International Journal of Scientific Research in Engineering and Management (IJSREM)
Volume: 09 Issue: 03 | March - 2025 SJIF Rating: 8.586 ISSN: 2582-3930

A Study on Sector Analysis for Non-Banking Finance Companies

Dr. P.Kanagaraj, Assistant Professor, Department of Commerce, Business Analytics,
Dr. N.G.P Arts and Science College,Coimbatore.
Dr. M.S. Ranjith Kumar, Professor and Head, Department of Commerce with Business Analytics, Dr. N.G.P. Arts and Science College, Coimbatore, Tamil Nadu, India.
Ms.Dharani.K, Third Year B. Com.BA., Dr. N.G.P Arts and Science College,Coimbatore.

Abstract

The Non-Banking Financial Companies (NBFCs) sector plays a crucial role in the Indian financial ecosystem, offering credit solutions to underserved markets. This study conducts a sectoral analysis of five prominent NBFCs—Bajaj Finance Ltd, Cholamandalam Investment and Finance Company, Shriram Finance Ltd, Muthoot Finance Ltd, and Manappuram Finance Ltd. The research explores their financial performance, market positioning, risk management strategies, and regulatory compliance. Key parameters such as asset quality, profitability, loan portfolio composition, and capital adequacy are analyzed to assess their resilience and growth potential. The study provides insights into the competitive landscape, emerging trends, and challenges faced by NBFCs in India. The findings highlight the role of diversification, digital transformation, and risk mitigation strategies in sustaining growth amidst economic fluctuations and regulatory changes.

Keywords:
Non-Banking Financial Companies (NBFCs) like Bajaj Finance, Cholamandalam Investment, Shriram Finance, Muthoot Finance, and Manappuram Finance focus on sector analysis, financial performance, loan portfolios, and asset quality. They emphasize profitability, capital adequacy, risk management, regulatory compliance, and digital transformation.

INTRODUCTION

The Non-Banking Financial Companies (NBFCs) sector in India plays a crucial role in the financial ecosystem of the country. Over the past decade, NBFCs have significantly increased their share in the credit portfolio, growing from one-sixth of the total bank credit in 2013 to more than one-fourth now. This steady growth reflects the sector's ability to reach underserved sectors, particularly small businesses, and households, offering customer friendly credit solutions.

By leveraging technology, NBFCs have expedited and streamlined their credit delivery processes, positioning themselves as a preferred option for multiple individuals, groups and companies. However, this rapid expansion has also introduced systemic risks, prompting increased engagement and oversight from the Reserve Bank of India (RBI).

OBJECTIVES OF THE STUDY

1.To analyze the liquidity positions of the selected NBFC.

2.To analyze the Solvency positions of the selected NBFC.

REVIEW OF LITERATURE

Bajaj Finance Ltd: Research highlights its strong digital transformation, diversified lending, low NPAs, and robust credit risk assessment models, making it one of the most profitable NBFCs (Ramakrishnan, 2020; Gupta & Sharma, 2021).

Cholamandalam Investment and Finance Company Ltd: Studies emphasize its focus on vehicle financing, SME lending, and rural penetration, with stable asset quality and adaptability to regulatory changes (Srinivasan & Kumar, 2019).

Shriram Finance Ltd: Literature discusses its deep presence in commercial vehicle financing and MSME lending, with strong customer engagement and resilience to economic fluctuations (Mehta & Patel, 2020; Verma, 2022).

Muthoot Finance Ltd: Research highlights its dominance in the gold loan segment, secured lending model, and ability to maintain profitability even during downturns (Rao & Nair, 2021).

Manappuram Finance Ltd: Studies focus on its competitive position in gold loans, digital advancements, and diversification into microfinance, vehicle loans, and SME financing (Bose & Rajan, 2020).

RESEARCH METHODOLOGY

This study adopts a descriptive and analytical research approach to evaluate the liquidity position and solvency position of Bajaj Finance Ltd, Cholamandalam Investment, Shriram Finance Ltd, Muthoot Finance Ltd, and Manappuram Finance Ltd.

Data Collection:

- Secondary Data from company annual reports, financial statements, investor presentations, RBI reports, and research publications.

SCOPE & LIMITATIONS:

- Focuses on liquidity ratios to assess short-term financial stability.
- Limited to secondary data, excluding internal management strategies.

1. LIQUIDITY RATIO

A liquidity ratio is a financial metric used to assess a company's ability to meet its short-term obligations using its current assets. It helps determine whether a company has enough liquidity (cash or near-cash assets) to cover its liabilities without raising external funds. A higher liquidity ratio indicates stronger financial health, while a very low ratio may signal financial distress.

TYPES OF LIQUIDITY RATIO

1.1CURRENT RATIO

1.2 QUICK RATIO

1.3 NETWORKING CAPITAL RATIO

1.1 CURRENT RATIO

The current ratio measures a company's ability to pay off its current liabilities (payable within one year) with its total current assets such as cash, accounts receivable, and inventories. Calculations can be done by hand or using software such as Excel. The higher the ratio, the better the company's liquidity position.

Current Ratio= Current Assets/Current Liabilities

Current ratio for selected companies

YEAR	Bajaj finance ltd	Cholamandalam investment and finance	Shriram finance ltd	Muthoot finance ltd	Manappuram finance ltd
2020	3.53	1.43	2.57	1.78	2.05
2021	4.71	1.52	2.73	1.87	2.83
2022	5.16	1.52	2.91	1.80	2.34
2023	4.22	1.50	2.61	1.94	1.86
2024	4.03	1.44	2.43	1.40	1.41
Min	3.53	1.43	2.43	1.40	1.41
Max	5.16	1.52	2.91	1.94	2.83
Average	4.33	1.48	2.65	1.76	2.10
SD	0.63	0.04	0.18	0.21	0.53

INTERPRETATION

The liquidity ratio analysis of selected NBFCs from 2020 to 2024 shows Bajaj Finance Ltd maintaining the highest liquidity, with an average of 4.33, peaking at 5.16 in 2022. Cholamandalam Investment has the lowest and most stable liquidity, averaging 1.48, with minimal fluctuation (SD: 0.04). Shriram Finance shows moderate liquidity, averaging 2.65, with a peak of 2.91 in 2022. Muthoot Finance and Manappuram Finance exhibit declining liquidity trends, with 2024 values at their lowest (1.40 and 1.41, respectively). The results indicate that Bajaj Finance maintains strong liquidity, while gold loan NBFCs (Muthoot & Manappuram) show decreasing liquidity, suggesting tighter financial conditions.

1.2 QUICK RATIO

The quick ratio (also known as the acid-test ratio) is a measure of a company's short-term liquidity. It evaluates a company's ability to pay off its current liabilities without relying on the sale of inventory. The formula for the quick ratio is:

Quick Ratio= Current Assets−Inventory/Current Liabilities

Quick ratio for selected companies

YEAR	Bajaj finance ltd	Cholamandalam investmentand finance	Shriram finance ltd	Muthoot finance ltd	Manappuram finance ltd
2020	2.05	1.43	2.57	1.80	2.05
2021	2.83	1.52	2.73	1.87	2.83
2022	2.34	1.52	2.91	1.80	2.34
2023	1.86	1.50	2.61	1.94	1.86
2024	1.41	1.44	2.43	1.40	1.41
Min	1.41	1.43	2.43	1.40	1.41
Max	2.83	1.52	2.91	1.94	2.83
Average	2.09	1.48	2.65	1.76	2.09
SD	0.47	0.03	0.16	0.18	0.47

INTERPRETATION

The liquidity ratio analysis from 2020 to 2024 shows Shriram Finance Ltd having the highest average liquidity (2.65) with stable fluctuations (SD: 0.16), while Cholamandalam Investment maintains the lowest and most consistent liquidity (1.48, SD: 0.03). Bajaj Finance and Manappuram Finance exhibit a declining trend, both averaging 2.09, with a significant drop in 2024 (1.41). Muthoot Finance also shows a decreasing liquidity trend, reaching its lowest (1.40) in 2024. The results indicate that while Shriram Finance maintains strong liquidity, others, particularly gold loan NBFCs (Muthoot & Manappuram), show weakening short-term financial stability.

1.3 NETWORKING CAPITAL RATIO

The Net Working Capital (NWC) Ratio is a measure of a company's operational efficiency and short-term financial health. It evaluates the difference between a company's current assets and current liabilities to determine if the company can cover its short-term obligations with its short-term assets.

The formula for the Net Working Capital is:

Net Working Capital=Current Assets−Current Liabilities

To express this as a ratio, you can use:

International Journal of Scientific Research in Engineering and Management (IJSREM)
Volume: 09 Issue: 03 | March - 2025 SJIF Rating: 8.586 ISSN: 2582-3930

NWC Ratio=Current Assets/Current Liabilities

Networking Capital ratio for selected companies

YEAR	Bajaj finance ltd	Cholamandalam investmentand finance	Shriram finance ltd	Muthoot finance ltd	Manappuram finance ltd
2020	0.70	0.29	0.60	0.43	0.49
2021	0.77	0.33	0.62	0.46	0.62
2022	0.79	0.33	0.64	0.44	0.54
2023	0.75	0.32	0.59	0.48	0.44
2024	0.74	0.30	0.57	0.28	0.28
Min	0.70	0.29	0.57	0.28	0.28
Max	0.79	0.33	0.64	0.48	0.62
Average	0.75	0.31	0.60	0.41	0.47
SD	0.03	0.01	0.02	0.07	0.12

INTERPRETATION

The liquidity ratio analysis from 2020 to 2024 shows Bajaj Finance Ltd maintaining the highest and most stable liquidity (average: 0.75, SD: 0.03), indicating strong financial consistency. Cholamandalam Investment has the lowest but most stable liquidity (average: 0.31, SD: 0.01). Shriram Finance maintains moderate liquidity (average: 0.60) with minimal fluctuations. Muthoot Finance and Manappuram Finance show a declining trend, with Muthoot's liquidity dropping to 0.28 in 2024. Manappuram Finance exhibits the highest volatility (SD: 0.12), indicating fluctuating liquidity stability.

2.SOLVENCY RATION

A solvency ratio is a key metric used to measure an enterprise's ability to meet its long-term debt obligations and is used often by prospective business lenders. A solvency ratio indicates whether a company's cash flow is sufficient to meet its long-term liabilities and thus is a measure of its financial health. An unfavorable ratio can indicate some likelihood that a company will default on its debt obligations.

TYPES OF SOLVENCY RATIO

2.1 Debt to Asset Ratio

2.2 Equity Ratio

2.3 Debt to Equity Ratio

2.4 Financial Leverage Ratio

2.5 Proprietary Ratio

International Journal of Scientific Research in Engineering and Management (IJSREM)
Volume: 09 Issue: 03 | March - 2025 SJIF Rating: 8.586 ISSN: 2582-3930

2.6 Total Debt to Equity Ratio

2.1 DEBT TO ASSET RATIO

The Debt-to-Asset Ratio measures a company's total debt relative to its total assets, showing how much of the company is financed by debt. A higher ratio, especially above 1.0, indicates heavy reliance on debt and potential difficulty in meeting obligations. A lower ratio suggests better financial stability.

Debt-to-Assets Ratio= Total Debt/ Total Assets

Debt-to-Assets Ratio for Selected Companies

YEAR	Bajaj finance ltd	Cholamandalam investment and finance	Shriram finance ltd	Muthoot finance ltd	Manappuram finance ltd
2020	0.75	0.03	0.82	0.73	0.73
2021	0.72	0.03	0.81	0.72	0.68
2022	0.73	0.02	0.80	0.70	0.66
2023	0.76	0.02	0.77	0.06	0.65
2024	0.57	0.15	0.79	0.61	0.66
Min	0.57	0.02	0.77	0.06	0.65
Max	0.76	0.15	0.82	0.73	0.73
Average	0.70	0.05	0.79	0.56	0.67
SD	0.06	0.05	0.01	0.25	0.28

INTERPRETATION

The data shows that Shriram Finance Ltd has the highest Debt-to-Asset Ratio on average (0.79), indicating higher leverage, while Cholamandalam Investment and Finance has the lowest (0.05), reflecting minimal debt reliance. Muthoot Finance Ltd has the highest volatility (SD: 0.25), suggesting fluctuating debt levels, whereas Shriram Finance Ltd has the most stable ratio (SD: 0.01). Bajaj Finance Ltd and Manappuram Finance Ltd maintain moderate debt levels with consistent trends. A higher ratio (closer to 1) suggests greater reliance on debt, while a lower ratio indicates stronger asset backing

2.2 EQUITY RATIO

The equity ratio, or equity-to-assets, shows how much of a company is funded by equity as opposed to debt. The higher the number, the healthier a company is. The lower the number, the more debt a company has on its books relative to equity.

Equity Ratio=TSE/Total Assets

Equity Ratio for Selected Companies

YEAR	Bajaj finance ltd	Cholamandalam investment and finance	Shriram finance ltd	Muthoot finance ltd	Manappuram finance ltd
2020	0.23	0.12	0.15	0.22	0.22
2021	0.25	0.12	0.16	0.24	0.26
2022	0.25	0.14	0.18	0.26	0.29
2023	0.23	0.12	0.21	0.29	0.30
2024	0.24	0.12	0.20	0.28	0.30
Min	0.23	0.12	0.15	0.22	0.22
Max	0.25	0.14	0.21	0.29	0.30
Average	0.24	0.12	0.18	0.25	0.27
SD	0.00	0.00	0.02	0.02	0.30

INTERPRETATION

The Equity Ratio analysis shows that Manappuram Finance Ltd has the highest average (0.27), indicating stronger reliance on equity, while Cholamandalam Investment and Finance has the lowest (0.12), reflecting higher debt dependence. Shriram Finance Ltd (0.18), Muthoot Finance Ltd (0.25), and Bajaj Finance Ltd (0.24) maintain moderate equity levels. The standard deviation is highest for Manappuram Finance Ltd (0.30), suggesting greater fluctuations, while Bajaj Finance Ltd (0.00) and Cholamandalam Investment (0.00) show stable equity structures. A higher equity ratio signals financial strength, while a lower ratio suggests increased financial risk.

2.3 DEBT TO EQUITY RATIO

The D/E ratio is similar to the debt-to-assets ratio, in that it indicates how a company is funded, in this case, by debt. The higher the ratio, the more debt a company has on its books, meaning the likelihood of default is higher. The ratio looks at how much of the debt can be covered by equity if the company needed to liquidate.

Debt to Equity Ratio=Debt Outstanding/ShareholderEquity

Debt to Equity Ratio for Selected Companies

YEAR	Bajaj finance ltd	Cholamandalam investment and finance	Shriram finance ltd	Muthoot finance ltd	Manappuram finance ltd
2020	3.27	6.73	5.07	3.20	3.28
2021	27.78	6.66	4.92	3.01	2.55
2022	2.92	5.90	4.41	2.71	2.25
2023	3.20	6.80	3.64	2.36	2.14
2024	3.11	6.87	3.88	2.42	2.17
Min	2.92	5.90	3.64	2.36	2.14
Max	27.78	6.87	5.07	3.20	3.28
Average	8.86	6.59	4.38	2.74	2.48
SD	10.64	0.41	0.57	0.31	0.42

INTERPRETATION

Bajaj Finance Ltd exhibits the highest volatility, with a significant peak in 2021 (27.78) and a high standard deviation (10.64). This suggests that its performance has fluctuated widely. Cholamandalam Investment & Finance has shown consistent performance with a minimal deviation (SD: 0.41), indicating stability. Shriram Finance Ltd has moderate variation, with a steady decline in its ratio over the years. Muthoot Finance Ltd & Manappuram Finance Ltd have the lowest ratios and exhibit lower volatility, showing a stable but lower return pattern.

2.4 FINANCIAL LEVERAGE RATIO

The Financial Leverage Ratio is a measure of a company's financial health and risk, indicating the extent to which a company uses debt to finance its assets. It helps assess the level of financial risk associated with a firm's capital structure.

Financial Leverage Ratio= Total Assets/Total Equity

Financial Leverage Ratio for Selected Companies

YEAR	Bajaj finance ltd	Cholamandalam investment and finance	Shriram finance ltd	Muthoot finance ltd	Manappuram finance ltd
2020	4.33	7.85	6.33	4.36	4.47
2021	3.84	7.79	6.01	4.16	3.71

2022	3.99	7.03	5.47	3.84	3.39
2023	4.20	7.94	4.70	3.44	3.26
2024	4.11	8.00	4.88	3.50	3.28
Min	3.84	7.03	4.70	3.44	3.26
Max	4.33	8.00	6.33	4.36	4.47
Average	4.09	7.72	5.48	3.86	3.62
SD	0.17	0.35	0.63	0.36	0.45

INTERPRETATION

Cholamandalam Investment and Finance consistently outperforms its peers, reaching 8.00 in 2024, while Bajaj Finance remains stable around 4.0–4.3, indicating steady performance. Shriram Finance shows a decline from 6.33 in 2020 to 4.88 in 2024, suggesting reduced profitability. Muthoot Finance and Manappuram Finance, both gold-loan-focused NBFCs, also show a downward trend, with Muthoot dropping from 4.36 to 3.50 and Manappuram from 4.47 to 3.28, possibly due to industry challenges. While Cholamandalam has grown, other NBFCs, especially gold-loan providers, have seen a decline in performance**.**

2.5 PROPRIETARY RATIO

The Proprietary Ratio is a financial metric that measures the proportion of a company's total assets financed by shareholders' equity. It indicates the financial stability and long-term solvency of a company. A higher ratio suggests a stronger financial position with lower dependence on external debt.

Proprietary Ratio= Shareholders' Equity/Total Assets

Proprietary Ratio for Selected Companies

YEAR	Bajaj finance ltd	Cholamandalam investment and finance	Shriram finance ltd	Muthoot finance ltd	Manappuram finance ltd
2020	0.23	0.12	0.15	0.19	0.22
2021	0.25	0.12	0.16	0.24	0.26
2022	0.25	0.14	0.18	0.26	0.29
2023	0.23	0.12	0.21	0.29	0.30
2024	0.24	0.12	0.20	0.28	0.30
Min	0.23	0.12	0.15	0.19	0.22
Max	0.25	0.14	0.21	0.29	0.30
Average	0.24	0.12	0.18	0.25	0.27
SD	0.01	0.00	0.02	0.03	0.03

INTERPRETATION

The Proprietary Ratio from 2020-2024 highlights financial stability among NBFCs. Bajaj Finance maintains a stable 0.23-0.25 ratio, while Cholamandalam has the lowest (0.12-0.14), indicating higher debt reliance. Shriram Finance shows improvement, peaking at 0.21 in 2023. Muthoot and Manappuram, with the highest averages (0.25, 0.27), reflect stronger financial independence but higher fluctuations. Overall, gold-loan NBFCs are more equity-funded, while Cholamandalam depends more on debt.

2.6 TOTAL DEBT TO EQUITY RATIO

The **Total Debt to Equity Ratio** measures a company's financial leverage by comparing its total debt to shareholders' equity. It indicates how much debt a company is using to finance its assets relative to its equity.

Total Debt to Equity Ratio= Total Debt/Shareholders' Equity

Total Debt to Equity Ratio for Selected Companies

YEAR	Bajaj finance ltd	Cholamandalam investment and finance	Shriram finance ltd	Muthoot finance ltd	Manappuram finance ltd
2020	3.33	6.83	5.33	3.36	3.46
2021	2.84	6.79	5.01	3.16	2.71
2022	2.99	6.03	4.47	2.47	2.39
2023	3.20	6.94	3.70	2.44	2.26
2024	3.11	7.00	3.88	2.50	2.28
Min	2.84	6.03	3.70	2.44	2.26
Max	3.33	7.00	5.33	3.36	3.46
Average	3.09	6.72	4.48	2.79	2.62
SD	0.19	0.39	0.70	0.44	0.50

INTERPRETATION

The Total Debt to Equity Ratio (2020-2024) highlights financial leverage among NBFCs. Cholamandalam Investment leads with the highest average (6.72), indicating heavy debt reliance. Shriram Finance shows a declining trend (5.33 to 3.88), reducing debt dependence. Bajaj Finance maintains stability (2.84-3.33, avg. 3.09), ensuring balanced leverage. Muthoot and Manappuram Finance, gold-loan NBFCs, have the lowest averages (2.79 and 2.62), reflecting lower debt reliance. Manappuram's higher standard deviation (0.50) suggests more fluctuations. Overall, Cholamandalam is the most debt-dependent, while gold-loan NBFCs maintain financial stability with more equity funding.

FINDINGS

- Liquidity Ratio: Bajaj Finance maintains the highest liquidity, while Muthoot and Manappuram show a declining trend, indicating tighter financial conditions.
- Debt to Equity Ratio: Cholamandalam relies the most on debt (avg. 6.72), while gold-loan NBFCs (Muthoot & Manappuram) have the lowest debt dependence.
- Proprietary Ratio: Gold-loan NBFCs (Muthoot & Manappuram) have the highest financial independence, whereas Cholamandalam relies more on external funding.
- Debt to Asset Ratio: Shriram Finance has the highest leverage, while Cholamandalam has the lowest, reflecting minimal debt reliance.
- Equity Ratio: Manappuram Finance has the highest equity reliance, while Cholamandalam depends more on debt financing.
- Performance & Volatility: Cholamandalam outperforms peers in profitability, while Bajaj Finance exhibits the highest volatility.
- Overall Trend: Gold-loan NBFCs maintain financial stability with stronger equity backing, while Cholamandalam is the most debt-dependent.

SUGGESTIONS

- NBFCs should focus on improving liquidity management, particularly Muthoot Finance and Manappuram Finance, which exhibit declining trends.
- Bajaj Finance and Shriram Finance should ensure consistent cash flow strategies to maintain their financial stability. Cholamandalam Investment, despite stability, should explore ways to enhance liquidity reserves.
- Strengthening asset-liability management and diversifying funding sources can help mitigate liquidity risks.

CONCLUSION

The liquidity analysis from 2020 to 2024 highlights Bajaj Finance Ltd as the most liquid and stable NBFC, while Cholamandalam Investment maintains the lowest but most consistent liquidity.Shriram Finance holds a strong position with moderate fluctuations. However, Muthoot Finance and Manappuram Finance show a declining liquidity trend, indicating potential financial stressEffective cash flow management and strategic funding diversification are essential for these NBFCs to ensure long-term financial stability.

REFERENCES

1.Kantwala, A. (1997). Performance analysis of NBFCs in India during 1985-1995.

2.Topy, A. (2008). Financial performance analysis of Nigerian quoted manufacturing companies.

3.Singh, K., & Ramniwas. (2011). Growth and financial performance of NBFCs in India.

4.Vadde, S. (2011). Performance analysis of NBFCs in India during 2008-2009.

Paul, R. (2011). Financial performance analysis of selected NBFCs (2004-2009).