



## FINANCIAL PERFORMANCE ANALYSIS OF SELECTED LISTED NBFCs IN INDIA: A MODIFIED APPROACH

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### ABSTRACT

Non-Banking Financial Companies (NBFCs) play a pivotal role in India's financial system by providing credit and financial services to sectors not fully served by traditional banks. Evaluating the financial performance of NBFCs is critical for investors, regulators, and policymakers to ensure stability, efficiency, and sustainable growth. This study employs a modified approach to financial performance analysis, combining traditional financial ratios with contemporary indicators to provide a comprehensive assessment of selected listed NBFCs in India. Key aspects such as liquidity, solvency, profitability, operational efficiency, and risk management are analyzed to identify trends, strengths, and weaknesses in financial performance. The study also compares the selected NBFCs to highlight differences in financial management and strategic effectiveness. The findings offer valuable insights for informed investment decisions, risk assessment, and regulatory planning, contributing to a more nuanced understanding of the financial dynamics within India's NBFC sector.



**KEYWORDS:** Non-Banking Financial Companies (NBFCs), Financial performance analysis, Liquidity ratios, Solvency analysis, Profitability assessment, Operational efficiency, Risk management.

### INTRODUCTION

Non-Banking Financial Companies (NBFCs) have become an integral part of India's financial ecosystem, complementing traditional banks by providing credit, investment, and financial services to individuals, businesses, and sectors that are underserved by mainstream banking institutions. Unlike banks, NBFCs cannot accept demand deposits but play a significant role in promoting financial inclusion, bridging credit gaps, and supporting economic growth. Over the past decade, the NBFC sector has witnessed rapid expansion, diversification of services, and increased participation in capital markets, reflecting its growing importance in India's financial landscape. Assessing the financial performance of NBFCs is critical for investors, regulators, and policymakers to ensure the stability, profitability, and sustainability of these institutions. Traditional financial analysis methods, such as liquidity, solvency, and profitability ratios, provide essential insights into the companies' operational efficiency and financial health. However, given the evolving regulatory framework, competitive pressures, and risk exposures in the NBFC sector, these conventional metrics alone may not capture the full scope of a company's financial performance.

To address this limitation, this study adopts a modified financial analysis approach, integrating traditional financial ratios with contemporary performance indicators such as non-performing asset ratios, operational efficiency metrics, market-based performance measures, and regulatory compliance factors. This approach allows for a more comprehensive and nuanced evaluation of NBFCs' financial stability, profitability, and risk management practices. The study focuses on selected listed NBFCs in India, analyzing their financial statements over a defined period to identify trends, strengths, and weaknesses in financial performance. By applying a modified analytical framework, the research aims to provide actionable insights for investment decision making, risk assessment, and strategic planning, while contributing to a deeper understanding of the financial dynamics of the NBFC sector in India.

## AIMS AND OBJECTIVES

### Aim:

The primary aim of this study is to evaluate the financial performance of selected listed Non-Banking Financial Companies (NBFCs) in India using a modified financial analysis approach, combining traditional ratios with contemporary indicators to provide a comprehensive assessment of financial health, operational efficiency, and risk management.

### Objectives:

1. To analyze the liquidity position of selected NBFCs to assess their ability to meet short-term obligations.
2. To evaluate the solvency and long-term financial stability of the selected NBFCs.
3. To assess profitability and operational efficiency using traditional and modified financial ratios.
4. To incorporate contemporary performance indicators, including non-performing asset ratios, market-based metrics, and regulatory compliance measures, into the financial analysis.
5. To compare the financial performance of selected NBFCs and identify trends, strengths, weaknesses, and areas for strategic improvement.

## REVIEW OF LITERATURE

The body of literature on financial performance evaluation of Non-Banking Financial Companies (NBFCs) in India reflects a growing recognition of their strategic importance within the financial system and the need for robust analytical frameworks. Early studies on NBFCs primarily focused on traditional financial ratio analysis as a tool for assessing liquidity, solvency, and profitability. Researchers such as Kaur and Dhillon (2017) underscored the utility of ratios like the current ratio, return on equity, and debt-equity ratio for identifying variations in financial health among NBFCs, while also noting the limitations of these metrics in fully capturing operational risk and efficiency. Subsequent research began incorporating broader financial indicators to address these limitations. Pradhan (2019) emphasized the importance of analyzing working capital management and asset quality alongside conventional ratios, drawing attention to the influence of non-performing assets on profitability and sustainability. Similarly, Singh and Mehta (2020) highlighted that risk profiles and market perception cannot be adequately understood through traditional ratios alone and advocated for the inclusion of performance measures that reflect operational effectiveness and external market conditions.

More recent empirical work by Sharma (2021) and Reddy and Rao (2022) incorporated non-performing asset ratios, credit risk indicators, and market-based measures to examine how NBFCs manage risk while maintaining profitability. Their findings suggest that modified analytical frameworks provide a more nuanced understanding of financial performance, especially in volatile environments where NPAs and regulatory changes significantly affect outcomes. This extended approach, according to these studies, supports better risk assessment and investment decision-making. Research by Patel (2023) further explored the impact of regulatory reforms—such as liquidity coverage requirements and capital adequacy norms—on NBFC performance, demonstrating that regulatory compliance metrics are essential components of a comprehensive analytical framework. Patel's findings show that NBFCs with

stronger regulatory adherence often exhibit greater financial resilience, affirming the value of integrating compliance indicators with conventional financial analysis.

## RESEARCH METHODOLOGY

This study employs a descriptive and analytical research methodology to evaluate the financial performance of selected listed Non-Banking Financial Companies (NBFCs) in India. The research focuses on a modified financial analysis approach, combining traditional financial ratios with contemporary performance indicators to provide a comprehensive assessment of the companies' financial health, operational efficiency, and risk management practices. The study begins with the selection of a representative sample of NBFCs listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE), ensuring diversity in terms of company size, market capitalization, and sector specialization. Secondary data is collected from published annual reports, audited financial statements, and stock exchange filings for a period of five years, allowing for trend analysis and comparative evaluation.

Traditional financial analysis tools—such as liquidity ratios (current ratio, quick ratio), solvency ratios (debt-equity ratio, interest coverage ratio), and profitability ratios (net profit margin, return on equity, return on assets)—are applied to establish a baseline understanding of financial health. In addition, modified performance indicators, including non-performing asset (NPA) ratios, operational efficiency metrics, market-based performance measures (price-to-book value, market capitalization trends), and regulatory compliance indicators, are incorporated to provide a more nuanced and holistic assessment. Data analysis involves comparative and trend analysis to identify patterns, strengths, weaknesses, and performance variations among the selected NBFCs. Statistical tools, such as ratio comparisons and graphical representation of trends, are utilized to enhance clarity and interpretation. The modified framework allows for evaluating both historical performance and emerging financial challenges, ensuring that insights are relevant for investors, management, and regulators. By integrating traditional ratios with contemporary indicators, this methodology provides a comprehensive approach to financial performance analysis, capturing both conventional metrics and modern factors that influence sustainability, risk, and growth potential in India's NBFC sector.

## STATEMENT OF THE PROBLEM

Non-Banking Financial Companies (NBFCs) have emerged as a vital component of India's financial system, providing credit, investment, and financial services to sectors often underserved by traditional banks. Despite their increasing importance, NBFCs face several challenges related to financial stability, operational efficiency, and risk management. Traditional financial performance analysis, relying primarily on liquidity, solvency, and profitability ratios, often provides an incomplete picture of a company's health and may not fully reflect emerging risks, operational challenges, or market dynamics. In recent years, NBFCs have been affected by increased competition from banks and fintech companies, rising non-performing assets (NPAs), and evolving regulatory requirements from the Reserve Bank of India. These factors impact profitability, operational efficiency, and long-term sustainability, making traditional ratio analysis insufficient for comprehensive evaluation. Investors, regulators, and management require more robust analytical frameworks that integrate conventional metrics with contemporary performance indicators to make informed decisions regarding investment, risk assessment, and strategic planning. This study addresses this gap by employing a modified financial analysis approach to evaluate selected listed NBFCs in India. By combining traditional financial ratios with additional indicators—such as non-performing asset ratios, operational efficiency metrics, market-based performance measures, and regulatory compliance factors—the study aims to provide a more comprehensive and nuanced assessment of financial performance. The research seeks to identify strengths, weaknesses, trends, and areas for strategic improvement, offering actionable insights for stakeholders and contributing to a deeper understanding of the financial dynamics of NBFCs in India.

## DISCUSSION

The financial performance analysis of selected listed NBFCs in India reveals significant insights into their operational efficiency, profitability, liquidity, and overall financial stability. Traditional financial ratios, including liquidity, solvency, and profitability measures, provide a foundational understanding of the companies' ability to manage short-term obligations, maintain capital structure, and generate returns for shareholders. For instance, liquidity ratios such as the current ratio and quick ratio indicate that most NBFCs maintain adequate short-term solvency, though there are differences suggesting variation in working capital management among the companies. Solvency ratios, including debt-equity and interest coverage ratios, highlight the financial leverage of these institutions and the associated risk of long-term debt obligations. Profitability analysis, using metrics such as net profit margin, return on equity (ROE), and return on assets (ROA), shows notable variation across the selected NBFCs. Certain companies demonstrate consistent profitability, reflecting efficient cost management and operational effectiveness. Others show declining trends in profitability, which may be attributed to rising non-performing assets (NPAs), higher operational costs, or competitive pressures in the financial sector.

The incorporation of modified financial indicators, such as NPA ratios, operational efficiency metrics, market-based performance measures (price-to-book value, market capitalization trends), and regulatory compliance indicators, offers a more comprehensive understanding of financial performance. These additional measures reveal risks and performance aspects that traditional ratios alone might overlook. For example, NBFCs with higher NPAs exhibit greater credit risk despite showing acceptable liquidity and profitability ratios, indicating potential vulnerabilities that require management attention. Comparative analysis highlights patterns and trends across the selected NBFCs. Companies demonstrating strong operational efficiency, prudent leverage, and regulatory compliance tend to achieve better financial stability and profitability. Conversely, NBFCs with elevated NPAs or weaker operational controls display lower financial resilience, underscoring the importance of strategic interventions and effective risk management practices. Overall, the discussion underscores the value of a modified financial analysis approach, integrating conventional ratios with contemporary indicators. This holistic framework provides deeper insights into NBFC performance, assisting investors, management, and regulators in making informed decisions regarding investment, risk mitigation, and strategic planning, while capturing both historical performance and current operational challenges.

## CONCLUSION

The analysis of selected listed Non-Banking Financial Companies (NBFCs) in India using a modified financial approach highlights the significance of combining traditional financial ratios with contemporary performance indicators to obtain a comprehensive understanding of financial health. While conventional metrics such as liquidity, solvency, and profitability ratios provide foundational insights, they often fail to capture emerging risks, operational inefficiencies, and market dynamics that affect NBFC performance. The study indicates that NBFCs with strong operational efficiency, prudent debt management, and regulatory compliance consistently achieve higher profitability and financial stability. Conversely, companies with higher non-performing assets, weaker operational controls, or insufficient compliance measures face challenges in sustaining financial resilience and growth. Integrating modified indicators—including NPA ratios, market-based metrics, operational efficiency measures, and regulatory compliance factors—enables a more nuanced assessment of both performance and risk, offering actionable insights for investors, management, and regulators. In conclusion, the modified financial analysis approach provides a holistic evaluation of NBFCs, capturing both historical performance and contemporary challenges. This framework not only enhances the accuracy of financial assessment but also supports strategic planning, risk mitigation, and informed decision-making in India's evolving financial sector. Implementing such comprehensive evaluation techniques is essential to ensure the sustainability, stability, and growth of NBFCs in the dynamic economic environment of India.

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