JOURNAL OF
GENERAL MANAGEMENT RESEARCH

EVALUATION OF FINANCIAL PERFORMANCE OF SELECTED NON-BANKING FINANCIAL COMPANIES IN INDIA

Mani Sree Tadi

Symbiosis Centre for Management Studies, Noida

Abstract

Over the last five years, continuous economic shocks have impacted the economy to a great extent. Liquidity crunch and credibility have become major concerns in the financial services sector post demonetization and the Infrastructure Leasing and Financial Services ltd crisis. Unemployment and economic costs due to lockdowns have stimulated the volatility in the Indian economy after the COVID-19 pandemic. This paper potentially emphasizes finding the financial performance of Non-Banking Financial Companies based on a few selected parameters over a five-year study period from 2017 to 2021. The data gathered from the companies' annual reports and performance highlight records have been analyzed and interpreted to track their performance patterns. Trend analysis has been employed to examine the movement of the selected variables like Profit after tax, Return on assets, Non-Performing Assets, Earnings per share, capital adequacy, etc., over the study period. The study results infer that Muthoot finance ltd is performing at a more progressive place than Shriram transport finance company ltd and has a better-expanded reach into the public with its affordable services and nominal loan requirements. This paper helps understand the correlation among a few selected incomes and Non-Performing Assets variables, analyzes the effect of profits, debt-equity, and earnings retention on the return on equity, and assesses the company's compliance with the capital adequacy norms.

Keywords: *Financial performance; Non-Banking financial companies; Economic shocks; ILFS crisis; Demonetization; COVID-19 pandemic; Trend analysis; Non-Performing Assets; Correlation; Multiple regression analysis.*

INTRODUCTION

The outreach of Non-Banking financial companies (NBFCs), commonly called shadow banks or non-bank financing, has been rising over the past thirty years. By engaging in credit intermediation, liquidity, and maturity transformation activities, they are acting as an auxiliary to the traditional banking system providing similar services outside the jurisdiction of regulatory and monetary authorities. Shadow banking subsists in all economies, whether developed nations with strong matured financial markets or developing countries with emerging markets (Nandini, 2014). The world has become more interested in the existence and magnitude of the Non-Banking sector since the financial crisis in 2008. These informal credit networks augment the systematic risks in the economy by creating competition in the financial markets.

Non-Banking financial companies can broadly be categorized into loan companies, asset companies, and Investment and credit companies. The two selected NBFCs in the study are Shriram Transport Finance Company Limited (STFCL), a deposit accepting NBFC, and Muthoot Finance Limited (MFL), a non-deposit accepting NBFC, are loan companies. Shriram transport finance company, commonly called the SRTRANSFIN, is a commercial vehicle financing NBFC which also offers working capital, small business loans, and other investment services. Muthoot finance limited is India’s largest gold financing company offering housing finance, insurance, and other varied commercial services. These are the two leading NBFCs in India with comparably similar services being rendered, share prices, stock returns, customer attention and shareholder welfare, sales growth, market growth potentials, and rankings in terms of business performance, social engagement, and public relations, etc. Both the NBFCs have an extensive stretch to the lower and middle-income segment of the society with small loan sizes, more accessible documentation procedures, low processing time, and bearable interest rates, thus, achieving a faster spread in the country. Borrowers are often choosing NBFCs as they are more efficient in fulfilling the financial needs of all classes of the nation. These act as activators or depositors of savings and agents of credit or finance (Bhole, 2004). But these institutions also lack transparency and stringent regulation, thus leading to enhanced credit risk in the country. The Reserve Bank of India has formed several regulatory committees from time to time to monitor the grounds for financial instability, interest rate fluctuations, and liquidity crunch being caused by this sector. Various committees have made recommendations for compulsory registrations under the RBI Act 1934, proper grievance redressal systems, the stipulation of credit ratings, etc. (Pandey, 2017).

Thus, NBFCs play a vital role in the economic growth, circulation of money, substitute funding, capital formation, employment, and wealth generation (Rushali Parakh, 2020). These companies are crafting alternative investment avenues for investors, thereby creating a need for individual investors and corporates to understand the financial performance, capital structures, and business strategies of the NBFCs in the current market and the impact of the repetitive financial breakdowns on their business. So far, studies have focused majorly on the role and challenges of the NBFC sector in the Indian economy. Moreover, researchers have indulged in a random selection of NBFCs for their studies, and none have focused on comparing an NBFC-D and an NBFC-ND. But the current research has taken only a deposit accepting NBFC and a Non-deposit accepting NBFC into consideration, both Shriram Transport and Muthoot being just loan companies, excluding the asset management NBFCs (AMC), core investment NBFCs (CIC), Investment and credit NBFCs (ICC), etc. Also, there exists a gap in understanding the effect of these repetitive crises on the performance of NBFCs.

REVIEW OF LITERATURE

Dr. Santanu Kumar Das (2016) studied the performance and growth of non-banking financial companies compared to banks in India. The author compared the development performance of both banks and NBFCs from 2006 to 13. The study depicts that the percentage of bank assets to GDP and growth of credits in NBFCs are higher than in banks. Results conclude that the total assets and contribution to GDP are rising more steadily in NBFCs than in banks. Thus, the study highlights the importance of enhancing NBFC regulations due to its wide-spreading scope of activities causing regulatory gaps and arbitrage opportunities.

Anju Bala and Dr. Satish Chandra (2017) worked on the performance of non-banking financial institutions. Their paper stated that these NBFCs had gained a small stake in the Indian budget by creating rivalry in the finance sector. They are getting an advantage over banks due to their adaptability, meeting credit needs, and subsidizing activities. The author concludes that these NBFCs have mounted as supplementary to the banking and monetary foundations, thus ensuring the development of the economy in the long run.

A research article on the Non-Banking Finance Companies in India's financial landscape was published in **RBI Bulletin, October 2017.** The report states that NBFCs have advanced in terms of operations, heterogeneity, profitability, and regulatory architecture. The work concluded that although the capital position of NBFCs in the financial markets is sturdy, the deterioration in their asset quality is to be monitored more strictly. Innovations in the field of B2B, B2C, and P2P lending are paving more excellent prospects for the expansion of NBFCs' activities in the financial sector.

Vijaya Kittu Manda and S.S. Prasada Rao (2019) have studied the IL and FS Financial Crisis in The Proceedings of the 2nd International Conference on Business and Management (ICBM, 2019). The paper examines the causes of the ILFS crisis and the steps taken by the Indian government to mitigate the consequences. The author concludes by pointing out that complex and mismanaged holding structures have led to financial collapse, thus leading to a liquidity crisis.

Dr. Bhaskar Biswas (2019) has worked on finding out the relationship between earnings, profitability, and liquidity of 5 selected NBFCs from 2007 to 2016. Various parameters have been used in the study to analyze the data through correlation and multiple regression methods. The results show that the selected variables' regression is statistically significant in all five companies but not necessarily among the same two variables. The study concluded that the financial performance of Bajaj finance and Sundaram finance are good in terms of the growth of shareholder wealth and its overall business.

Rushali Parakh and Renuka Deskmukh (2020) have examined credit risk management in the NBFC sector and its impact on market capitalization. They examined the credit risk management policies used by three selected NBFCs and analyzed the effect of financial ratios on market capitalization. The author says that the NPAs have an inverse relationship, ROE directly connects with the company's market capitalization, and a business can lead only if it has a diversified portfolio like Bajaj finance in our case. The study concluded that a company with a credit risk would be more in danger.

Joseph Antony P and Dr. D. K. Maheswari (2021) have compared the financial performance of Non-Performing Assets among selected leading Non-Banking financial companies of India, and the authors compared the performance of NPAs in three leading NBFCs for the period 2011-15. The study assessed the correlation of revenue with the movement of NPAs and concluded that Muthoot finance shows better performance in terms of return on assets. The study also stated that major studies had not been reported on the NPAs in the NBFC sector but were found in the banking sector instead.

Mrudula Malankar and Dr. Smita Jape (2021) have worked on the pre and post-effect of Non-Banking financial companies' crises in India, analyzing the performance of three NBFCs pre and post NBFC crises using ratio analysis from 2015 to 19. The study concluded that asset-liability mismatch and faulty NBFC structure as the reasons for the crisis, which further led to disturbances in money flow in the country. This paper also stated that Dewan Housing Finance Limited (DHFL) got most affected by the liquidity crisis, and its credit rating was withdrawn due to its low performance. Therefore, DHFL shall face many challenges while raising money in the future.

OBJECTIVES

1. To evaluate the financial performance of the selected NBFCs
2. To examine the influence of profits, debt-equity, and earnings retention on the return on equity of the NBFCs

METHODOLOGY

1. **Methodological approach and Statistical analysis**: The present study includes a longitudinal methodological approach by employing quantitative research methods. The numerical data collected from the financial statements and annual reports of the studied companies were analyzed and summarized in the form of graphs. A combination of descriptive and analytical methods is used to critically explain and evaluate the facts of the companies in compliance with the capital adequacy norms.
   The study will help us analyze if there is a positive or a negative bearing of the selected variables, i.e., Income-NPA parameters, profits, debt-equity, and earnings retention on the return on equity of the companies chosen. Pearson's correlation analysis methods were used to calculate the coefficient values and determine the relationship among the variables. In addition, this paper also examines the effect of these variables on the return on equity using multiple regression analysis.
2. **Data sources**: The present study collected data by using only secondary sources to evaluate the financial performance of the two leading Non-Banking Financial Companies. The financial data for the analysis has been primarily collected from the annual reports and performance highlights sta0tements of the respective NBFC's websites and a few other financial websites like moneycontrol, paisabazar, goodreturns, etc.
3. **Period of the study**: The study embraces a period of 5 years, from the financial year 2016-17 to 2020-21.
4. **Scope of the study:** The scope of the study is restricted only to the purview of the two selected companies, viz., Shriram Transport finance company limited (NBFC-D) and Muthoot finance limited (NBFC-ND). The current study evaluates the trend in their performance over the study period, assesses the impact of a few variables on the ROE of the companies, and evaluates a deposit accepting NBFC with a parallel non-deposit taking NBFC regarding its performance and capital adequacy compliances.

HYPOTHESIS

H_0: There is no significant relationship between the Return on Equity and the Profits after taxes, Debt equity ratio, and Earnings retention ratio of the company.

H_1: There is a significant relationship between the Return on Equity and the Profits after taxes, Debt equity ratio, and Earnings retention ratio of the company.

ANALYSIS AND FINDINGS

The tables below exhibit the year-wise financial performance of the two NBFCs under the study, namely Shriram Transport finance company limited (STFCL) and Muthoot Finance Limited (MFL), assessed with various parameters of returns, profitability, and movement of NPAs in the business, capital ratios, net worth, etc.

Table 1: Ticket Size of Loans Being Provided by the Two Companies (In Rupees)

Company Name/ Loan type	**Shriram Transport Finance Co. Ltd**		**Muthoot Finance Ltd**	
	Minimum	Maximum	Minimum	Maximum
Gold loan	10000	2000000	1500	No limit
Personal loan	As per the loan scheme	3000000	50000	1000000
Business loan	100000	10000000	15000	800000

Source: Author's Compilation

Table 1 displays the minimum and the maximum disbursements amounts on various loans provided by both companies. Excluding the outliers like Lendingkart, Magma fin corp, or Mannapuram, the average loans size in the NBFC industry are up to 50 lakhs for personal loans, 75 lakhs for business or corporate loans, and the maximum loan amount provided for gold loans is unlimited as it is based on the collateral provided. The above table shows that compared to Shriram transport finance company ltd, Muthoot finance ltd maintains a lower loan requirement standard, thus ensuring an affordable reach to small businesses and lower-income people. Shriram transport finance company ltd has also held an average loan size in the industry. They mainly cater to the needs of medium and large businesses through working capital and corporate vehicle loans.

Table 2: Yearly Trend of Financial Performance in Terms of Profit After Tax (In Rupees In Crores)

Year	Shriram Transport Finance Co ltd	Muthoot Finance ltd
2016-17	1257	1180
2017-18	1568	1770
2018-19	2564	1972
2019-20	2502	3018
2020-21	2487	3722

Source: Author's Compilation

Table 2 displays the Profits after tax (in crores) generated by the companies every year during the study period. Table 2 portrays a gentle growth of Profit after Tax in Shriram Transport finance company limited till 2018, while a steep rise was observed in 2018-19.
The PAT after that was relatively stagnant from 2019 to 2021 post-ILFS default and during the Covid period. The yearly trend of Profit after Tax of Muthoot finance limited had a slow-paced growth from 2017 to 2019, steadily coping with the demonetization and the ILFS crisis, while there was a swift rise in the following years from 2019 to 21 even during the pandemic phase.

Table 3: Yearly trend of financial performance in terms of Return on Assets (in Percentage)

Year	Shriram Transport Finance Co ltd	Muthoot finance ltd
2016-17	7.22	4.47
2017-18	7.80	6.36
2018-19	7.64	6.31
2019-20	6.56	8.11
2020-21	6.33	7.99

Source: Author's Compilation

Table 3 displays the financial performance of the studied NBFCs in terms of the Return on Assets ratio made by the companies for five years. It explains a decreasing trend of Return on Assets in Shriram Transport finance company limited from 2017 to 2021. A substantial fall was observed from 2019 to 20 throughout the ILFS crisis time, resulting in the decline of the company's overall financial activities. The year-wise trend of Return on Assets of Muthoot finance limited had a considerable increase from 4.47 in 2017 to 7.99 in 2021. While the ROA percentage was stagnant during 2018-19 and 2020-21 years because of ILFS default and the Covid crisis, respectively, a remarkable increase was observed during 2017-18 and 2019-20.

Table 4: Year-wise table on Net NPA and provisions movement (in rupees in crores)

Year	Shriram Transport Finance Co ltd		Muthoot finance ltd	
	Provision for NPA	Net NPA	Provision for NPA	Net NPA
2016-17	1064.79	5641.92	1024.04	4602.02
2017-18	1451.82	5840.07	2061.03	17951.47
2018-19	1590.06	5646.53	0	8031.04
2019-20	1680.91	5991.13	287.96	8035.94
2020-21	1298.89	4806.68	829.43	4035.88

Source: Author's Compilation

Table 4 displays the Net NPA and the provision for NPAs provided by Shriram Transport finance company limited and Muthoot finance limited for the five years of study. It explains an evident gap between the provisions for NPAs and the actual losses incurred by STFCL during the study period. Though the trend of Net NPAs has varied from time to time during the study, they have decreased at a minimal rate by the end of the year 2021.

While the company made efforts to upsurge the provisions for NPAs from 2017 to 2020 to meet up the actual losses being suffered, it slightly declined during the pandemic period.

Regarding Muthoot finance limited, there is no particular trend followed by the company in allocating the provisions for NPAs, and there is a massive gap between the provisions for NPAs and the actual losses incurred during the period. The Net NPAs had a sudden gigantic rise in 2017-18, which was explained as the effect of change in accounting principles and standards followed by the company, and the NPAs later followed a descending trend till 2020-21.

Table 5: Yearly trend of financial performance in terms of Earnings per Share (in rupees)

Year	Shriram Transport Finance Co ltd	Muthoot finance ltd
2016-17	55.42	29.56
2017-18	108.45	44.84
2018-19	113.01	49.27
2019-20	107.44	75.31
2020-21	100.97	92.79

Source: Author's Compilation

Table 5 shows Shriram transport finance company's earnings per share and Muthoot finance limited for five years. Table 5 depicts that the Earnings per share of Shriram transport finance company limited have observed a sharp growth in the year 2017-18 as demonetization impacted augmented demand for funds/loans to run business smoothly. A nominal increase was witnessed in 2018-19 during the ILFS crisis, then continued with a decreasing trend over the next three years.

The Earnings per share of Muthoot Finance limited has displayed an increasing trend for the whole five-year study period with a gradual increase in 2017-2019 and a swift increase during 2019-21 periods because of enhanced business activities and financial transactions during the COVID period as daily wagers, employees and many small and medium businesses had a great necessity of small loans.

Table 6: Yearly trend of financial performance in terms of Market capitalization and Net worth (in rupees in crores)

Year	Shriram Transport Finance Co ltd		Muthoot finance ltd	
	Market Cap	Net worth	Market Cap	Net worth
2016-17	24458	11302	14739	65164
2017-18	32662	12572	16300	78120
2018-19	28982	11414	24665	97928
2019-20	14770	17978	24527	115718
2020-21	35950	21541	48380	152389

Source: Author's Compilation

Table 6 indicates the amount of market capitalization and the Net worth of the companies under study. Table 6 represents the yearly trend of market cap and Net worth, which shows that Shriram transport finance company limited has not followed any trend during the study period regarding both Market Capitalization and Net worth. It is observed that the market capitalization is higher than the net worth indicating that the shares are being traded at a greater value than the company's actual worth of assets. Though Muthoot finance limited had experienced a minimal shrinkage in Market cap during 2019-20, it has been observed with an overall rising trend for both the parameters throughout the study period, thus showing a parallel and a secure association between them

Table 7: Pearson's Correlation coefficient analysis - Income and NPA parameters

NBFC name	Parameters	NET NPA	Provisions for NPA
Shriram Transport finance company ltd	PAT	0.3	0.7
	ROA	0.56	0.38
Muthoot Finance Ltd	PAT	-0.31	-0.3
	ROA	-0.22	-0.27

Source: Author's Calculation

Table 7 displays the correlation of profit factors with the NPA and provisions for NPA of the studied companies. Profit after tax (PAT) and Return on Assets (ROA) are the income parameters. The table depicts an overall positive correlation among the variables in Shriram Transport finance company ltd and a negative correlation among the variables in Muthoot Finance Ltd. In the case of Shriram Transport finance company ltd, there is a negligible yet positive correlation between the Profit after taxes and the net NPA of the company for the study period. At the same time, there is a high positive correlation between the Profit after taxes and the Provisions for NPAs. The Return on assets has a moderate positive correlation with the Net NPA and a low positive correlation with Provisions for NPA provided by the company. In the case of Muthoot Finance Ltd, we find a low negative correlation between the Profit after taxes and the net NPAs and a negligible and negative correlation between the Profit after taxes and the provisions for NPA. At the same time, the Return on assets has an insignificant negative correlation with Net NPAs and NPA provisions.

Table 8: Correlation coefficient analysis on return on equity of the companies

NBFC Name	Independent variable	Dependent variables		
		PAT	DER	ERR
Shriram transport finance company ltd	ROE	0.37	0.85	-0.111
Muthoot finance ltd	ROE	0.83	0.81	-0.003

Source: Author's Calculation

Table 8 displays the correlation coefficients of Return on equity (ROE), being the dependent variable, with the Profits after taxes (PAT), Debt-equity ratio (DER), and Earnings retention ratio (ERR) of the companies regarded as the independent variables. The above table depicts a negative relation between the earnings retention and return on equity and a positive relation between the profits after taxes and debt-equity ratios with the return on equity in both the studied companies. In the case of Shriram Transport finance company ltd, there is a low positive correlation between the profits after taxes and return on equity. At the same time, there is a high positive correlation between the debt-equity ratio and the company's return on equity. In Muthoot finance ltd, there is a high positive correlation of return on equity with the profits after taxes and debt-equity ratios of the company. The earnings retention ratio has negligible or relatively zero correlation with the return on equity in both the companies indicating that the earnings retention of a company doesn't have an association or effect on its return on equity.

Table 9: Year-wise values of selected variables in Shriram Transport Finance Ltd.

Year	ROE	PAT	Debt Equity	Earnings Retention
2016-17	11.73	1257	3.42	92.79
2017-18	19.78	1568	6.05	89.86
2018-19	17.44	2564	5.55	90.27
2019-20	14.71	2502	5.24	89.12
2020-21	12.57	2487	4.92	87.8

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*	
Regression	3	45.0677540	15.02258	132.28069	0.0638076	
Residual	1	0.11356596	0.113565			
Total	4	45.18132				
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	-87.47143	14.959975	-5.847030	0.1078358	-277.5559	102.6130
PAT	-0.000767	0.0004087	-1.877446	0.3115719	-0.005961	0.004426
Debt Equity	4.1819659	0.2131522	19.61962	0.0324200	1.473610	6.890321
Earnings Retention	0.9253297	0.1542666	5.998249	0.1051670	-1.03481	2.885473

Source: Author's calculation

Regression output of Shriram Transport Finance Ltd

A company's return on equity tells us the net income or profit generation capacity of the money invested in it, and thus, various business factors can affect it. However, multiple factors affect the ROE of a company, such as management decisions, profit margins, asset turnover, leverage ratio, stock and debt ratios, business restructurings, etc. this study identifies the impact of three selected independent variables on the ROE. On the other hand, the earnings retention ratio helps us estimate a company's future growth potential, thereby assisting the investors in making appropriate decisions. The regression study has taken the ROE as the dependent variable and profits after tax, debt-equity ratio, and earnings retention ratio as the independent variables.

With this regression analysis, the investor will understand the company's efficiency in utilizing its capital for profit generation and the independent factor's magnitude with which they are influencing the company's ROE. The regression output in table 9 helps us in understanding the influence of the selected variables PAT, DER, and ERR on the ROE of the company.

The overall significance value is 0.06, which is higher than the significance level of 0.05. The individual P-values of the independent variables PAT and ERR are also higher than 0.05, while the P-value of DER is 0.03, indicating that it affects the ROE of the company. As one of the independent variables is influencing the ROE of the company, the null hypothesis (H_0) is rejected in the case of STFCL; however, the overall significance is greater than 0.05. Though the predictors are strong enough to explain the variance in ROR, PAT and ERR individually are not affecting the ROE of the company. Thus, the regression equation can be framed as mentioned.

$$\boldsymbol{ROE_{ST} = -87.47 + (0)\,(PAT) + (4.18)\,(DER) + (0.92)\,(ERR)}$$

Table 10: Year-wise values of selected variables in Muthoot Finance Ltd

Year	ROE	PAT	Debt Equity	Earnings Retention
2016-17	19.44	1180	3.24	79.69
2017-18	24.81	1770	2.71	77.51
2018-19	22.4	1972	2.74	100
2019-20	28.26	3018	3.21	80.07
2020-21	27.77	3722	3.02	100

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*	
Regression	3	54.098764	18.032921	21.597475	0.1565734	
Residual	1	0.8349550	0.8349550			
Total	4	54.93372				
	Coefficients	***Standard Error***	***t Stat***	***P-value***	***Lower 95%***	***Upper 95%***
Intercept	43.03441	8.3483538	5.1548377	0.1219843	-63.04148	149.1103
PAT	0.004321	0.0005433	7.9524978	0.0796348	-0.002582	0.011225
Debt Equity	-4.591814	2.0405663	-2.250264	0.2662220	-30.51966	21.33603
Earnings Retention	-0.170088	0.0501799	-3.389577	0.1826357	-0.807686	0.467508

Source: Author’s calculation

Regression output of Muthoot Finance Ltd

The regression output in table 10 of Muthoot finance ltd represents the effect of the selected variables on the ROE of the company. The R square value is 0.98, signifying that 98 percent of the variability of return on equity of MFL can be explained by the variables used. The overall significance value and the individual p-values of the independent variables being greater than 0.05 represent that they do not bear any effect on the ROE. Despite the high R square value, the variables do not impact the ROE of the company. Thus, we fail to reject the null hypothesis in this case as no variable is affecting the return on equity in Muthoot finance ltd. The regression equation for the company shall be

$$\boldsymbol{ROE_{MF} = 43.03 + (0)\,(PAT) + (-4.59)\,(DER) + (-0.17)\,(ERR)}$$

Compliance with Capital Adequacy Norms

According to the Bombay Chartered Accountants’ (BCA) society reference publication on NBFC Directions, 1998, the Reserve Bank of India has stated that a company must meet the two asset and income criteria to be categorized as an NBFC and decide on its primary activity. The financial assets should account for more than half of the company's total assets (net of intangible assets), and the financial asset income should account for more than half of gross income.

The Reserve Bank of India norms and notification released on ‘Financial regulation of Systemically Important NBFCs and Banks’ relationship with them’ defines a systemically important NBFC as a Non-Deposit accepting NBFC with an asset size or commonly called assets under management of Rs. 500 crores or more as per the latest audited balance sheet. The notification further specifies a minimum capital to risk-weighted assets ratio (CRAR) to be maintained at 10 percent for an NBFC-ND-SI and 12 percent or 15 percent for an NBFC-D, as applicable.

Table 11: Yearly Trend of Financial Performance in Terms of Capital Adequacy Ratio

Year	Shriram Transport Finance Co ltd	Muthoot finance ltd
2016-17	17	25
2017-18	17	26
2018-19	20	26
2019-20	22	25
2020-21	23	27

Source: Author's Compilation

Table 11 shows the five-yearly trend of the Capital adequacy ratio (CAR) of the two studied NBFCs. Table 11 displays that both Shriram transport finance company limited and Muthoot finance limited express a decent increasing trend in maintaining their capital adequacy ratios in the companies. While Shriram transport finance company limited had a full rise during the entire study period from 2017 to 2021, Muthoot finance limited has observed a nominal fall during 2019-20 and later improved for the 2020-21 period.

In the current study, Shriram transport finance company limited a deposit accepting NBFC, with an asset size of approximately Rs. 121,647 crores by 2021, has sustained a capital adequacy ratio at 23 percent, and Muthoot finance limited, a non-deposit accepting NBFC, with an asset size around Rs. 52622 crores by the year 2021, has maintained the CAR at 27 percent. Thus, it is observed that both the companies STFCL and MFL, throughout the five-year study period, have endeavored to maintain the CRAR at improved percentages than given by the RBI, indicating consistency in complying with the specified guidelines.

DISCUSSION

The results indicate that both the NBFCs have a constructive trend of revenues in terms of Profit after taxes, while a slight decrease was witnessed in Muthoot finance ltd in the year 2020-21 due to the COVID-19 pandemic. The Return on assets in case Muthoot finance ltd had an increasing trend till 2019-20 but to some extent declined in 2020-21 due to the pandemic effect. Shriram transport finance company ltd was noticed with a declining trend throughout the study period from 2017 to 2021. The net NPA in Shriram transport finance company ltd has been detected with an erratic movement indicating a rise in credit risk and warranting the company to enhance its capital or asset base. In contrast, a minor shrink was seen during the pandemic in 2020 - 21. The NPA ratio in Muthoot finance ltd initially increased in 2017-18 and later dropped eventually till 2020-21.

The financial performance of the studied NBFCs has also been assessed using a few other parameters like Earnings per share (EPS), Capital adequacy ratio (CAR), Market capitalization, and Net worth. Though the shareholder's earnings per share were comparatively less in Muthoot finance limited than Shriram transport finance company ltd, the former follows a gradual and steady growth in the trend. At the same time, there are some instabilities observed in the latter company. Relating to CAR, both the companies are progressive in maintaining adequate capital. As regards the other two parameters, Market Capitalization, and Net worth, it is observed that Muthoot finance is performing efficiently since the market caps are lower than the net worth over the study period.

Research work was done by Joseph Antony and Dr. K. Maheswari of Swami Vivekananda University from 2011 to 2015. They compared the NPA performance in 3 NBFCs, Bajaj finance, Muthoot finance, and Reliance capital (Joseph Antony, 2015). The findings reveal that the ROA of Muthoot finance ltd was increasing consistently, and the NPA ratios were good, indicating a healthier financial performance. It also determines that there is no significant relationship between the NPAs and the challenges faced by NBFCs, and there is an association to that in the banking sector. Another parallel study by (Rushali Parakh, 2020) on Credit risk management and market capitalization of a selected few NBFCs indicates that comparatively, Muthoot finance ltd has ordinary profitability and thus less risky for investments.

As per the Basel III framework issued by the Reserve Bank of India regarding capital adequacy, all non-banking financial institutions have to maintain a minimum Capital to risk assets ratio of 15 percent for deposit-taking and 10 percent for non-deposit-taking. Both Shriram transport finance company ltd and Muthoot finance ltd have maintained the required ratio in an increasing trend during the five-year study period, ensuring ideal compliance with the RBI norms laid down.

CONCLUSION

Instabilities have been observed in the studied parameters from 2020-21 as the COVID-19 pandemic hit the economy so strong and thus weakened consumer demand and purchasing power. Uncertainties like dropped earnings, increase in staff loans, and out-standings have piled up during this period, thus leading to a fall in the financial performance of many NBFCs. To conclude, this study helps understand the risk-return relationship of the two selected companies.

The present study observes a significant correlation among the selected variables where Shriram Transport finance company ltd has a positive correlation among the parameters considered. From the present study, it is depicted that as it is a deposit-taking NBFC, the availability of funds will influence the losses suffered and the provisions being provided by the company. The higher the inflows (deposits), the higher the company's outflows (loans and other services), leading to higher credit risk, NPAs, and provisions for NPAs. Though there is an entirely negative association among all the variables in the case of Muthoot finance ltd, it is determined that its financial performance had sound progress in terms of Returns and Profit. The NPAs are decreasing with increased returns over the period due to the cautious selection process followed by the NBFC in lending loans to people. Their primary source of funds is the interest on its lendings.

The above correlation study of both the companies indicates that the earnings retention has negligible relation with the return on equity in a company but high positive relation between the profits and debt-equity with the return on equity. The regression analysis shows that the PAT coefficients are zero in both the company’s regression equations, and the ERR coefficients are very low. In contrast, a significant coefficient has been seen for the DER, indicating that though the three selected independent variables correlate with the ROE of the company among them, only the DER can influence the ROE to a significant extent.

The CAR in both companies has been maintained at nearly double the rates indicating credibility and reliability. Though the stocks of Shriram Transport finance company ltd are unstable and shrinking over the last three years, it would be a better option for investors looking for risk-seeking stocks as there is a positive relationship with the incomes and NPAs of the company. Thus, the higher the risk higher would be the returns. Though Shriram transport has been observed with a low cost to income ratio among its peers, it can be a good buy because of its credit quality and a higher degree of safety. Muthoot finance ltd, on the other hand, would be the best stock option for risk-averse investors. The company has maintained a good return on assets and capital employed over the last three years and has shown a progressive trend in shareholder earnings. As the market capitalization is less than the net worth, the stock may be regarded as a smart buy because it is now trading at a discount to its book value and has the potential to rise further.

Motilal Oswal recently said Muthoot finance would be a top bet from NBFCs for investments due to its incremental share values by 46 percent and expanding market chances by 26 percent over the last ten years. Muthoot finance can be a smart buy for the long term. The overall performance of Muthoot finance limited is comparatively at a good pace. The loan size of both the companies depicts that Muthoot finance has a better reach in society with its lowest and most affordable initial amount loan requirements.

LIMITATIONS AND FUTURE SCOPE

The results and conclusion of the current study have been generated based on the secondary data collected from the annual reports available on the company’s official website; hence there can be uncertainty about its reliability. Though these economic collapses have impacted the entire financial sector, this study has been restricted only to the defined population of NBFCs in India. This paper has considered only two NBFCs.

Thus, leaving scope for conducting such research using a large sample size. The study includes only data related to 5 years, and the results have been analyzed accordingly. Thus, the correlation and regression results may vary by taking other financial parameters or more extensive data. The present study has been done only on a few specific variables of two selected NBFCs in the sector; further research can be done on other NBFCs using more financial parameters and statistical tools.

IMPLICATIONS OF THE STUDY

The current study focuses on both the customer perspective and investor perspective. It firstly helps us understand the present financial position, calculated from the last five years' performance, and relationship studies in the selected companies and their compliance with the regulatory norms. Moreover, this study aids the investors according to their risk tolerance by assessing the growth potential of the companies through market capitalization and other highlight reports, thereby assisting in developing an investor decision-making model. The results of the study will answer the questions like

1. Does the return on equity get affected by the profits, debt-equity, and earnings retention in the company?
2. What suggestion can we as researchers give to an investor regarding both the companies chosen?

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