International Journal of Social Science and Economic Research

ISSN: 2455-8834

Volume:07, Issue:05 "May 2022"

AN ASSESSMENT OF THE PERFORMANCE OF INDIAN NBFCS DURING THE PANDEMIC: A CASE STUDY OF 5 PAN- INDIAN NBFCS

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DOI: 10.46609/IJSSER.2022.v07i05.006 URL: https://doi.org/10.46609/IJSSER.2022.v07i05.006

Received: 2 May 2022 / Accepted: 10 May 2022 / Published: 30 May 2022

ABSTRACT

Less than 10% of the population and about 247 million commercial enterprises do not have access to formal finance, which has resulted in vast financial exclusion in our country. NBFCs, which have about 41% share in small business loans, have been able to carve out a niche by focusing on customer needs, improving turnaround time and expanding geographically. Owing to their good performance, the NBFC sector has shown mushroom growth over the last two decades, with the emergence of a digitally savvy customer segment, rooting for digitization of lending. Though many NBFCs performed well, the defaults of IL&FS and DHFL caused the entire sector to face a liquidity crunch. This caused a significant reduction in the public perception of NBFCs following the incident. The crisis highlighted the need for closer interactions from RBI, which resulted in the implementation of regulatory and supervising policies to constantly keep up with the changing system. The Covid-19 pandemic disrupted borrowers' income and cashflows, which made it challenging for NBFCs to make timely collections. In this paper, an attempt has been made to analyze the performance of five NBFCs during the pandemic period (2019-2021), considering several key financial ratios and indicators. The findings indicate a decreasing trend in the composite index of Sriram, Increasing trend in Aptus & Veritas and a nearly constant composite index in Five star and Vistaar. The Profit after Tax (PAT) for the selected NBFCs have increased even during the pandemic owing to reasons like: i) Lending to service sectors, ii) Reduction in Employee expenditure, iii) Moratorium by RBI, iv) Venture capital raised by few NBFCs, etc.

Keywords: NBFCs, Five Star Business Finance, Profit after Tax, Financial inclusion, Financial ratios, Composite Index, Fixed Effect Model

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JEL classification: G23, E51, O17

Overview:

NBFCs: Their functions, categorization and types

Non-Banking Financial Companies are financial institutions catering to the financial requirements of the 'unbanked' public and MSMEs which are not sufficiently covered by the existing banking system. NBFCs are companies registered under the Companies Act, 1956, with the Department of Non-Banking Supervision of RBI being responsible for the supervision and regulation of NBFCs. NBFCs made a humble beginning around the 1960s, operated on a limited seal and struggled to make an impact on the banking system. However, it was around the 1980s and 1990s that they gained significant momentum. NBFCs unlike banks, don't hold a bank license, can't accept demand deposits and can't issue clearance to the customers.

There are 3 major categorizations of NBFCs by the RBI. Firstly, into deposit and non-deposit accepting, Secondly, in terms of their size into systematically important NBFCs (NBFC-ND- SI) and Other non-deposit holding companies (NBFC-ND), and finally, in terms of their activities performed. Within the last category, there are 12 types of NBFCs with the most important being Asset Finance Companies, Loan Companies, Investment Companies, Infrastructure Finance Company (NBFC-IFC), Systemically Important Core Investment Company (CIC-ND-SI), Micro Finance Institution (NBFC-MFI), etc.

The Need for NBFCs

According to Nomura Research Institute in 2021, The credit to GDP ratio is among the lowestin India which is about 70% compared to other developed economies such as China where it isabout 222%. In countries like USA/UK/ Germany, it is around 135-170%. A lower credit to GDP ratio in India signifies the need for more formal credit. Another research by World Bankshowed that only 8% of the Indian Population had borrowed loans from Formal sources in 2017, while 34% borrowed from informal sources of credit. These numbers are extremely smallwhen compared to that of developed countries like the USA and UK where 68% and 65% were the respective percentages of people borrowing loans from formal sources.

Although the majority of Indian Households are located in rural regions, the banking infrastructure in rural areas is comparatively inferior. Resultantly, there is a gap in the supply and demand of financial services in the backward regions of the country, which provides a pocket of opportunity for financial sectors. Financial exclusion is widely prevalent in India due to low

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income, financial illiteracy, high transaction cost and lack of infrastructure or information technology. Many do not avail loans from the bank due to a variety of reasons suchas low credit score, cumbersome and time taking processes, stringent rules, high-interest rates,etc. Most often, NBFCs target these customers and provide them with attractive interest rates,speedy disbursals, simpler documentation and a holistic evaluation approach to include customers with even low credit scores. Hence, NBFCs have begun playing a significant role in the process of financial inclusion in our country and their share in the total credit market had risen to 17% in 2018 from 9.4% in 2009. (Financial Stability report, 2018).

Owing to an ever-increasing demand for funds, NBFCs are seen to be the fastest-growing components in the country's financial market, showing promising growth in the future.

According to the World Bank's Global Findex report of 2017, India has the world's second-largest unbanked population of about 190 million adults, which is the reason why there remainsa huge potential market of borrowers for NBFCs in an emerging economy like India.

Landmark Policy Developments

NBFCs, just like any other financial sector players, are exposed to risks pertaining to liquidity, solvency, interest rate movement etc. Policy Frameworks were made in the interest of the whole participants of the system and some major landmarks are discussed below:

I) Reserve Bank of India (RBI) Act 1934: Chapter III B incorporates provisions associated with NBFCs mentioning different aspects of NBFCs in 20 areas like Maintenance of percentage ofassets, Reserve fund, Powers and duties of auditors, Penalties etc.

II) Shah Committee (1992): The framework had 3 basic objectives, i) Encouragement of orderly growth of NBFCs. ii) Protection of the interests of depositors iii) Assurance of efficacy of monetary and credit policy. The group observed the development of NBFCs in other countries and resisted temptations of over regulation on grounds of the growth of NBFCs.

III) Narasimham Committee II (1998): With respect to NBFCs the main suggestions were regarding their mergers with a bank, which was to be decided on synergies and business specific complementarities. It was also suggested that a minimum net worth of Rs.25 lakhs was a necessity for NBFCs to be registered. The committee recommended a system of supervisionand regulation and proposed an agency for the same, which was named Board for Financial Regulation and Supervision (BFRS).

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IV) Department of Non-Banking Supervision, RBI: This department was made to supervise andregulate NBFCs. In February 2006, guidelines regarding the securitization of standard assets was issued by RBI, which mainly focused on criteria to be met by Special Purpose Vehicles (SPVs), norms related to true scale, repurchase of assets from SPVs etc. In August 2011, RBIplaced a report on the Issues and Concerns in the NBFC sector which recommended Tier I capital for CRAR at 12 percent to be achieved in three years for all registered deposit-taking and non-deposit-taking NBFCs. Declaration of financial performance of Non-banking companies with assets of Rs 100 crore was recommended.

The NBFC Liquidity crunch in India

In September 2018, Infrastructure Leasing & Financial Services (IL&FS), an NBFC, defaultedon repayment of bank loans, short-term deposits which came up to $675 million and did not meet the commercial paper redemption obligation. The banks grew skeptical about lending to NBFCs which led to a liquidity crunch as a result of limited access to credit. Many NBFCs depend on short-term borrowing to finance long-term lending, which resulted in huge difficulty when there was a liquidity crunch. DHFL, a major player in NBFC space faced trouble after the reduction in takers of DHFL's commercial papers, which was resulted because of the IL&FS crisis. DHFL was also reeling under high NPAs and financial mismanagement allegations which led way for its inevitable default. In June 2019, DHFL defaulted $123 millionand its CPs' rating was downgraded to "D". This sparked panic among the equity investors and reduced the public perception of NBFCs amid a default scare. NBFC's share in the total credit extended to the commercial sector was at 39.1% in FY18 which fell to 26.6% in FY19 due to the unfavorable liquidity conditions (Financial stability Report, 2019). Following the IL&FS crisis, RBI initially tightened NBFC credit norms and then eased the credit flow to the sector based on the performance of the NBFC. The cost of borrowing for good NBFCs was made 50- 60 points lower than the NBFCs which weren't performing well. RBI began closely monitoring NBFCs while even making a deep dive into their books and balance sheet.

2. Literature Review:

Showdaga, Shaik Kaza[1] attempted to study NBFCs as a whole and revealed that they played a pivotal role in providing capital of millions of rupees to help small cottage industries and other

[1] *Showdaga, Shaik Kaza (2017), "A study on the penetration of non-banking financial companies (NBFCS) in Indian financial markets", Volume 2; Issue 6; November 2017; Page No. 68-72*

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reliable sectors meet their financial needs, which was further used by them for development and growth of their respective industry, eventually contributing to the improvement of the economy. Three NBFCs, Mahindra & Mahindra Financial Services, L & T Finance and Shriram Transport Finance Corporation were selected from 2012-2016, with parameters like Mean Net Revenue, Mean Profit after Tax being considered, to analyze the performance of NBFCs along with their differences. The results found that the 3 NBFCs did not differ with reference to mean performance. The paper stated that NBFCs had worked side by side with the banking sector, to meet the capital requirements of various industries and small businesses of the country. NBFCs had credit appraisal systems that had proven to be beneficial to both the lenders and the borrowers. Retail customers, Small and Medium Enterprises got their non- corporate needs from the NBFCs, as the latter could tap into the specific customer segments fast. It was estimated that about 50% of the MSMEs did not have the access to formalized credit and that there was huge potential to growth predicted for the nation's housingfinance. It was also noted that many NBFCs were coming up in India, with them being of various types and playing different roles in meeting the credit requirements and demands whichweren't provided by the traditional banking system. Emergence of a digitally savvy customer segment, was observed, which asked for NBFCs to start digital lending strategies. The author had concluded by saying that NBFCs had played a significant role in the development of the Indian economy and predicts the same in the future as well.

Kaushal[2] studied the impact of NBFCs in India, mostly during the study period from 1980s to mid-1990s, using secondary data. The descriptive study stated that, there was an increase in the number of NBFCs which were eligible to take deposit, and there was consolidation among the companies during 1980 and early 1990. It was found that shortly after the increase, there was a decrease in mid 1990s and the numbers went from 40,000 to 600. Out of the 600, it wasobserved that there was about 350 asset financing NBFCs and 250 investment and loan providing companies. Out of the 350 Asset financing of NBFCs, 90% were involved in transportation equipment financing, and the remaining 10% were involved in infrastructure projects. It was noted that the NBFCs played a key role in service as well as manufacturing sector, and had given a vital boost to the Indian economy. The NBFCs had been an heterogenous intermediary which facilitated the flow of credit to diversified customers especially in the organised sectors. Deposits of NBFCs-D had recorded huge progress, indicating public interest towards them and its

[2] *Kaushal, H.R (2016), "Impact of Non-Banking Financial Companies (NBFCs) in Indian Economic Growth", EPRA International Journal of Economic and Business Review, Vol. 4, Issue 3, pp.90-94.*

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growing popularity. The paper concluded by throwing light on how NBFCs were crucial for the mobilisation of credit which attempted at financial inclusion.

Sowndharya and Shanmugham[3] recognized the qualitative changes in the activities of NBFCs, using secondary data, with parameters like interest margins, profitability, liquidity etc. Mean, Standard deviation & ANOVA were used for the analysis of data. The study period chosen for the research 2007 to 2012. Financial ratios were used to find out the efficiency, profitability, turnover etc., which determined the performance and the overall financial health of the NBFCs in India. The paper found an improved profitability position of NBFCs in Price-Earnings ratio, Earning-per-share ratios, Return on capital employed and Net worth. The paperobserved that the interest coverage ratio was low for NBFCs along with clear differences in different NBFCs in the leverage and the profitability indicators. The paper also throws light onthe fact that the Price -earnings ratio and Current ratios were similar for all the selected NBFCsbut the other ratios like profitability ratios, leverage ratios, liquidity ratios and risk indicator ratios showed differences.

Niwassangwan[4] chose some of the Indian NBFCs to find out their annual growth during the two phases selected for their study. The first phase considered years from 1997-1998 and 2004-2005 which was referred to as the phase I of post liberalization. The second phase considered years from 2005-2006 to 2012-2013 which was termed as phase II of post liberalization. During2007 to 2008, which belonged to the phase II period, NBFCs and RNBCs (residuary non- banking company) faced maximum decrease in annual growth. Compared to NBFCs, RNBCshave had an increase in public deposits in the study period selected. Around 39% decrease in annual growth rate was seen in NBFCs in the years 1998-1999 which was the maximum decrease. The maximum increase in annual growth rate was found to 14% for RNBCs for the year 2002-2003. It was noted that the public deposits of the non – reported NBFCs increased after 2008-2009 and that of the reported NBFCs decreased. It was concluded that in the study period, the efficiency of NBFCs were seen to improve.

Mondal[5] analysed the contributions of Banks and NBFCs to the GDP of India and compared the

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[3] *Sowndharya, R. and Shanmugham, Dr. R. (2014), "Analysis of Financial Performance of Non-Banking Financial Companies in India", Indian Journal of Applied Research, Volume: 4, Issue: 12, pp. 556-558.*

[4] *Niwassangwan, Dr. Ram (2014), "Performance of non-banking financial companies and residuary non-banking companies in India", GALAXY International Interdisciplinary Research Journal, Vol.2 (4), April, pp. 92-98.*

[5] *Mondal, Sarojit (2015), "Comparison of growth between Non-Banking Financial Companies and Banks and their contribution in the Indian economy", International Journal of Arts, Humanities & Management Studies, Volume 01,*

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growth in the Banking and the NBFC sectors of the country. The paper considered secondary data in the form of statistical table, column chart and line chart for the analysis andconsidered the study period from 2006 to 2014. The paper found that the NBFC sector approved loans of about 58% to the infrastructure sector compared to the volume of credit approved by the banks which means major proportion of funds of NBFCs went to infrastructuresector compared to the Banking sector. A positive relationship between growth of NBFC & Banking sector and the growth of GDP was seen during the study time. The analysis of the components of the balance sheet observed that there was an increase in the growth of NBFCs compared to the Banking sector. It was also noticed that there was a much faster increase in the credit approval of NBFCs compared to the banking sector. Return on Assets of NBFCs was typically higher than that of banks and showed stability which ranged around 2% since 2008. Similarly, the overall performance of NBFCs were considered to be better than that of the Banking sector when special performance indicators were analysed during the study period. The paper also reported that the overall contribution of NBFCs were more than that of the banking sector when it came to rate of capital formation across the country and it was also observed that NBFCs were slowly starting to play a vital role for the overall growth and development of the economy.

Thilakam and Saravanan[6] observed Indian NBFCs in general and NBFCs in Tamil Nadu in particular and analyse their performance for the study period of 2003 to 2012, using secondary data. The paper recognised the pivotal function played by financial intermediaries like NBFCs, Banks, Development Financial institutions. For the study, 30 NBFCs were selected in Tamil Nadu using multi-stage stratified sampling techniques and CAMEL model was used to draw analysis. CAMEL stands for Capital Adequacy, Asset Quality, Management, Earnings, Liquidity. The paper observed the significant growth of NBFCs, which played acomplementary role to the banks in providing accessibility of funds for investments and mobilizing funds in the post reform period of India. In case of government companies, asset quality and management were seen as areas of risk. Further analysis of small NBFCs showed that their capital base was moderate and their Liquidity and Management appeared to be in a risky situation. Earnings and assets were classified as satisfactory for the NBFCs with large volume of business, and their management quality was shown to grow during the study period.Considering all the factors taken for study, the overall performance of the NBFCs had steadilyincreased for both large and small

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No.8, pp. 1-9.

[6] *Thilakam, C. and Saravanan, M., (2014) "CAMEL Analysis of NBFCs in Tamil Nadu", International Journal of Business and Administration Research Review, Vol. 2, No. 4, January-March, pp. 226-232*

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NBFCs. The study also mentioned that if NBFCs were not adhering to the RBI's regulatory parameters while managing their operations, they would need to quit the market, stressing on the significant commitment of the RBI regulations.

Vadde, Suresh[7] provided an analysis of 1211 non-governmental financial companies which were companies other than banking, chit-fund companies and insurance companies, by analysing their financial statements from April 2008 to March 2009. It was found that the growth of these NBFCs in total income, which included, interest incomes and other incomes increased while the growth in total expenditure declined. However, the rate of the latter was more than the rate of the former, which caused the profits to decline. The reason behind the rate observed by total expenditure was the increase in the interest payments. Thus, it was shown in the study that the operational profit for the NBFCs and other investment companies declined for the time period 2008-2009, with decline in the rate of expansion.

Arvind and Srividya[8] analysed Sakthi Finance Limited for the study period of 2004-05 to 2008-09 with descriptive research. The paper studied the liquidity position and the efficiency of the company based on secondary data and made several recommendations for the improvement of the company. The quick ratios and the current ratios were seen to be healthy and the company was observed to have a satisfactory liquidity position. On analysing its balance sheet, the stock-on-hire showed growth on the asset side and the secured loan showed an increasing trend on the liability side. There was a decreasing trend found in bank charges while the Interest expenses and the Return on equity capital was found to be volatile. The net profit of the NBFC showed an increasing trend and grew 21 times from 2004 to 2008, which led to high return on investment. The assets were well handled and the company's efficiency was high. The paper also observed that NBFCs in general weren't new to India, but they had developed with additional coverage of financing from the early to mid-1990s. It also mentioned that some NBFCs were very unsuccessful, which created less public to be associated with NBFCs, thus forcing the government to implement certain regulatory norms to recover the unstable position of NBFCs and to change the public perspective of the same in the later years.

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[7] *Vadde, Suresh (2011), "Performance of Non-Banking Financial Companies in India- an Evaluation", Journal of Arts Science & Commerce, Vol. II, Issue –1, pp.123-131.*

[8] *Arvind, R. Srividya, V. (2013), "Study on financial performance of Sakthi Finance Limited", Asia Pacific Journal of Marketing & Management Review, Vol.2 (7), July, pp. 57-65.*

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Bhargavi[9] analysed the performance of NBFCs in the leasing business from a sample of selected companies with special reference to Sundaram Finance. It was observed that all the samples selected performed well except for Tata Finance. The companies were seen to underperform during the recession during 2000-2001 but they improved their performance afterthe recession. It was observed that the companies performed better due to diversification of activities. There was a decline in the performance of Sundaram Finance and the other leasing companies with one of the main reasons being the dependency of the leasing industry with capital intensive industries which had a necessity of machineries and huge plants, which were affected by the 2000-2001 recession and took a lot of time to recover. The other reason stated by the study was that the companies had begun to organise funds through loans and capital issues for the purpose of procuring assets

Islam, Aminul[10] discussed about the NBFIs (Non-banking financial institutions) in Malaysia for the period 1971-2004 to study their impact and contribution to the economic growth. It was observed that the NBFIs in Malaysia were divided majorly into four institutions, which were, Provident pension and insurance funds, Development financial institutions, Savings institutions and Other NBFIs. The NBFIs were seen to play a pivotal role in improving the functioning of being a financial intermediary, which was vital for an economy. The NBFIs were also stimulating growth, as they were directly helping the improvement of the capital market, by providing long-term financial resources for productive investments, which mostly was inappropriate for the commercial banks. The financial assets that were long term in nature were mobilized by NBFCs which were channeled to the economy by the direct participation ofbonds, equities government bills etc. Capital market depth was hence enhanced and the stress of liquidity risk was eased. Thus, in the study, the role of the NBFIs was seen as an influencingfactor along with banks, for the overall development of the Malaysian economy. The study alsoshowed the impact NBFIs had on the economic growth of Malaysia, directly through small and private credit and indirectly through NBFI's assets which is a motivating investment channel.

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[9] *Bhargavi, R (2004), "A Study on Performance of NBFCs Engaged in the Leasing Business with Special Reference to Sundaram Finance Limited, Chennai", MBA Project Report, Chennai, Faculty of Mechanical Engineering, Anna University, pp-1-69.*

[10] *Islam, Mohd. Aminul (2007), "The role of non-bank financial intermediaries (NBFIs) in economic growth (1971-2004): An empirical case study of Malaysia" (Doctoral thesis, International Islamic University, Malaysia),June 2007, pp. 78-154.*

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Makhijani[11] stated that NBFCs have been given pivotal advantages to provide credit to the rural and semi-urban areas, compared to the existing traditional banking system, in the past (early 2010s). It was revealed that the Reserve Bank of India has however released and suggested certain changes to the prevailing norms of the NBFCs, with the aim of making NBFCs at par with the commercial banks in terms of regulations, wherever necessary. The study also contained the proposed regulatory changes which the RBI and other authorities proposed to the NBFCs, some of which includes, provisions for norms, augmented capital adequacy, changes in securitization guidelines etc. The study showed how the variations of compliances of the regulatory norms could affect the growth and profitability of the NBFCs, eventually decreasing it. It was suggested in the study for a reorganization of the business models of NBFCs, so as to make them more capable to handle the rigorous norms by the RBI, competition from the traditional banking system and the increasing cost of funds.

Mohan[12] observed the vitality of NBFCs in the Indian financial system and noted that NBFCs showed positive growth and response. The descriptive paper tells us that NBFCs have helped in enhancing competition and has held an important position in the diversification of the financial sector, which is of absolute necessity in times of financial distress, as there would bespreading of risk. The paper points out that NBFCs have had an explosive growth since the 90s, with a CAGR of 40%, while the Banks had a CAGR of 22%. The paper concluded by saying that NBFCs are becoming complementary to the traditional banking system at competitive price and can truly become a game changer provided they show innovative zeal and requisite agility and can provide other financial products as well. It was also suggested to improvise the NBFC's CGS or Corporate Governance Standards.

Sanjay[13] threw light on the default of Infrastructure Leasing and Financial corporation(IL&FS) in the repayment of the short-term debt. The author opined that the failure of repayment of IL&FS is to be attributed to the company alone and not to the entire non-banking industry which had high & strong value of assets. The paper revealed that the main cause of this default was not

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[11] *Makhijani, Naresh (2014), "Non-Banking Finance Companies: Time to Introspect", Analytique, Vol. 9 & 10, No. 2, April-June, pp. 34-36.*

[12] *Mohan, Brij (2014), "Non-Banking Financial Companies in India: Types, Needs, Challenges, and Importance in Financial Inclusion", International Journal of Multidisciplinary and Academic Research, Vol: 3, No. 6, pp 1-11.*

[13] *Sanjay chamria md (2018), A calibrated approach to risk management needed to avert nbfc crisis, magma financial corporation*

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due to operational inefficiency but because of the mismatch between the assets and liabilities management. Therefore, the paper suggested for new management practices which would decrease the gap between the maturity period of assets and liabilities. The paper tells us that the IL&FS default resulted funds inflow from banks and Mutual Funds to reduce which when combined contributed to 80% of the debt to housing financial corporations. NBFCs loans occupied top priority in banking and mutual funds balance sheet which indicated their interdependence. The author suggests government, banks and mutual funds to take immediate action in assisting NBFCs with adequate funds to overcome their working capital problem.

Deepa Shree[14] selected 5 NBFCs namely, Bajaj Financial Services, Shriram city union finance, Muthoot and Manapuram general financing through purpose or judgement sampling technique, to study Risk Management and examine the asset & liability management practices. NBFCs are known for their higher risk-taking capacities compared to a traditional bank. For the study, the author collected primary data required from interviewing 20 executives from each branch (100 executives in total). The study observed the financial strength of the selected NBFCs in parameters of profits, current ratio, Return on Equity, Return on Investment, Debt/equity ratio, Debt to total assets ratio, interest coverage ratio and long-term debt to total capital ratio. The study also studied RBI framework to regulate NBFCs and made suitable suggestions. The paper observed the various risks NBFCs were exposed to like collateral, credit, operational, liquidity, business cycle risks. The paper suggests that the NBFCs must remain financially healthy to absorb the shocks inflicted on it by the market from time to time.

Authors	Time Period	Country/ Region	Techniques	Variables	Results
Hareesh (2018)	2008-2016	Kerala, India	Correlation, Ordinary Least Square Regression	Bank Advance to weaker Section, ROA, Leverage Ratio, ROE, PAT, Bank branch Growth, Share Capital, Current liabilities	ROE was highly volatile while share capital was stagnant; High positive correlation between PAT & current liabilities; Growth in Advance to weaker section positively affect ROE.

[14] *Deepa shree (2015), Risk management in non banking financial companies a study of select companies in India, University of Mysore, B N Bahadur Institute of Management Sciences*

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Basu (2019)	2006-2015	India	Kruskal-Wallis Test	ROA, ROCE, ROE, DE ratio, NPR, CR jointly between Investment Companies and Asset Finance Companies	There is no difference between financial performance of each category of NBFCs apart from their nature of activity
Lavanya and Maheswari (2018)	2013-2017	India	Merton model	Current ratio, Quick ratio, D/E, Interest coverage ratio, ROA, ROE, P/B, NPA ratios of companies: Muthoot & Bajaj	Muthoot was financially sound than Bajaj in terms of ROE and liquidity ratios. Both the companies have problem with high NPA which called for risk mitigation strategies.
Sasikala and Shanmugan andavadivel (2018)	2014-2018	India	Correlation	Asset quality, Profitability, Risk exposure, Capital adequacy	Poor asset quality of NBFCs has shown negative impact on the profitability and capital adequacy of the NBFCS in India
Acharya, Khandwala and Oncu (2013)	2006-2011	India	Simulated Maximum Likelihood Estimation (SMLE) Approach	NPA, branch details, Priority sector lending data, wholesale price index, GDP	Higher urban & Semi-urban presence reduced the bank lending to NBFCs and NBFCs lending itself.
Jasyinderjit (2016)	2009-2014	India	CAMEL Analysis	Capital adequacy ratios, Asset quality ratios, Management efficiency ratio, Earnings quality ratio & Liquidity ratio of Manapuram & Muthoot Finance	Manapuram showed superior performance in capital adequacy whereas Muthoot finance showed leadership in management efficiency. Otherwise, there was inline performance

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					between both.
Cheng and Degryse (2007)	1995-2003	China	Cobb-Douglas production function	GDP, GDP per capita growth, FDI, Investment, Bank & Non-bank Deposit, Credit, HHI,	Banks had larger impact than Non-banks on local economic growth in China.
Koros (2001)	1985-1995	Kenya	Standard Deviation, t-test	Earnings and Profitability, Capital Adequacy, Liquidity and Asset Quality	No significant differences in the performance indicators even after NBFCs converted into a bank.

Source: Author's own compilation of previous studies.

3. Research Gaps:

Based on the literature reviews, it can be noticed that there were only very few papers focused on studying the comparative performances of NBFCs, with most of them done a decade earlier, considering just a couple of leading NBFCs. Out of them, most of the papers analysed NBFCs based on a few performance ratios and other basic indicators only. Also, there were very few papers that classified NBFCs based on their various categories and types, which made it impossible to analyse their relative performances. Most papers indulged in generalising all the different types of NBFCs as the same in their analysis. This paper is one of the first to analyse NBFCs' performances during the Covid-19 pandemic (2019-2021), taking into consideration important ratios and indicators.

4. Objectives:

To analyse and evaluate the performance of NBFCs (especially the ones lending to the service sectors) in India during the pandemic, taking 5 NBFCs into consideration.

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5. Methodology:

5.1 NBFCs selected

For the purpose of this study, five NBFCs have been selected, namely i) Sriram City Union Finance, ii) Five Star Finance Ltd iii) Aptus Housing Finance, iv) Veritas Finance and v) Vistar Finance. All of the mentioned NBFCs cater in varying proportion to the MSMEs, especially in the service sectors and have a major foothold in the southern state of Tamil Nadu. They all aim-to-be/are PAN-India NBFCs.

5.2 Variables & study period

The variables chosen for the research were Profits after tax (PAT), Return on Assets (ROA), Asset under Management (AUM), Branches, Cost of Fund, Net Interest Margin (NIM), Net Non-Performing Assets (NNPA), Operating Expenditure (Opex), Disbursement and Capital Adequacy Ratio (CAR). The mentioned indicators/ratios were taken/ calculated from the annual reports of the respective NBFCs for the years 2019, 2020 and 2021. All the variables were converted into natural Log.

5.3 Calculating Variables' Significance

To select the significant variables from the list, regression was run with PAT as the dependent variable and the rest of the variables being independent variables. Two Models for Regression were used to find the significance of variables: Panel Least Squares method and Fixed Effect Model. To investigate which of the model was better, Redundant Fixed Effects Tests was applied, and the significant variables of the better model was taken for the study

5.4 Calculating Composite Index

The significant variables were used to calculate the Composite Indices for the years 2019, 2020 and 2021, using the Mean Standardisation Method. The variables which were significant, needed to be converted into unidirectional for each NBFC for the 3 years. All the variables which were significant are in positive direction except for Net Non-Performing Assets (NNPA%). To convert NNPA% to positive direction, it was subtracted from 100% to get Net Performing Assets, which became the variable to be considered. The values of the cells in Tables 6.e, 6.f, 6.g were calculated by the formula: (Actual Value of the variable in a particular year) / (Mean Value of that variable, considering all 5 NBFCs in that year). This is called the normalised value of the variable. Composite Index for each company was then calculated by taking the Average of all the normalised variables (given in the last column of Tables6.e, 6.f, 6.g).

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6. Results/Data Interpretation:

6.1 Descriptive Statistics

Table 6.a (Descriptive Statistics)

Descriptive	PAT (million)	AUM (billion)	Disbursement	Branch	Opex%	Net interest margin%	Cost of fund	NNPA	ROA	Capital adequacy ratio
Mean	3047.333333	52.73333333	22.66666667	345.2	0.055	0.116666667	0.107666667	0.018113	0.046	0.485266667
Standard Error	967.8512463	15.26479506	7.297531655	79.27662	0.005096	0.005954323	0.00314062	0.003701	0.00596	0.04439546
Median	1567	29	12	204	0.052	0.103	0.108	0.0128	0.033	0.48
Standard Deviation	3748.471758	59.12029705	28.26321857	307.037	0.019738	0.023060996	0.012163568	0.014333	0.023084	0.171942875
Sample Variance	14051040.52	3495.209524	798.8095238	94271.74	0.00039	0.00053181	0.000147952	0.000205	0.000533	0.029564352
Kurtosis	0.334286547	0.827334643	4.944342951	0.853185	-0.65815	0.76768041	0.515044766	0.335472	-1.27559	-0.449605112
Skewness	1.372537864	1.56684502	2.331044335	1.631554	0.327283	1.183120178	0.670875015	1.085595	0.642921	0.393142659
Range	10048	170	98	827	0.064	0.079	0.042	0.0469	0.066	0.596
Minimum	61	7	6	142	0.024	0.093	0.09	0.0033	0.023	0.229
Maximum	10109	177	104	969	0.088	0.172	0.132	0.0502	0.089	0.825
Sum	45710	791	340	5178	0.825	1.75	1.615	0.2717	0.69	7.279
Count	15	15	15	15	15	15	15	15	15	15

Source: Author's own estimation

Table 6.a shows the descriptive statistics of the panel data. It gives us a glance of the mean and sample variance of the variables. High sample variance of AUM confirms to the fact that the NBFCs chosen belong to diverse sizes. Example Shriram City Union Finance accounted for the highest AUM of Rs.177 billion in 2019 (which decreased to Rs. 151 billion by 2021) while Veritas accounted for the lowest AUM of Rs.7 billion during the same year.

Kurtosis values show all the variables to by Platykurtic (<3) except for Disbursements which is Leptokurtic (>3). The statistics show that during the study period, Maximum Profit after Tax,

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Assets Under Management, Disbursement, Branches as well as Non-Performing Assets was recorded from Shriram. Maximum Net Interest Margin% and Return on Assets came from Five Star. Maximum Cost of Fund and Operating expense% was recorded from Veritas andMaximum Capital Adequacy Ratio% was recorded from Aptus.

In terms of Valuation, Five Star stands first compared to its peers, approximately at Rs.18,000 crores, while Veritas has the lowest valuation of about Rs.3,500 crores. The former's high valuation can be seen as a result of their high NIM% and ROA as discussed previously. Shriram, though having the highest AUM, stands at a market capitalisation of about Rs.10,850 crores, lower than Five Star and Aptus, owing to reducing PAT and High NPAs

6.2 Regression Results (Fixed effect Model)

Table 6.b shows significance of variables using the Panel Least Squares method. Table 6.c shows significance of variables using Fixed Effect Model. In order to investigate which of the above model is better, Redundant Fixed Effects Test was applied.

Hypothesis:

H0: POLS is better model than Fixed Effect Model

H1: FEM is better model than Pooled OLS

Table 6.d shows probability value less than 0.05, Hence Ho was rejected, and results from the Fixed Effect Model were taken into the study. Table y shows that all the variables except Costof Fund and Operating Expenditure are significant.

Table-6.b (Panel Least Square Method)

Dependent Variable: PAT
Method: Panel Least Squares
Date: 03/18/22 Time: 11:50
Sample: 2019 2021

Periods included: 3

Cross-sections included: 5

Total panel (balanced) observations: 15

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-4.049327	4.546016	-0.890742	0.4074

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ROA	0.154534	0.495250	0.312033	0.7656
AUM	1.532625	0.610321	2.511179	0.0458
BRANCH	-0.172482	0.646731	-0.266698	0.7986
NIM	1.414714	0.798571	1.771557	0.1269
NNPA	0.083101	0.206522	0.402382	0.7013
OPEX	-1.037457	0.696867	-1.488745	0.1871
DISB	-0.215109	0.190122	-1.131427	0.3011
CAR	-0.023776	0.294142	-0.080831	0.9382

R-squared	0.993769	Mean dependent var	9.105278
Adjusted R-squared	0.985462	S.D. dependent var	0.665497
S.E. of regression	0.080241	Akaike info criterion	-1.923846
Sum squared resid	0.038632	Schwarz criterion	-1.499016
Log likelihood	23.42885	Hannan-Quinn criter.	-1.928371
F-statistic	119.6244	Durbin-Watson stat	2.327164
Prob(F-statistic)	0.000005		

Table- 6.c (Fixed Effect Model)

FIXED Effect Model
Dependent Variable: PAT
Method: Panel Least Squares
Date: 03/18/22 Time: 11:40
Sample: 2019 2021

Periods included: 3

Cross-sections included: 5

Total panel (balanced) observations: 15

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.765489	0.803891	4.684079	0.0427
ROA	-1.330243	0.156087	-8.522430	0.0135
AUM	1.642489	0.073181	22.44417	0.0020

BRANCH	-1.781608	0.183761	-9.695230	0.0105
NIM	0.671173	0.121045	5.544839	0.0310
NNPA	1.445204	0.092102	15.69132	0.0040
OPEX	-0.649685	0.169045	-3.843269	0.0615
DISB	-0.695909	0.036830	-18.89510	0.0028
CAR	-0.346159	0.034580	-10.01030	0.0098
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.999986	Mean dependent var		9.105278
Adjusted R-squared	0.999899	S.D. dependent var		0.665497
S.E. of regression	0.006682	Akaike info criterion		-7.460336
Sum squared resid	8.93E-05	Schwarz criterion		-6.846692
Log likelihood	68.95252	Hannan-Quinn criter.		-7.466872
F-statistic	11571.93	Durbin-Watson stat		3.879584
Prob(F-statistic)	0.000086			

Table-6.d (Redundant Fixed Effects Test)

Redundant Fixed Effects Tests
Equation: Untitled

Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	215.802047	(4,2)	0.0046
Cross-section Chi-square	91.047345	4	0.0000

Source: Author's own computation of results

6.3 Composite Index Result

Tables 6.e, 6.f, 6.g show the Composite Index for the 5 NBFCs in the year 2019,2020 and 2021

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respectively, taking into consideration 7 significant variables affecting the PAT of an NBFC.

Table-6.e (Composite Index for the 5 NBFCs during 2019)

NBFCs	AUM (billion)	Disbursement	Branch	Net interest margin%	Net Performing asset	ROA	Capital adequacy ratio	Composite Index (2019)
Fivestar	0.582329	0.520833	0.523925	1.335403727	1.012373109	1.909871	1.475409836	1.051449352
Sriram	3.554217	3.611111	2.934585	0.986024845	0.968037833	0.751073	0.52140255	1.903778752
Aptus	0.441767	0.381944	0.430042	0.799689441	1.015838395	1.266094	0.992714026	0.761155742
Veritas	0.140562	0.208333	0.445185	0.791925466	1.011455828	0.579399	1.092896175	0.609965276
Vistaar	0.281124	0.277778	0.666263	1.086956522	0.992294835	0.493562	0.917577413	0.673650878

Source: Author's own computation of results

Table-6.f (Composite Index for the 5 NBFCs during 2020)

NBFC	AUM (billion)	Disbursement	Branch	Net interest margin%	Net Performing asset	ROA	Capital adequacy ratio	Composite Index (2020)
Fivestar	0.724907	0.944882	0.718358	1.295652174	1.00836308	1.703057	1.017307692	1.058932387
Sriram	3.085502	2.874016	2.59122	0.991304348	0.976746558	0.720524	0.532692308	1.681714987
Aptus	0.594796	0.511811	0.49886	0.808695652	1.013666497	1.528384	1.586538462	0.934678743
Veritas	0.241636	0.314961	0.575827	0.860869565	1.006833248	0.502183	1.140384615	0.663241976
Vistaar	0.35316	0.354331	0.615735	1.043478261	0.994390617	0.545852	0.723076923	0.661431907

Source: Author's own computation of results

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Table-6.g (Composite Index for the 5 NBFCs during 2021)

NBFC	AUM (billion)	Disbursement	Branch	Net interest margin%	Net Performing asset	ROA	Capital adequacy ratio	Composite Index (2021)
Fivestar	0.805861	0.869565	0.738861	1.242937853	1.007723577	1.557018	1.186065244	1.058290133
Sriram	2.765568	2.318841	2.611393	0.951035782	0.98495935	0.679825	0.57591623	1.555362484
Aptus	0.750916	0.942029	0.535815	0.913370998	1.011280488	1.425439	1.482078131	1.008703993
Veritas	0.29304	0.434783	0.575296	0.960451977	1.002337398	0.679825	1.020942408	0.709525051
Vistaar	0.384615	0.434783	0.538635	0.93220339	0.993699187	0.657895	0.734997986	0.668118339

Source: Author's own computation of results

Table 6.h shows the rankings of the NBFCs based on their Composite Indices for the years 2019,2020 and 2021. Sriram tops the list followed by Five Star, Aptus, Vistaar and Veritas for the year 2019. Ranking of none of the NBFCs change during the years 2020 and 2021 except for Veritas overtaking Vistaar for the third spot with a narrowmargin from 2020.

Table 6.h (NBFCs' Composite Index Ranking

	2019	2020	2021
1	Sriram	Sriram	Sriram
2	Fivestar	Fivestar	Fivestar
3	Aptus	Aptus	Aptus
4	Vistaar	Veritas	Veritas
5	Veritas	Vistaar	Vistaar

Graph 6.i shows the composite indices of all the 5 NBFCs from 2019 to 2021. We see a clear decreasing trend in the composite index of Sriram, Increasing trend in Aptus & Veritas and a nearly constant composite index in Five star and Vistaar during the period 2019-2021. The

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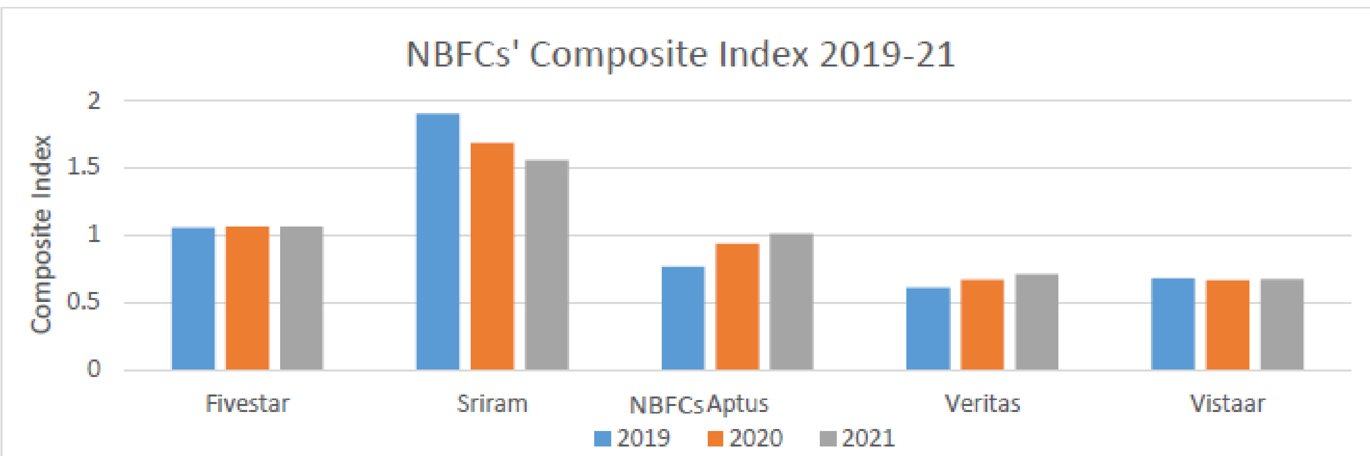
steady decrease seen in Sriram is due to the decrease in AUM, Disbursement, Net Interest margin% and ROA from 2019 to 2020 and from 2020 to 2021. Surprisingly, Sriram's NPA% has fallen during the pandemic period, when generally other NBFCs saw a rise in their NPA%.

According to RBI, Net NPA of NBFCs rose to 3.2% from 2.7% from 2020 to 2021 owing to the Pandemic. In contrast, Shriram's Net NPA fell from 4.2% to 3% during the same period. This is because Shriram's Net NPAs were higher compared to its peers, even before the pandemic and the NBFC is trying its best to bring them down despite there being a pandemic. The reason for this can be attributed to an improving-underwriting processes of Sriram, which it developed from its 30+ years of experience in the field of lending.

Graph 6.i (NBFCs' Composite Indices during 2019-2021)



Source: Author's own computation of results

6.4 Profit after Tax Interpretation

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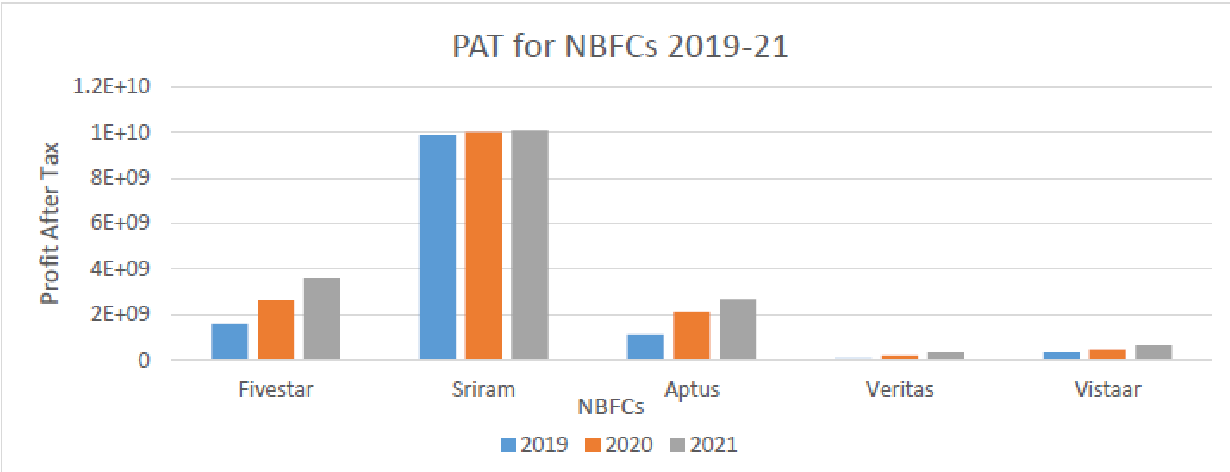
Graph 6.j (Profit after Tax for NBFCs during 2019-2021)



Source: Author's own computation of results

Graph 6.j shows the Profit after Tax (PAT) for the NBFCs from 2019 to 2021. We see that PAT for all the NBFCs are increasing (either at a high rate or very slightly) even despite a pandemic. There are few reasons for this.

All the chosen NBFCs in this study mostly cater to the service sectors and not the manufacturing sectors. Service sectors were quick to rebound after the ease of the lockdown compared to manufacturing sectors. Another reason for raising PAT is because of the reduction of Employee expense. NBFCs like Five Star, who usually increase their employee's salary by10-15% per year, did not increase the salary during the pandemic period. To cushion the impact of the pandemic, a six-month moratorium was announced by the Reserve Bank of India on loan repayments till August 31, 2020 followed by a one-time debt restructuring plan. The moratorium announced for loan repayments were beneficial for both customers as well NBFCs.The NBFCs now could collect bulk EMI after 6 months from customers which contributed to the NBFC's PAT, instead of forcing customers to repay before 6 months which would have only likely resulted in an increase of NBFC NPAs.

Table 6.k (Coefficient of Variation of PAT)	
NBFCs	**(s.d/mean)/100**

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Fivestar	0.390298472
Sriram	0.011004353
Aptus	0.399956864
Veritas	0.681527924
Vistaar	0.329109524

Another trend noticed is that the rate of increase in Profit is high in smaller NBFCs like Veritas, which in a way is due to Base Effect (smaller profit base of relatively new NBFCs). Also, an important point to note is that NBFCs like Veritas raised capital during the pandemic which eventually helped them increase their PAT even during a pandemic. The NBFC raised 440 crore of primary investment through a Series F round in

October 2021. Sriram on the other hand, is a listed company, which means they might have not had abundant capital to lend, which shows in their almost- constant PAT for the past 3 years. Table 6.k shows that the coefficient of variation of Sriram is the lowest (0.011) for the same reason.

7. Conclusion:

India has a multi-tier financial system, which brings in the need and importance of NBFCs. NBFCs are regarded as an important financial intermediary, especially for the micro and small enterprises in India, promoting financial inclusion. The various committees appointed by the RBI had put forth the importance of NBFCs and the pivotal role it played in the economy. The RBI was also seen to bring in modifications to its regulatory and supervising policies constantly to keep up with the changing system. There was a reduction in the public perception of NBFCs following the liquidity squeeze in NBFCs caused by the IL&FS defaults. It was also found that there was an emergence of digitally savvy customer segment, which asked for NBFCs to start digital lending strategies. NBFCs provide diversification in the financial sector which is needed for spreading risk especially when there is financial distress. They are seen to enhance the competition of the sector and are observed to be the complementary of the banking system. Challenges in accessing traditional sources of finance in the absence of documented cash flows present an untapped opportunity, which is predicted to be captured by NBFCs. Simplified sanctions, timeliness and flexibility in meeting the credit needs of the customers along with low-cost operations compared to the traditional banking system had given the opportunity for NBFCs to rise, competing banks at competitive prices. The research showed that the Profit after Tax for the selected NBFCs (Shriram, Five star, Aptus, Veritas, Vistaar) rose even during the pandemic, with all the NBFCs having a steady growth rate, except for Shriram, which had almost the same PAT for the three years. There was a decreasing trend observed in the composite index of Sriram, Increasing trend in Aptus & Veritas and a nearly constant composite index in Five star and Vistaar.

8. Limitations:

This paper is one of the first to analyse NBFCs' performances during the Covid-19 pandemic, but is limited to studying the performances of only a handful of companies, which calls for an aggregate performance research. Since some of the NBFCs picked for the study were relatively new and not listed, data availability for years before 2019 was difficult. There has been close to zero research papers published on the growth and performances of the new wave of FinTech lending services and Start-ups coming up in India, along with the future predictions on Strategic digital transformations of NBFCs to improve performance.

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