selected NBFCs have been calculated and analyzed for the five financial years from 2020 to 2025. The data reflects how effectively these companies managed their liquidity over this period, offering insight into their short-term financial stability.

Companies	2020	2021	2022	2023	2024	2025
Arman	2.74	1.67	1.52	316.53	1.44	1.88
Mahindra	N/A	N/A	N/A	N/A	1.30	N/A
L&T	N/A	N/A	N/A	N/A	N/A	N/A
Reliance	4.20	4.35	3.96	4.83	5.74	3.21
IFCI	1.26	1.21	1.46	1.76	1.42	N/A
Siemens	2.17	1.94	1.91	2.06	2.20	N/A
Muthoot	2.30	2.91	3.57	4.98	3.98	134.31

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 212. Since the calculated value of F (2.2) is less than the table value, the null hypothesis is rejected and alternative hypothesis is accepted . It is concluded that there is significant difference in the current ratio of NBFCs under study.

LONG TERM SOLVENCY DEBT-EQUITY RATIO
The Debt-to-Equity Ratio is a crucial indicator used to evaluate an organization's long-term financial stability. It measures the relationship between the company's total liabilities and the funds contributed by its shareholders.

Formula:

- Debt-to-Equity Ratio = Total Debt / Shareholders' Equity

A higher debt-to-equity ratio suggests that the company relies heavily on external borrowing compared to internal funding. This increases the financial risk for lenders, as a higher portion of the company's capital structure is financed through debt.

Conversely, a lower debt-to-equity ratio indicates that the business is primarily financed through shareholder contributions rather than loans. This reflects stronger financial health and reduced risk for creditors, as the enterprise depends less on borrowed funds. Understanding this ratio helps investors and stakeholders assess how well a company can meet its long-term obligations and manage its financial leverage responsibly.

Companies	2020	2021	2022	2023	2024	2025
Arman	0	0	0	0	0	0
Mahindra	4.60	4.10	3.18	3.54	4.74	0
L&T	0	0	0	0	0	0
Reliance	0.65	0.60	0.55	0.35	0.46	0.15
IFCI	0	0	0	0	0	0
Siemens	0	0	0	0	0	0
Muthoot	2.99	3.10	2.85	2.53	2.59	0

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. Since the calculated value of F (35.64) is less 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

The Net Profit Ratio measures the proportion of net profit after tax earned from the total revenue generated through operations (net sales). It indicates how efficiently a company converts its sales into actual profit after accounting for all expenses, including taxes. The formula to calculate this ratio is:

Net Profit Ratio = (Net Profit After Tax / Revenue from Operations) × 100

A higher Net Profit Ratio reflects stronger profitability and efficient cost management, suggesting a healthier financial position. This ratio is useful in assessing the overall effectiveness of a company's operations and its ability to generate profit from sales activities.

Companies	2020	2021	2022	2023	2024	2025
Arman	N/A	N/A	N/A	N/A	N/A	N/A
Mahindra	N/A	N/A	N/A	N/A	N/A	N/A
L&T	N/A	N/A	N/A	N/A	N/A	N/A
Reliance	N/A	N/A	N/A	N/A	N/A	N/A
IFCI	(91.19%)	(110.37%)	(6.93%)	(11.38%)	N/A	N/A
Siemens	N/A	N/A	N/A	N/A	N/A	N/A
Muthoot	37.72%	33.11%	33.08%	30.84%	29.66%	N/A

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 not differ significantly for the NBFCs under study.

RETURN ON NETWORTH EQUITY

Return on Net Worth (RONW) is an important financial metric from an investor's perspective. It indicates how effectively a company is utilizing the funds invested by shareholders to generate profits. Investors use this ratio to assess the returns they can expect on their equity investment.

The formula used to compute RONW is:

Return on Net Worth (RONW) = Net Profit / Shareholders' Equity

RONW is typically expressed as a percentage and reflects how efficiently the company is converting the shareholders' capital into net income. A higher RONW implies that the company is generating more profit per unit of equity, showcasing efficient management and strong financial performance. On the other hand, a declining RONW may indicate issues in profitability or inefficient use of equity capital.

In essence, RONW is a key indicator of a firm's profitability and management efficiency from the standpoint of its shareholders.

Companies	2020	2021	2022	2023	2024	2025
Arman						
Mahindra						
L&T						
Reliance						
IFCI						
Siemens						
Muthoot						

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 accepted. .It is concluded that the net profit ratio do differ significantly for the NBFCs under study.

FINDINGS AND CONCLUSIO

Key Findings and Interpretation:

- The analysis reveals that Asset Finance Companies and Infrastructure Finance Companies maintain relatively high current ratios, indicating strong short-term liquidity and a better ability to meet their immediate obligations.
- In contrast, Microfinance Institutions exhibit lower debt-to-equity ratios, suggesting that they rely less on borrowed funds and more on internal or shareholder equity, which reduces risk for lenders.
- Core Investment Companies appear to be predominantly funded through shareholders' equity, signifying lower financial risk and demonstrating a conservative approach to debt.
- The Net Profit Ratios were notably higher in the Infrastructure and Microfinance sectors, indicating that these categories of NBFCs are generating strong profits in relation to their revenue, making them financially sound and promising for investors.
- The Return on Capital Employed (ROCE) was higher in Microfinance and Asset Finance Companies, suggesting these entities are utilizing their total capital more effectively to generate profits.
- Similarly, the Return on Net Worth (RONW) is also higher in Microfinance and Asset Finance Companies, reflecting efficient use of shareholders' funds to generate returns, which indicates strong management performance.
- Statistical analysis using ANOVA indicates that for all three financial ratios analyzed (Current Ratio, Debt-to-Equity, and Net Profit Ratio), the calculated F-values exceed the critical F-value at a 5% level of significance. This leads to the rejection of the null hypothesis, confirming that significant differences exist among the various NBFC categories. Hence, each category of NBFC operates under distinct financial dynamics and should be analyzed accordingly.

5.2 CONCLUSION

The solvency assessment of the selected NBFCs highlights a key insight — these companies tend to operate under high-risk conditions, primarily relying on borrowed capital rather than owned funds. Their financial structure shows a relatively low proportion of owned funds against total assets and a greater dependence on current assets, with a limited share of highly liquid assets when compared to current liabilities.

This business approach indicates a direct correlation between risk-taking and profit generation — the NBFCs accept higher risk levels in pursuit of greater returns. Despite this risk-heavy model, their overall financial health suggests that they maintain adequate solvency by effectively managing risks and ensuring sufficient cash flow to meet obligations.

Nevertheless, there is room for improvement, particularly in profitability ratios and cash flow management. To enhance financial sustainability, NBFCs should capitalize on their core competencies while working to resolve operational weaknesses.

The recent COVID-19 pandemic has significantly impacted the economy, with MSMEs (Micro, Small & Medium Enterprises) bearing the brunt of the slowdown due to business shutdowns and decreased consumer spending. Given that MSMEs make up a major portion of NBFCs' loan portfolios, widespread defaults in this segment pose a serious threat to the repayment capacities of NBFCs toward their own lenders.

In response, the Indian government and financial regulators have introduced several supportive measures. The Reserve Bank of India (RBI) offered a moratorium of three months on loan repayments to ease financial stress for borrowers, including those borrowing from NBFCs. Additionally, a liquidity infusion of ₹3.74 trillion has been announced to strengthen the credit markets, aiming to stabilize the overall financial system and support NBFC operations.

BIBLIOGRAPHY

1. https://www.moneycontrol.com/financials/armanfinancialservices/ratiosVI/AFS04# AFS04.
2. https://www.moneycontrol.com/financials/powerfinancecorporation/ratiosVI/pfc02 #pfc02
3. https://www.moneycontrol.com/financials/ceejayfinance/ratiosVI/HP07#HP07
4. https://www.moneycontrol.com/financials/larsentoubro/ratiosVI/LT#LT
5. https://www.moneycontrol.com/financials/ifci/ratiosVI/ifc02#ifc0
6. https://www.moneycontrol.com/financials/rec/ratiosVI/REC02#REC02
7. https://www.moneycontrol.com/financials/siemens/ratiosVI/S#S
8. https://www.moneycontrol.com/financials/mahindramahindrafinancialservices/ratio sVI/mmf04#mmf04
9. https://www.moneycontrol.com/financials/muthootfinance/ratiosVI/MF10#MF10
10. https://www.moneycontrol.com/financials/reliancecapital/ratiosVI/RC#RC
11. https://www.academia.edu/41698563/Project_Report_on_NBFC

12. https://www.scribd.com/document/325510612/Nbfc-Final-Project
13. https://www.google.com/url?sa=t&source=web&rct=j&url=https://w ww.ijsr.net/archive/v9i10/SR2010 21163913.pdf&ved=2ahUKEwiRkNCbu-PyAhUDdysKHTXaAF4QFnoECA0QAQ&usg=AOvVaw0urHne0jSV5MlW Lma1DAu6
14. https://www.google.com/url?sa=t&source=web&rct=j&url=http://w ww.ijmra.us/project%2520doc/201
15. 8/IJMIE_OCTOBER2018/IJMRA-14457.pdf&ved=2ahUKEwjK7866u-PyAhVaKysKHa_LCDwQFnoECBQQAQ&usg=AOvVaw1ts5Nb-AlyNj0eU6ubIWzW