CHAPTER - VIII

SUMMARY AND CONCLUSION

8.1 Financial performance of NBFC:

This section summarizes all the statistical findings. The descriptive statistics reveal that the financial performance of NBFCs was good on the basis of current ratio. When In the case the loan companies, return on assets was a positive relationship with profitability and efficiency ratios such as net profit ratio, operating profit ratio, fixed asset turnover ratio and assets turnover ratio. Meanwhile, fixed asset turnover ratio and asset turnover ratio could regulate the financial performance of loan companies.

Likewise, net profit ratio was a positive relationship with return on assets in the investment companies of Indian NBFCs and it has caused the good financial performance of the companies. In the infrastructure finance companies, net profit ratio has some positive relation with operating profit ratio, and return on assets. In addition, the performance of infrastructure finance companies of NBFC depended on the financial ratios such as net profit ratio, fixed asset turnover ratio and asset turnover ratio etc.

Similarly, the performance of equipment leasing companies depended on the operating profit ratio and asset turnover ratio while the performance of hire-purchase companies of NBFC only influenced by the profitability ratios, such as net profit ratio and operating profit ratio.

8.2 Efficiency of NBFCs:

In the year of 2001, investment and equipment leasing companies possessed the good technical efficiency, while loan, infrastructure finance and hire-purchase companies of NBFCs were inefficient with respect to technical. However, loan,
investment and infrastructure finance companies had the allocative efficiency. For the year 2002 and 2003, loan and equipment leasing companies are noticed to be good technical efficient companies of NBFC. In addition, loan and investment companies had the good allocative efficiency in the year of 2002 and 2003. But, in the year of 2004 and 2005, almost all kinds of NBFCs belonged to good technical and allocative efficient companies. Loan, equipment leasing and hire-purchase companies were identified as good technical efficient companies for the year 2006. Analogously, loan and equipment leasing companies of NBFC possessed good technical and allocative efficiency in the year of 2007. Three companies were noticed as good allocative efficient companies namely, investment companies, infrastructure finance companies and equipment leasing companies for the year 2008. However, almost all the NBFC companies attained as good technical efficient companies from the year 2009 to 2012. Loan companies, investment companies and hire-purchase companies belonged to good allocative efficient companies for the year 2009. In the year of 2013, only loan, equipment leasing and hire-purchase companies of NBFC had the good technical efficiency while investment, infrastructure finance and loan companies had the good allocative efficiency. Similarly, investment, infrastructure finance and equipment leasing companies had the good technical efficiency for the year 2014. The loan, investment and infrastructure companies were noticed as good allocative efficient companies for the year 2014 and 2015. In the year of 2015, rest of loan companies of NBFC attained as good technical companies.

The technical efficiency score of various NBFC calculated for the years 2001 to 2015, wherein 2015 had the efficiency score as 1.00. However, the loan companies of NBFC did not attain the well technical efficiency. For the year 2014, the investment, infrastructure finance and equipment leasing companies retained good

8.3 Forecasting the total incomes of NBFCs:

The total income of loan companies of Indian NBFC may be 2309.2 for the year 2016 followed by, 2479.4 for the year 2017, 2652.0 for the year 2018, 2849.7 for the year 2019 and 3021.4 for the year 2020. Likewise, the total income of investment companies may be 2629.01 for the year 2016 followed by, 2876.7 for the year 2017, 3152.8 for the year 2018, 3433.7 for the year 2019 and 3717.1 for the year 2020.

The total income of infrastructure finance companies of NBFC may be 3888.04 for the year 2016 followed by, 4277.72 for the year 2017, 4704.1 for the year 2018, 5151.4 for the year 2019 and 5608.1 for the year 2020. Equipment leasing companies’ total income may be 565.8 for the year 2016 followed by, 628.1 for the year 2017, 691.2 for the year 2018, 754.9 for the year 2019 and 815.7 for the year 2020. Finally, the total income of hire-purchase companies may be 2216.6 for the year 2016 followed by, 2479.7 for the year 2017, 2751.9 for the year 2018, 3028.2 for the year 2019 and 3302.2 for the year 2020.
8.4 Financial comparison between the NBFCs:

The various NBFCs were compared on the basis of total liability, equity capital, operating profit and investments. In the year of 2001-2005, operating profit and investments of various NBFCs did not vary. But, total liability and equity capital differed across various NBFCs. Equipment leasing companies of NBFCs possessed less total liability and equity capital when compared with other companies for the year 2001-2005. Total liability, equity capital and investments were varied across the various NBFCs for the year 2006. But, they were not statistically differed in the various NBFCs in the year of 2007-2011. From the year of 2012 to 2015, all types of NBFC possessed at most similar level of total liability, equity capital, operating profit and investments.

Correlation statistical test was applied to analyse the significant relationship between NPR, OPM CR, DER, FATR, ATR and ROA of loan companies and it was partially accepted. The result of regression statistical test showed that there was no significant impact of NPR, OPM CR, DER, FATR, and ATR on ROA for loan companies. Then, there is no significant relationship between NPR, OPM CR, DER, FATR, ATR and ROA of investment companies of NBFCs according to the result of correlation statistical test. Further it was found that there is no significant impact of NPR, OPM CR, DER, FATR, and ATR on ROA for investment companies of NBFCs on the results of regression statistical test.

8.5 Summary of Findings

It is observed from the analysis that the loan companies were found to be inefficient across the NBFC categories consecutively from 2013 onwards while all the other categories were found to be efficient during this time period. It can be attributed
to an extent to the recessionary phase of overall economy which resulted in increased non-performing assets and slow down in credit growth.

In case of infrastructure finance companies, the segment is found to be inefficient from 2001 to 2012. It is reported that the segment had been experiencing severe delay in completion of the projects especially due to the hold-up in the clearances from the respective governments.

Investment and hire purchase companies were found to be inefficient from 2002 to 2008. During this period, though overall economic performance was reported to be better especially due to the boom in the service sector, the demand from the industrial sector was lagging behind and the segment was found to be flooded with higher level of idle liquidity.

From the regression analysis, it is observed that the financial performances of NBFCs are significantly influenced by the asset turnover ratio and profitability. In case of loan companies, asset turnover ratio was found to be a significant component, affecting the performance of firms in this category, while for investment companies, profitability ratio was observed to have significant impact. The performance of infrastructure companies are found to be affected by the asset turnover ratio, fixed asset turnover ratio and profitability ratio and in the case of hire purchase and equipment leasing companies, profitability ratio was found to be a significant factor.

8.6. Recommendations

While the acceptance of deposits for the NBFC’s is most significantly lesser than that of the banking sector, the vast network of NBFC’s can enable for the mobilisation deposit activities. In this scenario, under the guidance of suitable regulation, NBFC’s can assist in the corporate sector. Even though the NBFC sector has taken advantage
of a slew of regulations in the past, their role is still strong in the Indian economy. For this, the following recommendations have been made.

- The performance of inefficient NBFCs can be improved either by reducing total liability and equity capital or by increasing operating profit and investment, because idle fund lay with NBFCs are costing to their balance sheet.
- Loan companies need to increase their asset turnover ratio and boost their non-performing asset management.
- Investment companies need to focus on increasing their profitability ratio and fund management.
- In order to improve the performance of infrastructure companies, asset turnover ratio, fixed asset turnover ratio and profitability ratio needs to be increased. At the same time, focus should also be made on eliminating the policy paralysis from the government which has a significant negative impact on the infrastructure projects.
- In case of hire purchase and equipment leasing companies, the focus should be given on enhancing profitability ratio and policy level measures should be taken by the government to increase the demand from the industrial sector.
- Regulation that is both effective and efficient is most required especially for large investors in the sector. But this very existence of large scale investors has made the NBFC sector more notorious and susceptible to fraudulent activity than the banking sector. However, it has to be stated that NBFC’s form an integral part of the Indian economy.
- To further streamline the financial performance of NBFC’s, RBI can set up another wing for the regulation of NBFC’s such as Non-Banking supervision.
This division can further be subdivided under the non-banking supervision. Regular inspections must be carried out by these divisions. This can be carried out in the form of off-site surveillance, market surveillance, on-site inspection, portfolio examination, and interaction with other departments.

- The role of NBFCs definitely plays a very important role in the economy, so much so that they have even supplemented the role the banks play in the economy. The recommendation here is that more of an association is required between NBFCs and banks that need to be built up by the RBI.

- NBFCs even operate in remote areas that do not have access to banks. In such situations the RBI must make provisions to protect and sustain the operations of the NBFCs.

- Both banks and NBFCs must be allowed in factoring services for the betterment of the economy.

- NBFCs should also be allowed in cheque clearing activities, credit cards and forex activities to enable for sectors such as purchase, loan and investment activities to gain more ground.