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RESEARCH ARTICLE

AN ECONOMIC STUDY OF NON-BANKING FINANCIAL COMPANIES IN INDIA

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ABSTRACT

Non-banking financial companies (NBFCs) have been very important in the process of capital creation by helping to channel limited financial resources. NBFCs have been helping the organised banking sector by bridging credit gaps, which means they have been addressing the growing financial needs of the corporate sector, giving loans to the unorganised sector, and giving loans to small local borrowers. This has allowed the organised banking sector to focus on its core business of lending money. In the organised financial sector, non-bank financial companies (NBFCs) have a structure that is more adaptable than banks. On occasion, the Reserve Bank of India and the Central Government of India have collaborated on efforts to regulate these non-bank financial companies (NBFCs). NBFCs are subject to the regulatory and supervisory authority of the Department of Nonbanking Supervision of the Reserve Bank of India. It is necessary to acknowledge the contribution that these NBFCs make to the expansion of the economy as well as the satisfaction of the credit requirements of the economy. In addition, it is essential to keep a close eye on the operations of these NBFCs, as some of these NBFCs have been known to steal money from unsuspecting investors. The present research, which is titled "An Economic study of Non-Banking Financial Companies in India," focuses on a variety of subjects, some of which are as follows: defining the term "NBFCs;" NBFC evolution, growth, and development; financial performance and NBFC supervision. This research article's objective is to investigate the growth, change, and analyzing progression of selected Indian Non-banking financial companies.

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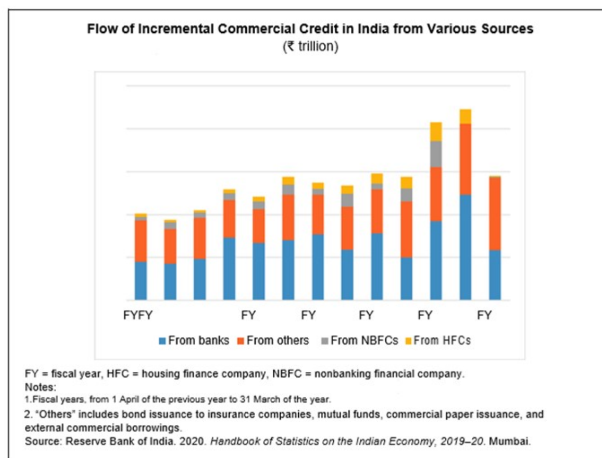
INTRODUCTION

The banking industry has always had a dominant position in India's financial sector. Despite this, NBFCs have established themselves as industry leaders. In the beginning, these were simple businesses that were owned by families and took deposits while also providing loans. Even at this late stage, the industry is likely to be on the smaller side in contrast to the banking sector, with total assets accounting for just approximately 14 percent of Scheduled Commercial Banks (other than RRBs)1. The amount of money that is needed to support and maintain the current enormous economic boom has steadily increased over time, and this trend is expected to continue. Banks and other types of financial institutions have been supplemented by non-bank financial companies, or NBFCs, in order to meet the financing requirements of the economy. They fill the gaps in the provision of financial services that would otherwise be present in banking-dominated financial systems and help to conceal such gaps. Over the course of many years, NBFCs have been a very important component of the economy.

They have been in the forefront of meeting the financial needs of the so-called unbankable masses in rural and semi-urban regions, in addition to creating new sources of revenue, both of which have been their primary focuses. They have created a means of reach and communication by creating strong relationships at the grassroots level, and they are servicing this segment in an extremely effective manner. As a consequence of this, NBFCs have all of the characteristics that are required to make it possible for the government and the regulator to accomplish the goal of financial inclusion within the given amount of time. In addition, Non-Banking Financial Companies (NBFCs) in India play a significant part in the provision of cutting-edge financial services to Micro, Small, and Medium-sized Enterprises (MSME) that are well suited to the requirements of these businesses. NBFC financial services are characterised by having straightforward methods and procedures for the granting of credit and the distribution of that loan, as well as rapid, pleasant, and flexible terms of repayment that are tailored to the specific features of their customers.



Over the course of their existence, non-banking financial companies (NBFCs) in India have made a major contribution to the expansion of the country's economy by enhancing the work done by other types of financial institutions here. They fulfil the duty of an intermediary between investors and savers because of the essential part they play in determining the course of savings and investments amidst a wave of fast industrial development. It is essential for the growth of our nation that every person in India have access to the many financial services that are available to them. India has a huge and diversified economy. Following the industrial revolution, there was a significant rise in the demand for credit as well as an increase in credit penetration, both of which should continue to support the expansion of the economy. This demand was, to a considerable extent, satisfied by non-bank financial companies (NBFCs). Due to the fact that the primary responsibility of financial institutions such as NBFCs is to convert excess savings into deficit units, these organisations are in a position to play an important part in the development of our nation. NBFCs have also provided financing to small and medium-sized businesses (also known as SMEs) by offering a variety of products that are tailored to the requirements of these businesses. In addition to providing loans secured against property, the NBFCs of our nation's MSMEs also offer a variety of other services to its clientele. In a nation that is doing well economically like India, the non-bank financial corporation (NBFC) sector plays an important role in addition to the banks (Kubik, 2020).

However, because of the virus that caused the lockdown, our economy is now in a huge crisis, and the NBFCs are also being significantly impacted. Because the NBFCs' collection efforts have ground to a halt in the current environment, the companies' major cash flows have been interrupted, and the NBFCs are facing an extremely difficult task in terms of their ability to service their loans. Due to the low amount of money being collected at the moment, non-bank financial companies (NBFCs) will be forced to rely not only on the backup credit sources provided by banks but also on the cash reserves that they have created in the past. They have been experiencing a tightening in their liquidity situation right at this particular time, which presents a challenge for NBFCs (RBI, 2021). In light of the current turmoil in our economy, the Central Government of India has proposed several reforms across a variety of fields under the banner of the Atma Nirbhar Bharat Abhiyan Prakalpa, which translates to "Self-Reliance Scheme." These corrective actions will assist in reviving the economy in a methodical manner, and they will provide a much-needed lift in the midst of the ongoing liquidity shortage and crisis (Misra, 2020). The projects will be successful in the long term since things have been rethought and redefined in a logical way, and these measures seem to be the likely answers to the economic issues that are now being faced. Business entities and other sectors that were having a difficult time during the pandemic era may take benefit of these creative plans, which would, in turn, strengthen the economy. This will be a positive feedback loop. As a result, the programmes may provide a measure of relief to kickstart the economy and make progress in overcoming the crisis scenario.

EVOLUTION

Financial Institutions That Do Not Function as Banks: Non-banking Financial Institutions India launched an aggressive industrialization program as soon as it gained independence, requiring large, long-term capital expenditures from the country. The Indian government established industries that were crucial to the nation's growth and required large financial contributions from the public sector. Furthermore, the government provided guarantees in the event that companies operating in the public sector were successful in securing loans from foreign institutions. Numerous public financial entities have been established. The statutory financing firms and the Industrial Development Bank of India are two examples of such organizations. The direct assistance of development banks has been of advantage to large and medium industrial concerns, whereas the assistance of state financial institutions has been of help to small and medium industrial companies. These companies not only accept deposits from the general public but also provide bonds and debentures for sale. But the private sector was compelled to rely heavily on commercial banks, which at the time had not developed to the point where promoters could obtain the right amount of corporate capital. Conventional banks have historically been the ones to supply working capital to industrial firms in order to keep them operating. Businesses were compelled to rely largely on loan transactions because they lacked the financial resources essential to fund their rapidly expanding activities.

Thanks to several arrangements for deferred payment, capital goods like machinery and equipment may be imported. The body of academic literature generally agrees that one of the key determinants of economic progress is an efficient and sophisticated financial system. The positive effects that financial development has on economic growth can be attributed, in large part, to the roles that it plays, particularly in the mobilisation and allocation of resources required for various economic agents to engage in productive investment activities. This is because financial development plays a central role in both of these processes. The economy experiences a decrease in transaction and information costs when financial tools and institutions become more widely available. Savings rates, investment decisions, and technological innovation are all impacted by this.

LITERATURE REVIEW

Maheshwari *et al* (2019), The financial services sector is very important to India's overall economy. The magnitude of the organization's profit is a good indicator of how efficiently it operates; the growth rate is proportional to the size of the

profit. The effective management of available resources is directly proportional to a company's level of profitability and its capacity for future growth. Concurrently, the number of non-banking financial institutions has increased significantly over the last several years due to the entry of venture capital companies, retail businesses, and industrial enterprises into the lending market. Businesses often get assistance from nonbank institutions with property investments as well as the preparation of feasibility, market, or industry studies. According to the findings of a number of studies, there is a significant connection between the expansion of the financial sector and the expansion of the economy. NBFIs are more developed in a financial system that is based on the market as opposed to a system that is based on banks. Because of the increased level of competition, established lenders often display reluctance toward include NBFIs in pre-existing agreements for the exchange of credit information. NBFCs have been helping the organised banking sector by bridging credit gaps, which means they have been addressing the growing financial needs of the corporate sector, giving loans to the unorganised sector, and giving loans to small local borrowers. This has allowed the organised banking sector to focus on its core business of lending money. Balachandran (2006) saw that in the financial markets, the various financial products that are offered offer an efficient credit and payment system. As a result, NBFCs make it easier for funds to be transferred from savers to investors within our country. The researcher also mentioned in the study that the growth of NBFCs in the year 1981 was 700, and that number increased to 40,000 in the year 1995. Finally, the researcher concluded that the deposits of the NBFCs are growing at an increasing rate than those of other financial institutions, and that the NBFCs therefore have the potential to play an important role in the Indian financial system.

Mohan (2009) investigated the role that financial inclusion plays in achieving stronger economic development. According to the findings of the survey, India is ranked lower than other countries in terms of its financial depth, and the country's rural economy has moved toward a more commercialised sector. As a result, it is of the utmost significance to include people into the many aspects of financial services. According to the findings of the research, financial inclusion will contribute to the further expansion of India's financial system as well as the support of economic growth. RBI Bulletin (2015), the non-bank financial company (NBFC) sector of our country has exhibited a spectacular rise in recent years. This growth is qualitatively distinct from that of other public sector banks and shadow banks operating in other parts of the world. According to the findings of the survey, not only is the financial performance of our NBFCs becoming better on a daily basis, but they are also becoming an increasingly essential source of financing credit for the infrastructure sector and for micro, small, and medium-sized businesses. Kumar (2020), The lockdown that was caused by the epidemic has contributed to a deterioration of circumstances for NBFCs, particularly those in the private sector and those with poor ratings. The stress caused by the pandemic was still present in certain regions, according to the report, even though the Reserve Bank of India had implemented a number of liquidity measures that had a remedial impact on financial institutions and markets. This information was gleaned from an investigation that was included in the news article. It also showed that there is a need for specific credit backstops to be included inside the system in order to guarantee a steady flow of credit to the NBFC industry.

Chhibber (2021) conducted research and made the observation that Indian NBFCs have recently acquired an extremely important role inside the Indian financial sector. The study revealed that non-banking financial companies (NBFCs) extended more loans to micro, small, and medium-sized enterprises (MSMEs) at a rate of 12 percent year on year in June 2019, and the study also discovered that mutual funds cut their exposure to the NBFC sector very significantly in 2018. The study also highlighted that over the years various measures have been taken by the government of our country to create demand and thus to generate liquidity in the market such that the banking sector of our nation lends further to the NBFC sector under various schemes.

This was brought to light by the fact that the study highlighted this information. Singh *et al* (2014), The present research project, which is called "Growth and Development of Non-Banking Financial Companies in India," focuses on subjects such as the definition of the term "NBFCs," the history, growth, and development of NBFCs; regulatory bodies; and NBFC supervision. This article's objective is to investigate the growth, change, and progression of India's non-banking financial enterprises during the course of its writing. Akanksha Goel (2020) In a country like India, which is experiencing rapid economic expansion, it is particularly important for there to be a robust network of non-banking financial companies (NBFCs) and other types of financial intermediaries. NBFCs play an essential role in enabling inclusive development throughout the nation by meeting the varied monetary requirements of customers who are not covered by traditional financial institutions like banks. In addition, NBFCs typically take the initiative when it comes to providing Micro, Small, and Medium Enterprises (MSMEs) with cutting-edge financial services that are well suited to the requirements of these businesses. Because the NBFC industry has traditionally been such an important contributor to the expansion of the Indian economy, it is imperative that it be kept in good working order. Historically, non-bank financial companies (NBFCs) have operated as an adjunct to the banking sector. They have been able to fulfil the requirements of borrowers who were previously considered by banks to be inappropriate. It's possible that a customer with a low or moderate income won't be able to pass the credit worthiness test that the bank administers. Customers are welcome to use the non-bank financial companies' (NBFCs) various financial services. In semi-urban and rural locations, banks also play a role for the sole purpose of collecting deposits or only achieving the criteria of the RBI priority objective. NBFCs are stepping in to fill the detrimental vacuum that have been left by banks in rural and semi-urban regions. They have also contributed to the growth of small and micro enterprises by offering a variety of financial services, which have been essential to this process. The provision of loan services by NBFCs occurs at a far more rapid pace than that of banks. In addition, NBFCs have been helpful in expanding their reach into areas of the nation that are not adequately covered by banks. The topic of discussion in this research paper is the contribution that non-bank financial businesses (NBFCs) make to the expansion of India's economy. In addition to that, it describes the various advantages, chances, difficulties, and issues that are present in the industry, as well as the way ahead.

Objectives

- To analyse the financial performance of different NBFCs in India.
- To investigate the factors driving the expansion and success of NBFCs in India.

ANALYSIS

The investigation being carried out right now is exploratory and diagnostic in nature, and it makes use of secondary data. This study is primary in nature but is dependent on secondary sources of information. In the first part of the study, desk research was undertaken to gather, examine, and have a good empirical grasp of previous research works and their debates on NBFC performance in India. In the study, a diagnostic approach to research was used to determine the factors that were contributing to the issue. In addition to this, the research is going to investigate the factors that drove NBFC expansion and success. The research strategy for this study contains methods such as I identifying the research problem, (ii) diagnosing the research issue, (iii) finding a solution to the problem, and (iv) offering a remedy to the issue that has been brought up. Access to financial resources is very necessary for a nation as large and diverse as India in order to encourage economic expansion and the formation of new businesses. Since the beginning of government-sponsored programmes (such as the Pradhan Mantri Jan-Dhan Yojana [PMJDY]), there has been a large increase in the number of bank accounts; yet, only 15% of adults have reported using an account to either make or receive payments. The government and regulatory organisations have taken significant initiatives to increase this number, including providing in principle licences to as many as 21 players to build specialised banks over the next 18 months (and hence financial access).

Other organisations in the industry, such as the National Payments Corporation of India (NCPI), have implemented a concentrated strategy to further enhance and augment the payments ecosystem by launching the Unified Payment Interface (UPI) and the Bharat Bill Payments System. These initiatives were carried out in conjunction with each other. The introduction of players and systems that are so highly specialised is going to have a substantial effect on the value chain of the whole banking industry. Because of this, NBFCs now have a strategic opportunity to generate growth that is both long-term and sustainable. The formation of partnerships with payment banks, providers of bill payment services, and other financial institutions, such as insurance and asset management companies, will make it possible for NBFCs to offer a comprehensive set of services to their customers. These services will include deposits, loans, investments, and transactions. The NBFC's ability to reach a wider audience, in conjunction with their extensive industry expertise, may assist them in marketing themselves as a superior alternative to conventional banking. In addition to this, the Indian customer is progressively adopting a digital lifestyle as a way of living. India is now the second biggest market for smart phones, with a user base of 220 million, and it is anticipated that this number will approach 300 million by the year 2020. In order for NBFCs to maintain their relevance in such an environment, they will need to rethink their strategy in order to enhance their product portfolio (positioning and pricing), processes (internal and client facing), and overall customer experience. They need to make full use of the vast volumes of digital (and social) client data that is at their disposal in order to provide satisfactory support to their clients. Lack of income proofs or tax returns as a result of temporary or self-employment is one of the primary factors contributing to India's low credit penetration rate. Paperwork may often be replaced with digital and social data, which can help non-bank financial companies (NBFCs) make more informed decisions on the loans they provide. With the beginning of the Digital India programme, the primary endeavour that the government of India is doing to digitally empower society, non-bank financial companies (NBFCs) would need to find out how to serve younger customers via digital channels. The process of acquiring information is broken up into two parts so that the research project may be carried out as effectively as possible. As a component of the desk research activity, the initial stage of the study consisted mostly of the researcher going through accessible secondary sources of data and reviewing them. Data was collected using a variety of different sources including bank reports, RBI data bases, bank performance reports published in journals, periodicals, and websites related to the primary issue, and so on. The information included in financial statements has been thoroughly categorised, and comparisons have been carried out in line with the objective of the research. This will allow for the acquisition of an in-depth understanding of the performance of NBFCs. Performing an analysis of variables may be done in a number of different ways: The following is a list of the financial data analysis methods that were used in the course of the research project: Comparisons made in the statements, Some of the methods that are utilised in trend analysis include analysis of variance, Pearson's correlation, paired t-tests, multiple regressions, structural equation modelling, multiple regression analysis (in SEM), estimation and model fit, model fit (goodness-of-fit indices), and rotation factor analysis (time-series analysis).

Current Ratio: The current ratio is a measure of an organization's ability to meet its short-term financial commitments (also known as liabilities), and it falls under the category of liquidity ratios. The calculation formula for the ratio is as follows:

Current Ratio = Current Assets/Current Liabilities

The current ratio should be at least 2:1, which means that current assets should be twice as much as current liabilities. This is the criterion that is usually acknowledged. The data relating to current ratios that were computed for the sample NBFCs that were taken for the research can be seen in the table. These ratios are computed for five consecutive years, starting in 2015 and continuing through 2020. In the year 2020, IFCI had the greatest current ratio, followed by L & T financial holding with the third highest current ratio. Comparable ratios may be seen across all of the other firms. The company with the greatest current ratio in 2019 was L&T Finance Holdings, followed by power finance. The current ratio of Power Finance has been steadily climbing upward over the course of the last several years. The current ratio of REC fell to 15.57 in 2019, indicating a downward trend. Ceejay Financials limited maintained a current ratio that was consistent during all five years and came quite near to the generally acknowledged benchmark ratio of 2:1.

Table 1: Current Ratio of Selected NBFCs from 2015 to 2020

	2015	2016	2017	2018	2019	2020
Armaan Financial Ltd	1.36	1.28	1.02	0.96	2.05	2.77
Mahindra & Mahindra	1.18	1.27	1.25	3.19	2.72	2.24
L&T finance Holdings Ltd	1.09	1.1	0.90	845.51	1679.92	37.70
Reliance	1.22	0.85	1.01	31.63	28.62	7.72
IFCI	1.299	0.93	1.23	11.9	9.57	213.88
Siemens	1.54	1.85	1.99	1.95	2.12	2.20
REC	0.678	1.22	1.17	51.63	15.5	13.82
Power Finance	1.006	1.21	1.32	48.74	58.27	4.21
Muthoot Finance	1.91	1.76	1.56	20.95	33.14	1.78
Ceejay Finance Ltd	1.64	1.73	1.46	1.60	1.69	2.46

Source: money control

Table 2: Analysis for Current Ratio of Selected NBFCs

Source of variation	Sum of Squares	Degrees of Freedom	Mean square	F
Between Groups	1116664	9	124073.8	2.19
Within Groups	2265576	50	56639.39	
Total	3382240	59		

Table 3: Debt-Equity Ratio of Selected NBFCs from 2015 to 2020

COMPANIES	2015	2016	2017	2018	2019	2020
Armaan Financial Ltd	1.14	0.90	1.18	1.94	3.07	1.41
Mahindra & Mahindra	3.47	3.56	4.20	4.17	4.84	5.23
L&T finance Holdings Ltd	0.15	0.15	0.24	0.06	0.15	0.44
Reliance	1.31	1.31	1.25	2.13	2.19	5.14
IFCI	3.75	3.78	3.37	3.98	3.48	3.15
Siemens	0	0	0	0	0	0
REC	5.31	5.07	4.49	6.33	7.12	8.16
Power Finance	5.83	5.61	4.86	6.41	6.82	6.87
Muthoot Finance	2.85	2.43	2.61	2.71	2.74	3.21
Ceejay Finance Ltd	0.79	0.60	0.77	0.72	0.64	0.62

Source: money control

Table 4. Analysis for Debt-equity ratio of selected NBFCs

Source of variation	Sum of Squares	Degrees of Freedom	Mean square	F
Between Groups	269.53	9	29.94	35.64
Within Groups	42.027	50	0.84	
Total	311.557	59		

ANOVA: At a level of significance of 5 percent, the table value of F for degree of freedom 50 is 212. The alternative hypothesis is accepted since the value of F that was computed (2.2) is lower than the value that was found in the table. This indicates that the null hypothesis should be rejected. The findings of this investigation lead us to the conclusion that there is a discernible split in the existing proportion of NBFCs.

Long Term Solvency Debt-Equity Ratio: To determine whether or not an organisation is financially sustainable over the long run, a ratio of debt to equity must be calculated. The ratio may be found by using the following formula:

Debt to Equity Ratio= Debt/Equity (Shareholder's Funds): If a company has a high debt to equity ratio, it indicates that the company relies more on debts and loans than it does on the cash contributed by its shareholders. In practise, lenders face a significant amount of risk. On the other hand, a debt - equity ratio that is relatively low indicates that the firm relies more heavily on the funds provided by its shareholders than on external equities. In practise, lenders are exposed to less risk and enjoy a high level of safety.

Both Power Finance and REC had successful business years throughout all six of the years. In the instance of Mahindra & Mahindra, the debt equity ratios of all five years do not differ much from one another; more specifically, the yearly debt equity ratios are simply concentrated around the mean. In the instance of REC, the growth rate of equity has been found to be greater than that of debt. As a consequence of this, the debt equity ratios of REC have shown significant deviations from the mean ratio. It is clear to see that Power Finance, REC, and Mahindra & Mahindra all have a larger amount of debt compared to their equity. Because all three of these businesses are well-established NBFCs, the total amount of their debt is more than the value of their equity. As NBFCs that are experiencing rapid expansion, they are robust in terms of both debt and equity and have shown consistent growth over the course of several years. Ceejay Finance ltd, L&T Finance Holdings ltd, and Armaan Finance ltd all had debt-to-equity ratios that were lower than the industry average. Throughout the course of the research, both Ceejay Finance Ltd. and L&T Finance Holdings Ltd. managed to keep their equity at an almost entirely stable level. Because these two businesses have a very manageable amount of debt, their financial solvency is in an excellent situation.

In the cases of Reliance and Muthoot, a satisfactory solvency situation is shown by the growth trend in both debt and equity, together with a debt equity ratio that is modest.

- Core Investment businesses demonstrating that the organisation is reliant more on the money contributed by shareholders, so reducing the risk for lenders.
- Companies that specialised in microfinance and infrastructure financing had a high Net Profit Ratio, indicating that they expected to see favourable returns from their investments.
- Companies that specialise in micro financing and asset financing often have a greater return on capital. This is an indication of how effectively a firm is putting its entire capital to work in order to earn profit.
- Microfinance firms and asset financing companies have a better return on net worth equity than other types of companies. This demonstrates how well the management of the firm is using the funds contributed by the owners.
- It can be deduced from the table that the value of F at a level of significance of five percent is greater than the value of F in the table for each of the three ratios that were computed. This shows that the null hypothesis is not true and that the bulk of the chosen ratios for this research vary considerably amongst the different categories of NBFCs. Additionally, this suggests that this study should not be conducted. There are distinct behavioural differences across the various types of NBFCs.

The analysis of solvency reveals that the sample NBFCs run their businesses with a high level of risk, as evidenced by the fact that they have a very low percentage of total assets as their owned funds, rely more on borrowed funds, and have more current assets than liquid assets in relation to their current liabilities. The amount of danger one is willing to take is proportional to the amount of profit one can make. Because of this, the NBFCs take on greater risk in order to increase their earnings. However, the performance of these non-bank financial companies (NBFCs) demonstrates that they have enough solvency since they are able to manage the risks and have the ability to generate cash. Nevertheless, these NBFCs have a lot of room for improvement in terms of their profitability ratios and their handling of capital. NBFCs are need to concentrate on their fundamental advantages while simultaneously working to improve their disadvantages. At the moment, the micro, small, and medium-sized enterprise (MSME) sector looks to be most impacted by the economic disruptions induced by the coronavirus pandemic. This is because enterprises have come to a halt and consumer spending has decreased. Because loans to MSMEs make up a significant portion of NBFCs' loan portfolios, the capacity of NBFCs to repay loans to other financial lenders may be negatively impacted in the event that MSMEs went into default. on the other hand, Indian authorities and regulators have made a number of steps to make the financial burden of borrowers less onerous. The Reserve Bank of India has imposed a suspension on loan repayments for troubled bank and NBFC debtors that would last for three months. There should be some improvement in the liquidity of the local credit markets as a result of a substantial injection of money into the system of Rs 3.74 trillion.

CONCLUSION

Although NBFCs are well-known for providing financial services such as straightforward credit approval and disbursement procedures, as well as timely, friendly, and flexible repayment terms that are customised to the individual qualities of their customers, they are also notorious for charging a higher interest rate than their Scheduled Commercial Bank counterparts. As a consequence of this, non-bank financial companies (NBFCs) are advised to bring their interest rates down and keep them there in order to enhance their financial results, as well as to circumvent some difficulties or to get certain advantages. The analysis of financial ratios and performance indicators for various non-banking financial companies (NBFCs) in India reveals several key insights. Established NBFCs like Power Finance, REC, and Mahindra & Mahindra demonstrate a higher reliance on debt financing compared to equity, reflecting their robustness and consistent growth over the years. However, smaller players like Ceejay Finance, L&T Finance Holdings, and Armaan Finance have lower debt-to-equity ratios, indicating a more manageable debt level and better financial solvency. The study highlights distinct behavioural differences across different categories of NBFCs. Core investment businesses rely more on shareholder funds, reducing risk for lenders. Microfinance and infrastructure financing companies exhibit high net profit ratios, suggesting favourable returns on investments. Asset financing and microfinance firms tend to have higher returns on capital and net worth equity, indicating efficient utilization of resources to generate profits. While the analysis of solvency ratios reveals that NBFCs operate with a high level of risk, taking on more borrowed funds and maintaining a higher proportion of current assets to current liabilities, their overall performance demonstrates sufficient solvency and the ability to manage risks effectively. However, there is scope for improvement in profitability ratios and capital management.

The ongoing COVID-19 pandemic has posed challenges for NBFCs, particularly in the MSME sector, which constitutes a significant portion of their loan portfolios. Defaults by MSMEs could impact the loan repayment capacity of NBFCs to other financial lenders. Nonetheless, regulatory interventions by the RBI, such as the suspension of loan repayments and infusion of liquidity, are expected to provide relief to borrowers and improve the liquidity situation in credit markets. Overall, NBFCs should focus on leveraging their core strengths while addressing weaknesses in profitability and capital management. Effective risk management strategies and adaptation to the evolving economic landscape will be crucial for the sustainable growth and resilience of the NBFC sector in India.

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