

## Study of Comparative Performance of Non-Performing Assets among Selected Leading Non-Banking Financial Companies of India

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**Abstract:** This paper examines the comparative performance of non-performing assets (NPAs) among leading non-banking financial companies in India during the period of 2011-2015. Among these, Spearman's correlation study indicated that Bajaj Finance was observed a positive correlation with a significant value between revenue versus gross NPA ( $P < 0.04$ ), profit after tax versus gross NPA ( $P < 0.04$ ), and return on assets (ROA) versus gross NPA ( $P < 0.005$ ) found with negative correlation. In the case of Muthoot Finance, there was a positive correlation with statistically significant value observed between return on assets versus gross NPA ( $P < 0.04$ ) and net NPA ( $P < 0.05$ ) while for Reliance Capital, there was a positive correlation with statistically significant value observed between revenue versus provision of NPA ( $P < 0.04$ ) and PAT versus provision of NPA ( $P < 0.04$ ). Moreover, yearly trend analysis revealed that Muthoot Finance was better concerning revenue generation and lower NPA values compared to Bajaj Finance and Reliance Capital.

**Key words:** Non-Performing Assets; Indian Banking System; Non-Banking Financial Companies; Return on Assets; Profitability.

### 1. Introduction

For the past fifty years in India, the “non-banking financial companies (NBFCs)” have been formed to perform as alternative sources of credit intermediary. In India, the non-banking sectors are protected and supported by various intermediaries of finances such as the “loan and investment companies”, “asset finance companies”, “infrastructure finance companies”, “housing finance companies”, “core investment companies”, “micro-finance companies” and “factoring companies”. In an elaborative way, the NBFCs are included as “insurance companies”, “stockbroker”, “chit fund companies”, etc. (Sornaganesh, 2016).

As per the regulations of the Reserve Bank of India (RBI) all the NBFCs are operating under the RBI Act, 1934. In these contexts, all the NBFCs should be required to obtain a license from RBI for their financial operations (Basu, 2019). Generally, the financial system is governed by the funds' transfer mechanism through financial institutions, financial markets, financial instruments, and services (Carmichael & Michael, 2002). The financial companies are acting as activators and depositors of savings and known to be as an agent of credit or finance (Bhole, 2004). The efficiency of the banking system as a whole and NBFCs particularly accelerates the footstep of the financial growth of the country (Shanmugananda vadivel and Sasikala Devi, 2018; Kannan et al., 2019).

The quantification of “non-performing assets (NPAs)” is one of the important criteria to determine the health of finance of any specific financial service sector (Karunakaret al., 2008; Pathak, 2009; Kumar and Suresh, 2017; Agarwala and Agarwala, 2019). Several studies were conducted into the arena of NPAs and as a result of various committees were offered by the government sector to make success into the appropriate issues related with it and to give suggestions for its effective curtail and control in India (Khasnobis, 2005; Sikdar and Makkad, 2013; Vallabh et al., 2016; Mittal and Suneja, 2017). Santoniet al. (2010) pointed out that the amount of NPA is created significant and real reasons for the vulnerability and banking function failure in the USA while Karunakar et al. (2008) stated that NPA is resulted from an adverse impact on the “return on assets (ROA)” in the Indian context.

The present study was attempted to know the impact of NPAs in the selected leading NBFCs such as Bajaj Finance, Muthoot Finance, and Reliance Capital from 2011 to 2015.

### 2. Literature Review

Balachandran (2006) studied NBFCs and explained that different financial products are based on payment efficiency and credit system in the financial market, which facilitated the channelizing of funds from savers to investors. Khalil (2011) investigated the financial performance of those NBFCs that provides investment advisory services, management of asset, renting, and venture account for a duration of 2008 to 2009. This study summarized that the performance of finance in NBFCs was good during 2008 but an overall declining trend in 2009 caused by several factors. Suresh (2011) analyzed the performance of NBFCs in India and this study concluded that income growth is the main criterion for financial and investment companies', which slowly declined during the study period and total expenditure growth also decreased but somehow found greater than the growth of income. In India, NBFCs are found the major investors of the finance system, which supported for easily obtaining a variety of

needs after providing specialized financial services such as advice on investment, lease, management of asset, etc. These sectors had shown a reasonable development with economic growth and performance in the past periods (Syaland Goswami, 2012). NBFCs are well-known because they can take high risks than the banking sectors (Shakya, 2014). Nazneen and Dhawan (2018) reviewed literature and provided theoretical knowledge about the job and difficulties faced by Indian NBFCs. They studied mainly qualitative analysis from secondary data and did not analyze any statistical technique for Indian NBFCs and they concluded that the role of NBFCs is an integral part of financial development. A study suggested that the banks should wait on a better methodology plan and its legitimate execution also and rigid arrangements by the legislature may bolster for diminishing the degree of NPAs especially gross and net NPA (Banerjee et al., 2018). Agarwala and Agarwala (2019) reviewed the level of non-performing assets (NPAs) of the banking sectors of India. They studied the contribution NPA of the several groups of banks, viz. State Bank of India (SBI) and its associates for the period 2010-2017. The findings were obtained that SBI neglected to deal with the giving of helpless advances successfully and the growth in these loans has been periodically higher because the NPAs growth rate was lower and a crisis has occurred during these periods. It was observed that major studies on the roles and challenges for NBFCs in India but not related to NPAs while major studies have been reported on NPAs in the private or public banking sectors.

### 3. Hypothesis Testing

- H<sub>1</sub>: There is a significant relationship between the movements of NPA and leading NBFCs.
- H<sub>2</sub>: NPA is a significant moderating variable in the relationship between income and net profit of NBFCs.

### 4. Research Methodology

#### 4.1 Sampling and Data Collection

The selection of three leading NBFCs as far as capitalization is concerned. These are Bajaj Finance, Muthoot Finance, and Reliance Capital. All data were collected from several research reports, published articles, news reports, and conference proceedings available at both national and international levels in connection with NPAs among three NBFCs for literature review. The data on NPA on selected three NBFCs were mainly taken from the RBI website, Association of NBFCs, “India stat” and “Ministry of National Economy”, “money control website”. In addition to that information is gathered from individual websites of NBFCs.

#### 4.2 Period of Study

The study period was selected from 2011 to 2015.

#### 4.3 Statistical Analysis

Statistical analyses were carried out to compare between two NBFCs for revenue generation values, profit after tax (PAT) values and provisions for NPA as well as gross and net NPA% and ROA%, Non-parametric correlation coefficient analysis for examining the effect of finances on the NBFCs in terms of income, profit, and ROA to determine the significant level at  $P < 0.05$  for NPA parameters by using SPSS (version, 20) tool.

### 5 Findings of the Study

#### 5.1 Yearly Trend Analysis of Performance among Studied NBFCs

Tables 1-3 describe revenue generation values, profit after tax (PAT) values, and provisions for NPA for five years (2011-2015) of NBFCs such as Bajaj Finance, Muthoot Finance, and Reliance Capital. All the data were expressed in Crores.

In the case of revenue generation (Table 1), there was continuously increased value during the study period for Bajaj Finance while in the case of Muthoot Finance, the value was increased till 2013 and decreased from 2014-2015 but an increasing trend was observed for Reliance Capital during the study period except the year 2014.

**Table 1: Yearly Trend of Financial Performance Especially Revenue Generation of NBFCs(2011-2015)**

End-March (Year wise)	Bajaj Finance Limited	Muthoot Finance	Reliance Capital
	Revenue (Crores)		
2011	1406.13	2315.87	1971.00
2012	2171.90	4549.06	3317.00
2013	3111.37	5387.14	3868.00
2014	4073.33	4947.44	3254.00
2015	5418.28	4324.64	3988.00

Source: Annual Reports; <https://www.moneycontrol.com/india/>

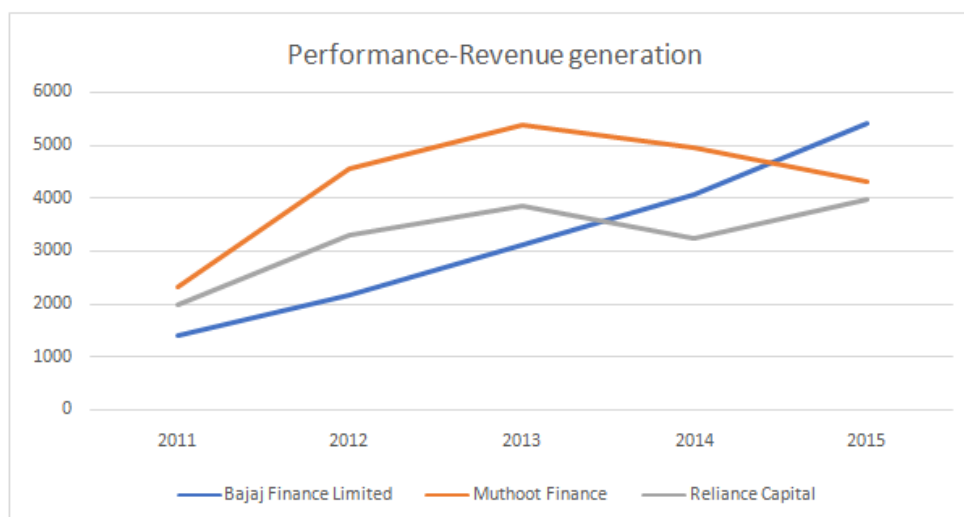


Figure 1

In the case of profit after tax (Table 2), there was a continuously increased value during the study period for Bajaj Finance while in the case of Muthoot Finance, the value was increased till 2013 and decreased from 2014-2015 but an increasing trend was observed for Reliance Capital during the study period except the year 2014.

**Table 2: Yearly Trend of Financial Performance Especially Profit after Tax of NBFCs(2011-2015)**

End-March (Year wise)	Bajaj Finance Limited	Muthoot Finance	Reliance Capital
	Profit After Tax (Crores)		
2011	246.63	494.18	229.27
2012	406.44	892.02	519.00
2013	591.31	1004.24	662.00
2014	719.01	780.07	409.00
2015	898.88	670.52	757.00

Source: Annual Reports; <https://www.moneycontrol.com/india/>

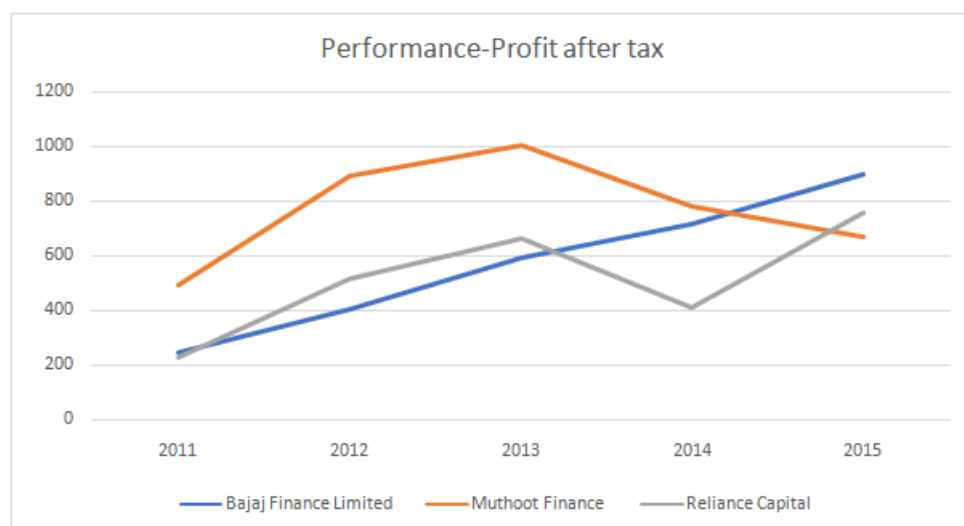


Figure 2

In the case of a provision for NPA (Table 3), there was an increasing trend from 2011-2012 period but a declining trend was observed from 2013-2015 for Bajaj Finance while in the case of Muthoot Finance and Reliance Capital, the value was found an increasing trend till 2013 and suddenly decreased in 2014 but started increasing in 2015.

**Table 3: Yearly Trend of Financial Performance Especially Provision for NPA of NBFCs(2011-2015)**

End-March (Year wise)	Bajaj Finance Limited	Muthoot Finance	Reliance Capital
	Provision for NPA (Crores)		
2011	79.00	69.64	223.00
2012	89.00	138.95	252.00
2013	83.00	525.03	296.00
2014	76.00	247.53	88.00
2015	71.00	439.13	308.00

Source: Annual Reports; <https://www.moneycontrol.com/india/>

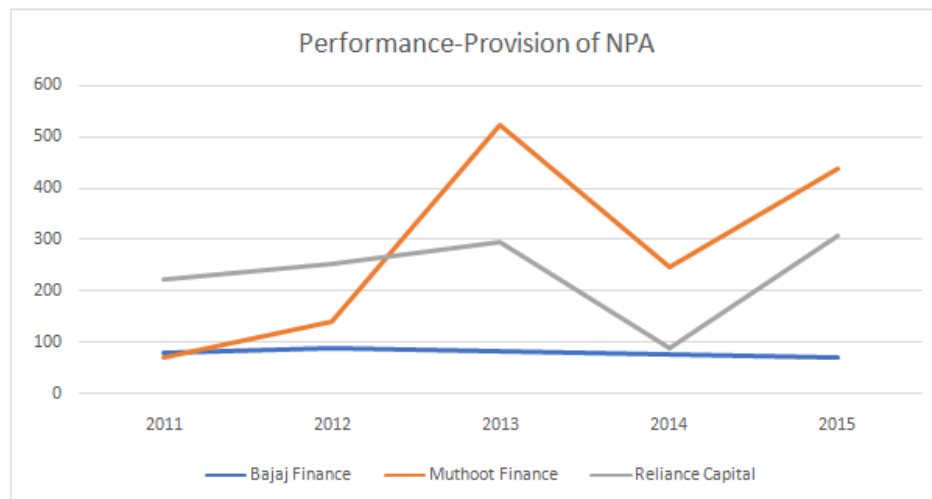


Figure 3

### 5.2 Yearly Trend Analysis of Non-Performing Assets among Studied NBFCs

Figure 4 (A-C) explains the ratio (%) of gross NPA and net NPA and return on assets values for five years (2011-2015) of NBFC like Bajaj Finance, Muthoot Finance, and Reliance Capital. In the case of Bajaj Finance, gross NPA (%) values were observed nil in 2011 but there was an increasing trend from 2012-2015 while net NPA (%) value was observed higher in 2011 and a steep fall in 2012 but an uprising trend was observed from 2013-2015 (Figure4A). In the case of Muthoot Finance, gross NPA, and net NPA (%) values, it was observed a gradually increasing trend from 2011-2015 (Figure4B). In the case of Reliance Capital, the ratio (%) of gross NPA values were observed an increasing trend from 2011-2014 and except in the year of 2015 (Figure4C). For net NPA, the minimum value in the year of 2012 and the maximum value in the year 2015 but it was varied in the rest years (Figure4C).

Figure 4 Comparison of Ratio on Gross and Net NPA for 2011-2015 (A = Bajaj Finance; B = Muthoot Finance; C = Reliance Capital) [Source: Annual Reports; <https://www.moneycontrol.com/india/>]

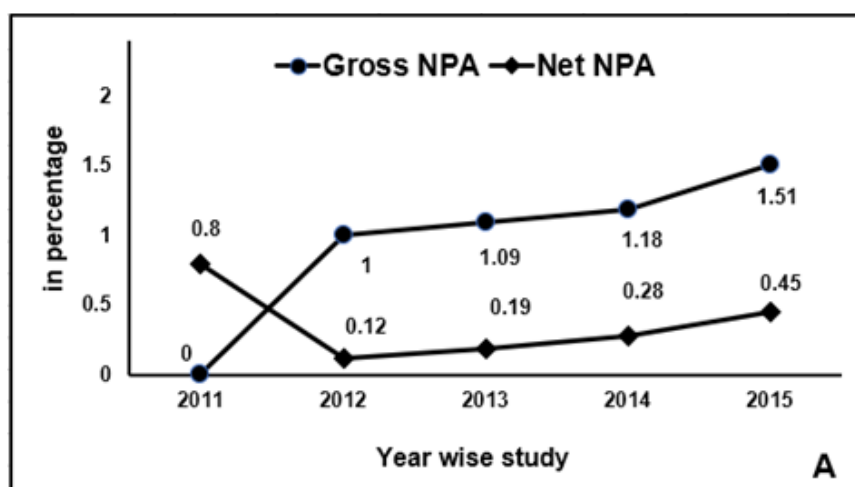


Figure 4(A): Bajaj Finance.

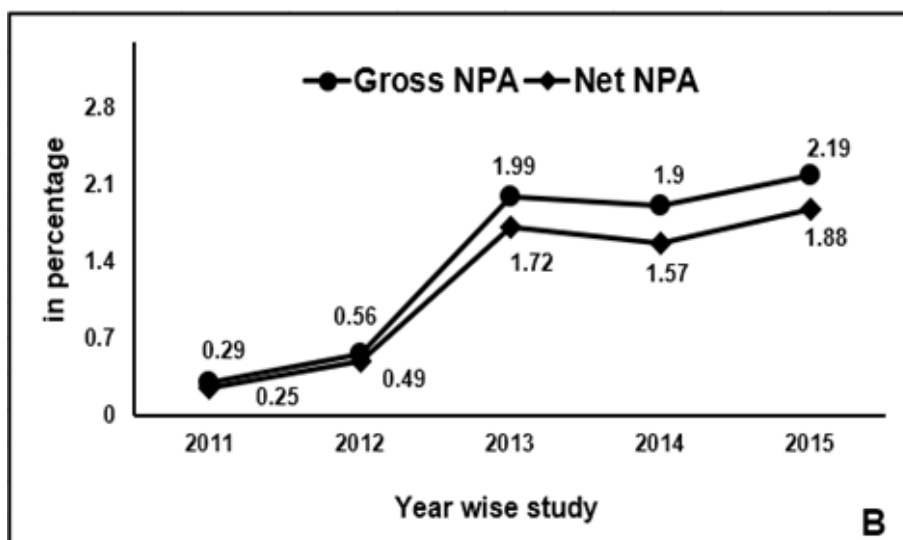


Figure 4(B): Muthoot Finance.

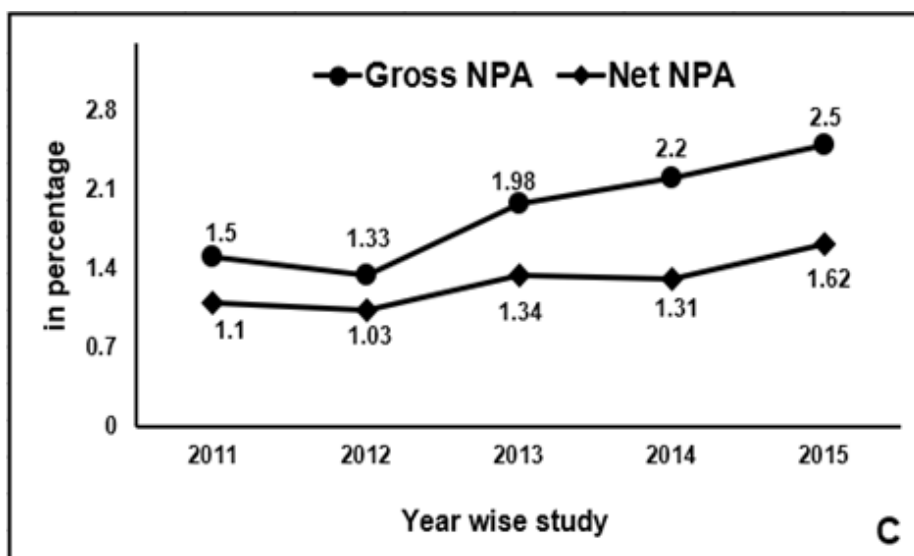


Figure 4(C): Reliance Capital.

### 5.3 Yearly Trend Analysis of Return on Assets among Studied NBFCs

Figure 5 (A-C) explains the ratio (%) return on assets values for five years (2011-2015) of NBFC like Bajaj Finance, Muthoot Finance, and Reliance Capital. In the case of Bajaj Finance, the ratios of return on assets (%) values were observed a decreasing trend in the studied years from 2011-2015 (Figure 5A). In the case of Muthoot Finance, the ratio of return on assets (%) values were also observed an increasing trend in the studied years from 2011-2015 (Figure 5B). In the case of Reliance Capital, the ratio of return on assets (%) was observed an increasing trend from 2011-2013 years while a decreasing trend was obtained for the years of 2014-2015 (Figure 5C).

**Figure 5 Return on assets for 2011-2015 (A = Bajaj Finance; B = Muthoot Finance; C = Reliance Capital)** [Source: Annual Reports; <https://www.moneycontrol.com/india/>]

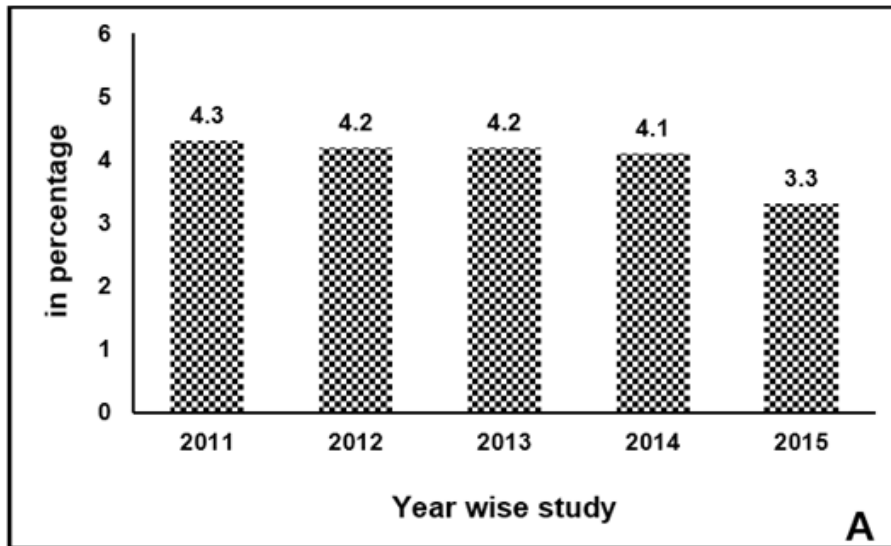


Figure 5(A): Bajaj Finance.

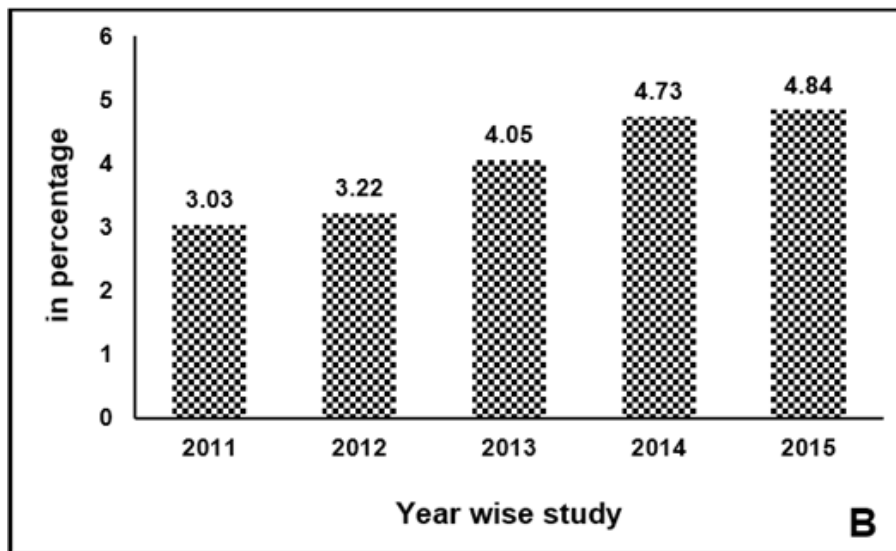


Figure 5(B): Muthoot Finance.

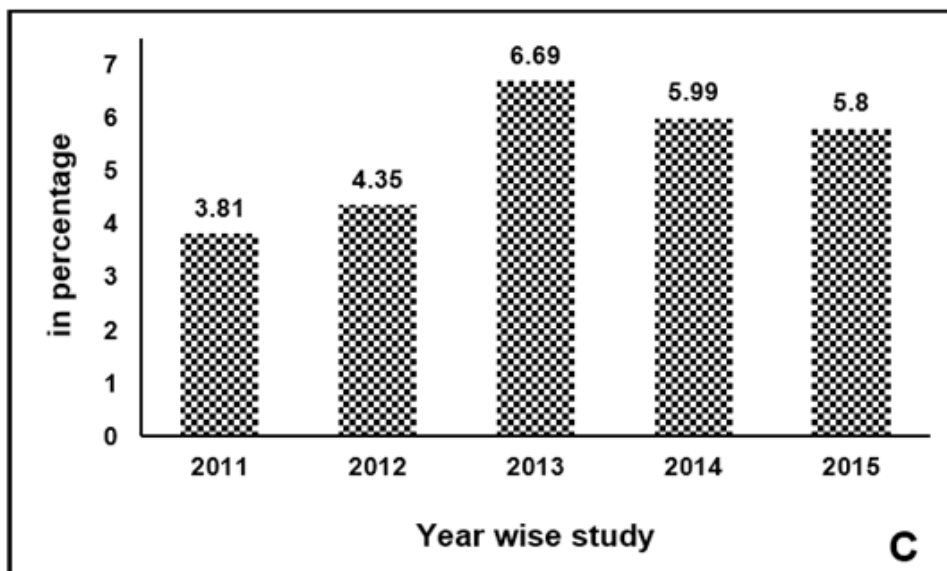


Figure 5(C): Reliance Capital.

#### 5.4 Correlation Coefficient Analysis between Revenue Factors and NPA Parameters of Studied NBFCs

Spearman's correlation coefficient analysis was performed between revenue factors and NPA parameters of studied NBFCs (Table 4). In the case of Bajaj Finance, there was a positive correlation with statistically significant value observed between revenue versus gross NPA ( $P < 0.04$ ), PAT versus gross NPA ( $P < 0.04$ ) and return on assets versus gross NPA ( $P < 0.005$ ) with negative correlation. In the case of Muthoot Finance, there was a positive correlation with statistically significant value observed between return on assets versus gross NPA ( $P < 0.04$ ) and net NPA ( $P < 0.05$ ). In the case of Reliance Capital, there was a positive correlation with statistically significant value observed between revenue versus provision of NPA ( $P < 0.04$ ) and PAT versus provision of NPA ( $P < 0.04$ ).

**Table 4: Non-Parametric Correlation Coefficient Analysis between Revenue Factors and NPA Parameters of Studied NBFCs**

NBFCs and Parameters				Gross NPA (%)	Net NPA (%)	Provision for NPA (Crores)
Bajaj Finance	Spearman's rho	Revenue (Crores)	Correlation Coefficient	0.900	0.000	-0.700
			p Value	<b>0.037</b>	1.000	0.188
		PAT (Crores)	Correlation Coefficient	0.900	0.000	-0.700
			p Value	<b>0.037</b>	1.000	0.188
		Return on Assets (%)	Correlation Coefficient	-0.975	0.051	0.667
			p Value	<b>0.005</b>	0.935	0.219
Muthoot Finance	Spearman's rho	Revenue (Crores)	Correlation Coefficient	0.400	0.400	0.700
			p Value	0.505	0.505	0.188
		PAT (Crores)	Correlation Coefficient	0.300	0.300	0.600
			p Value	0.624	0.624	0.285
		Return on Assets (%)	Correlation Coefficient	0.900	0.900	0.700
			p Value	<b>0.037</b>	<b>0.037</b>	0.188
Reliance Capital	Spearman's rho	Revenue (Crores)	Correlation Coefficient	0.500	0.700	0.900
			p Value	0.391	0.188	<b>0.037</b>
		PAT (Crores)	Correlation Coefficient	0.500	0.700	0.900
			p Value	0.391	0.188	<b>0.037</b>
		Return on Assets (%)	Correlation Coefficient	0.500	0.600	0.200
			p Value	0.391	0.285	0.747

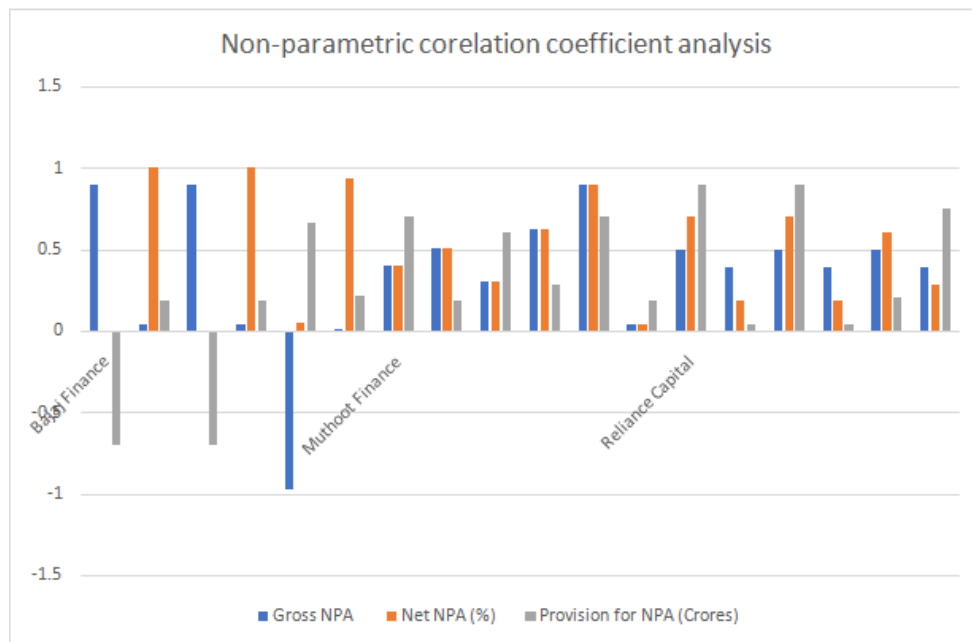


Figure 6

### 6. Discussion on Results

The results indicated that for all studied NBFCs, the gross and net NPA ratio values were observed an increasing trend during the study period (2011-2015) while ROA values were found better for Muthoot Finance compared to other NBFCs. But the NPA ratio was good in the case of Muthoot Finance Limited where the credit risk is lower. The present study has a close similarity with other research work by Lavanya and Maheshwari (2018) that Muthoot Finance is financially active and has maintained suitable worthiness on credit compared to Bajaj Finance from 2013 to 2017. The study by Abd Karim et al. (2010) also observed that the maximum rate of NPA reduces the banks' cost-efficiency. An earlier study by Berger and DeYoung (1992) revealed that the bad management system may create bad assets and increases the level of NPA. Moreover, Singh (2013) reported that a comparatively higher ratio of NPAs can improve the efficiency and profitability of financial institutions, which is easily measured through the ratio of NPAs.

### 7. Conclusions

It is concluded that Muthoot Finance showed better financial performances among three NBFCs about ROA, which was increased consistently. It was observed that major studies on the roles and challenges for NBFCs in India but not related to NPAs while major studies have been reported on NPAs in the private or public banking sectors. A significant positive correlation may be indicated that the revenue generation is strongly associated with the movement of NPA and business continued to move up. But a significant negative correlation may be indicated that a significant negative impact on the business of NBFC is associated with return on assets. The present study is also observed the significant correlation between NPA and revenue generation in the studied NBFCs. It is suggested in the future to determine the performance of other NBFCs concerning NPAs and ROA.

### Conflict of Interest

The authors declare no conflict of interest.

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