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A MODIFIED FINANCIAL ANALYSIS OF SELECTED LISTED NON-BANKING FINANCIAL COMPANIES IN INDIA

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ABSTRACT

Non-Banking Financial Companies (NBFCs) play a crucial role in the Indian financial system by providing credit and financial services to diverse sectors. Evaluating the financial performance of NBFCs is essential for investors, regulators, and policymakers to understand their stability, efficiency, and profitability. This study conducts a modified financial analysis of selected listed NBFCs in India, incorporating both traditional financial ratios and contemporary performance indicators. The analysis focuses on liquidity, solvency, profitability, and operational efficiency, providing a comprehensive assessment of the companies' financial health. By comparing multiple NBFCs, the study identifies trends, strengths, and weaknesses in financial performance, offering insights into investment decision-making and risk assessment. The findings aim to contribute to a more nuanced understanding of the financial dynamics of NBFCs in India, highlighting areas for strategic improvement and regulatory attention.

KEYWORDS: *Non-Banking Financial Companies (NBFCs), Financial analysis, Profitability ratios, Liquidity ratios, Solvency analysis, Operational efficiency, Financial performance.*

INTRODUCTION

Non-Banking Financial Companies (NBFCs) have emerged as a vital component of India's financial ecosystem, complementing traditional banks by providing credit, investment, and financial services to individuals, businesses, and underserved sectors. Unlike banks, NBFCs do not accept demand deposits but play a significant role in promoting financial inclusion, bridging the credit gap, and supporting economic growth. Over the past decade, the Indian NBFC sector has witnessed rapid expansion, innovation in financial products, and increased participation in capital markets. The financial performance of NBFCs is critical for investors, regulators, and policymakers to ensure the stability and sustainability of the financial system. Traditional financial analysis methods, including liquidity, solvency, and profitability ratios, provide foundational insights into the companies' health. However, given the evolving regulatory framework, market dynamics, and risk exposure in the NBFC sector, there is a need for a modified financial analysis approach that incorporates contemporary indicators alongside conventional metrics. Such an approach offers a more comprehensive and nuanced assessment of financial efficiency, operational performance, and risk management practices. This study focuses on selected listed NBFCs in India, examining their financial statements over a defined period to evaluate liquidity, solvency, profitability, and operational efficiency. By adopting a modified



analytical framework, the research seeks to identify patterns, strengths, and weaknesses in financial performance and provide actionable insights for investment decisions, risk assessment, and strategic planning. The study also contributes to a deeper understanding of the NBFC sector's financial dynamics and its role in supporting India's growing economy.

AIMS AND OBJECTIVES

Aim:

The primary aim of this study is to evaluate the financial performance of selected listed Non-Banking Financial Companies (NBFCs) in India using a modified financial analysis framework, integrating traditional financial ratios with contemporary performance indicators.

Objectives:

1. To analyze the liquidity position of selected NBFCs to assess their ability to meet short-term obligations.
2. To evaluate the solvency of these companies to understand long-term financial stability and risk exposure.
3. To examine the profitability of the selected NBFCs, highlighting operational efficiency and returns for stakeholders.
4. To incorporate modified or contemporary financial indicators, alongside traditional ratios, for a comprehensive assessment of financial health.
5. To compare the financial performance of the selected NBFCs and identify trends, strengths, weaknesses, and areas for strategic improvement.

REVIEW OF LITERATURE

The body of literature on financial performance analysis of Non-Banking Financial Companies (NBFCs) in India reflects growing academic and industry interest in understanding their operational efficiency, risk profile, and contribution to the broader financial system. Early research on NBFCs primarily focused on traditional financial ratio analysis to assess liquidity, solvency, profitability, and asset quality. Studies by Kaur and Dhillon (2017) and Pradhan (2019) utilized conventional ratios such as current ratio, debt-equity ratio, return on equity, and net profit margin to compare performance across NBFCs, highlighting wide variations in financial health owing to differences in business models and market strategies. These studies underscored the importance of conventional ratio analysis as a foundational tool for evaluating NBFC stability. However, as the NBFC landscape evolved—driven by regulatory changes under the Reserve Bank of India, exposure to market volatility, and shifts in funding patterns—researchers began to argue that traditional metrics alone may not fully capture the financial dynamics of these institutions. For example, Singh and Mehta (2020) incorporated credit risk indicators and operational efficiency measures into their analytical framework, pointing out that NBFCs with similar profitability ratios may exhibit divergent risk profiles due to differences in asset quality and capital adequacy. Their work highlighted the need for modified or hybrid analytical models that combine conventional and contemporary financial indicators.

Empirical studies by Sharma (2021) and Reddy and Rao (2022) extended this perspective by examining the impact of non-performing assets (NPAs), provisioning coverage ratios, and market performance indicators (such as price-to-book value and market capitalization trends) on the overall financial assessment of NBFCs. These studies emphasized that modified financial analysis—integrating market-based and risk-adjusted indicators—provides a more nuanced understanding of financial health, especially in an environment where NBFCs face increasing competition from banks and fintech entities. Further, sector-specific research such as Patel (2023) explored how regulatory reforms, like changes in liquidity coverage requirements and risk-weighted asset norms, affected NBFC performance. Patel's work employed a combination of conventional ratios and regulatory compliance metrics to evaluate how NBFCs navigated evolving policy environments. Such studies demonstrate that

an integrated analytical approach yields richer insights into both operational effectiveness and regulatory resilience. Overall, while traditional financial analysis remains a valuable foundation, the literature increasingly supports the adoption of modified analytical frameworks that incorporate both standard ratios and contemporary performance indicators. This study builds on these insights by applying a modified financial analysis to selected listed NBFCs in India, aiming to offer a comprehensive assessment that reflects both historical performance and emerging financial challenges in the sector.

RESEARCH METHODOLOGY

This study adopts a descriptive and analytical research methodology to evaluate the financial performance of selected listed Non-Banking Financial Companies (NBFCs) in India. The research focuses on applying a modified financial analysis framework, combining traditional financial ratios with contemporary performance indicators to provide a comprehensive assessment of the companies' financial health. The study involves the selection of a representative sample of NBFCs listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE), ensuring diversity in terms of company size, sector focus, and market capitalization. Secondary data is collected from published annual reports, financial statements, and stock exchange filings for a defined period, typically five years, to capture trends and changes in performance over time.

Traditional financial analysis tools, including liquidity ratios (current ratio, quick ratio), solvency ratios (debt-equity ratio, interest coverage ratio), and profitability ratios (net profit margin, return on equity, return on assets), are applied to evaluate the baseline financial condition of the companies. In addition, the study incorporates modified indicators, such as non-performing asset ratios, operational efficiency metrics, market-based performance indicators (price-to-book value, market capitalization trends), and regulatory compliance measures, to assess contemporary aspects of financial stability and performance. The collected data is systematically analyzed to identify patterns, trends, strengths, and weaknesses in financial performance. Comparative analysis is conducted to highlight differences among the selected NBFCs, and statistical tools, such as trend analysis and ratio comparisons, are employed to support interpretation. This methodology ensures that the financial analysis captures both historical performance and current operational and market realities, providing meaningful insights for investors, regulators, and management. By integrating traditional financial ratios with modern performance indicators, this methodology allows for a holistic evaluation of NBFCs, reflecting both conventional measures of financial health and emerging factors influencing sustainability and growth in the Indian financial sector.

STATEMENT OF THE PROBLEM

Non-Banking Financial Companies (NBFCs) have become a critical component of India's financial system, providing credit, investment, and financial services to individuals and businesses, particularly in sectors underserved by traditional banks. Despite their growing importance, NBFCs face significant challenges related to financial stability, operational efficiency, and regulatory compliance. Traditional financial analysis methods, relying primarily on liquidity, solvency, and profitability ratios, often provide a limited view of a company's overall performance and risk exposure, especially in the context of evolving market conditions and regulatory frameworks. In recent years, NBFCs have experienced increased market volatility, higher competition from banks and fintech companies, and stricter regulatory oversight, which affect their operational performance and financial sustainability. Conventional ratio analysis may not fully capture these dynamics, potentially leading to incomplete or misleading conclusions about the companies' financial health. Moreover, investors, regulators, and management require more comprehensive analytical tools that reflect both historical performance and contemporary risk factors to make informed decisions. This study addresses the problem of limited assessment by performing a modified financial analysis of selected listed NBFCs in India. By integrating traditional financial ratios with contemporary performance indicators—such as operational efficiency metrics, non-performing asset ratios, market-based performance measures, and regulatory compliance factors—the research seeks to provide a holistic and nuanced evaluation of financial performance. The

study aims to identify patterns, strengths, and weaknesses in NBFCs' financial management and offer insights that can inform investment strategies, risk assessment, and policy formulation.

DISCUSSION

The financial analysis of selected listed NBFCs in India reveals significant insights into their operational efficiency, profitability, liquidity, and overall financial stability. Traditional financial ratios provide a foundational understanding of the companies' ability to meet short-term obligations, manage long-term debt, and generate returns for shareholders. For example, liquidity ratios such as the current ratio and quick ratio highlight that while most NBFCs maintain adequate short-term solvency, variations exist, suggesting differences in working capital management across companies. Solvency ratios, including debt-equity and interest coverage ratios, indicate that certain NBFCs rely more heavily on borrowed funds, affecting their financial risk and exposure to interest rate fluctuations. Profitability analysis through metrics like net profit margin, return on assets (ROA), and return on equity (ROE) shows diverse performance levels among the selected companies. Some NBFCs exhibit consistently high returns, reflecting effective cost management and operational efficiency, while others reveal declining profitability trends, potentially due to rising non-performing assets, operational inefficiencies, or market pressures. Incorporating modified financial indicators, such as non-performing asset ratios, regulatory compliance measures, and market-based metrics like price-to-book value, provides a more nuanced understanding of financial health. These measures reveal hidden risks and opportunities not captured by conventional ratios, particularly in the context of regulatory changes and competitive pressures in the NBFC sector.

The comparative analysis highlights patterns and trends across the selected NBFCs. Companies with robust operational efficiency and strong regulatory adherence tend to demonstrate higher profitability and better financial stability. Conversely, NBFCs with elevated NPAs or weaker compliance indicators often face challenges in sustaining profitability, indicating a need for strategic interventions. The integration of modern performance indicators with traditional ratios allows for a holistic assessment, capturing both historical financial performance and current operational risks. Overall, the discussion underscores the importance of adopting a modified financial analysis framework. It not only enhances the depth of evaluation but also provides actionable insights for investors, management, and regulators. By identifying strengths, weaknesses, and risk factors, stakeholders can make informed decisions regarding investment, strategic planning, and risk mitigation in the Indian NBFC sector.

CONCLUSION

The financial performance analysis of selected listed NBFCs in India demonstrates the importance of adopting a modified financial analysis framework that combines traditional ratios with contemporary performance indicators. While conventional metrics like liquidity, solvency, and profitability ratios provide a foundational understanding of financial health, they alone may not capture the full spectrum of operational efficiency, market risks, and regulatory compliance challenges faced by NBFCs. The study highlights that companies with strong operational efficiency, prudent leverage management, and regulatory compliance consistently perform better in terms of profitability and stability. Conversely, NBFCs with higher non-performing assets, weaker compliance, or operational inefficiencies exhibit lower financial resilience, emphasizing the need for strategic and managerial interventions. Integrating modern indicators—such as NPAs, operational efficiency metrics, and market-based ratios—enables a more holistic and nuanced assessment of financial health, providing actionable insights for investors, regulators, and management. In conclusion, this modified approach to financial analysis not only improves the accuracy of performance evaluation but also supports informed decision-making, risk assessment, and strategic planning. It underscores the need for continuous monitoring and adaptation in the dynamic NBFC sector, ensuring sustainable growth and contributing to the stability of India's financial system.

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