

Financial Performance and Growth Analysis of Non-Banking Financial Companies in India: A Five-Year Evaluation

Dr. K. Sentamilselvan., Dr. K. Srimathi., Dr. J. Anand

SRM Valliammai Engineering College, Kattankulathur 603 203, Chengalpet District, Tamilnadu

DOI: <https://doi.org/10.51583/IJLTEMAS.2025.1408000118>

Abstract: This research paper delves into the financial performance and growth trajectories of Non-Banking Financial Companies (NBFCs) operating in India. NBFCs are integral to the Indian financial landscape, as they cater to the financial needs of segments of the population that are often underserved or unbanked. The study examines a set of financial metrics over a five-year period, using secondary data sourced from Reserve Bank of India (RBI) publications, financial statements, and various company databases. Key financial indicators, including the Current Ratio, Debt-Equity Ratio, Net Profit Margin, Return on Capital Employed, and Return on Net Worth, are analyzed using statistical techniques like ANOVA. The results indicate notable differences in financial performance across various categories of NBFCs. Drawing on these findings, the paper provides recommendations to improve regulatory frameworks, promote digital transformation, and enhance risk management practices.

Keywords: NBFCs, Financial Performance, Capital Adequacy, Risk Management, Digital Finance, ANOVA

I. Introduction

Non-Banking Financial Companies (NBFCs) play a crucial role in the financial framework of India. They offer a diverse array of financial services such as loans, asset financing, hire-purchase agreements, and financing for infrastructure projects. Unlike conventional banks, NBFCs do not accept demand deposits; however, they play a vital role in promoting financial inclusion by serving markets that are often overlooked. In recent years, this sector has witnessed substantial growth, fueled by evolving financial demands, supportive regulations, and technological advancements.

Despite their crucial role, NBFCs face several challenges, including liquidity constraints, rising non-performing assets (NPAs), and stringent regulatory scrutiny, especially following major defaults such as the IL&FS crisis. The purpose of this study is to evaluate the financial stability and operational efficiency of prominent NBFCs in India through the application of financial ratio analysis and statistical methods. This investigation aims to enhance the understanding of the sector's performance while providing valuable insights for policymakers, investors, and industry professionals.

Industry Overview of NBFCs in India

The Indian NBFC sector has undergone transformative growth over the past two decades. As of 2024, NBFCs account for approximately 25% of the total credit extended by the financial system, serving diverse sectors including microfinance, housing, infrastructure, and vehicle loans. NBFCs have proven their importance by servicing regions and demographic segments that mainstream banks often overlook. The flexibility and innovative structures adopted by NBFCs allow them to cater to small borrowers, rural clients, and niche market segments. With the advent of digital lending, NBFCs are increasingly leveraging FinTech partnerships to expand reach and reduce operational costs. However, the sector is also facing heightened regulatory scrutiny post the IL&FS crisis and the COVID-19 liquidity shock. RBI's introduction of scale-based regulation, along with enhanced credit underwriting norms and monitoring systems, reflects the shift towards stronger risk governance in the sector.

II. Literature Review

The financial performance and growth of Non-Banking Financial Companies (NBFCs) in India have been extensively analyzed, with research revealing both resilience and systemic weaknesses over time. Initial concerns emerged following the IL&FS crisis. The International Monetary Fund (IMF, 2019) pointed out that the liquidity crisis unveiled structural vulnerabilities in NBFC funding models, especially their reliance on short-term market borrowings. This was succeeded by further analysis from the IMF (2020), which highlighted how these vulnerabilities intensified during the onset of the COVID-19 pandemic, leading to increased risk premia and spillover effects on the mutual fund sector.

Srinivasan (2022) explored NBFCs from a financial inclusion standpoint, claiming that they played a crucial role in addressing credit shortages in rural and semi-urban areas by providing microcredit services often neglected by conventional banks. Nevertheless, the study emphasized the necessity for stronger policy measures to ensure their long-term sustainability. In a similar vein, Bhandari and Pradeep (2022) evaluated 15 leading NBFCs in the context of the Reserve Bank of India's evolving regulatory framework, particularly the scale-based regulation model. Their results indicated improvements in capital adequacy but inconsistent profitability among Investment and Credit Companies, reflecting the pressures of regulatory transition.

The Reserve Bank of India (2022) released a significant circular requiring larger NBFCs to adopt Core Financial Services Solutions (CBS), underscoring the importance of technology in enhancing compliance, operational efficiency, and reporting transparency. This focus on technological advancement was further supported in James' (2024) research, which illustrated how

FinTech integration allowed NBFCs to improve customer onboarding, credit assessment, and operational efficiency, albeit at the expense of increased cybersecurity risks and regulatory oversight.

In 2023, various studies and reports illuminated both performance and systemic risks. CRISIL (2023) discovered that larger NBFCs maintained stable asset quality, while smaller firms struggled with asset–liability mismatches and increasing defaults. The Reserve Bank of India (2023), in its Report on Trends and Progress of Banking in India, confirmed a 12.5% year-on-year growth in the sector but cautioned about credit concentration risks in real estate and infrastructure investments. Concurrently, Jency (2023) performed a comparative benchmarking of the top ten NBFCs using ratio analysis, revealing that gold-loan focused NBFCs like Muthoot Finance consistently surpassed their peers in profitability and liquidity. KPMG (2023) provided additional context, highlighting the essential role of NBFCs in India's post-COVID recovery by catering to underserved MSMEs and consumer segments, while also pointing out the persistent challenges of rising NPAs and liquidity pressures.

The academic literature of 2023 also grew with empirical studies. The Journal of Interdisciplinary Economics and Research (2023) examined the financial performance of leading NBFCs from 2017 to 2021 using ratio and correlation methods, uncovering divergent trends in profitability and leverage. The Harvard Kennedy School (2023) placed NBFCs within India's financial framework, indicating that their assets represented nearly one-fifth of GDP, emphasizing their systemic significance.

Regulatory reforms progressed in 2023 with the RBI's Master Direction on Scale-Based Regulation, which established a tiered framework that differentiates capital and governance requirements across various layers of NBFCs. The policy focus was reinforced by RBI Deputy Governor Rajeshwar Rao's (2024) address at the CII NBFC Summit, where he asserted that NBFCs could no longer function as "shadow banks" and must align more closely with banking standards in risk culture, capital adequacy, and governance.

In 2024, empirical research enhanced the understanding of performance at the firm level. A comparative analysis (ResearchGate, 2024) assessed NBFCs from 2019 to 2023 using ANOVA and ratio analysis, revealing consistent outcomes for Bajaj Finance and Indiabulls, while other firms exhibited volatility in liquidity management.

Another investigation published in the International Journal of Research Publication and Reviews (IJRPR, 2024) explored the factors driving NBFC growth, emphasizing the significance of credit expansion, inclusion, and macroeconomic connections. Concurrently, ICRA (2024) pointed out the increasing delinquencies within NBFC-MFI portfolios, indicating early signs of borrower distress despite the overall resilience of the sector.

The RBI's Financial Stability Reports (2024) further indicated that capital buffers and profitability had improved across NBFCs, but also raised concerns regarding risks associated with unsecured retail lending and microfinance exposures. Reuters (2024) provided additional context by reporting on the RBI's stricter supervisory measures, which included limitations on NBFCs that faced governance issues or engaged in loan evergreening.

In 2025, the body of literature continued to expand. IJRPR (2025) evaluated the financial performance of ten NBFCs from 2020 to 2024, affirming the sector's resilience during the COVID crisis and the subsequent recovery phase. ICRA (2025) forecasted a moderated NBFC credit growth of 13 to 15% for FY25 to FY26, down from the previously anticipated 17%. Meanwhile, CareEdge (2025) noted that mutual fund investments in NBFC debt had reached an 82-month peak, signaling a resurgence of market confidence in their funding structure. Reports from Business Standard (2025) and Economic Times (2025) reiterated warnings about borrower over-leverage in microfinance and unsecured retail loans. Lastly, Reuters (2025) covered the RBI's latest stability review, which indicated that NPAs were at historic lows but cautioned about the increasing delinquencies in credit card and microfinance portfolios, highlighting the fragile balance between growth and risk.

The chronological literature, when considered as a whole, outlines a path that begins with liquidity crises and structural vulnerabilities (2018–2020), transitions through regulatory reforms and the adoption of digital technologies (2021–2023), and culminates in a post-COVID era characterized by robust growth moderated by localized risks (2024–2025). Throughout these phases, Non-Banking Financial Companies (NBFCs) consistently appear as essential yet at-risk entities, necessitating comprehensive, sector-specific assessments that encompass financial, regulatory, and technological viewpoints.

III. Research Methodology

The study employs a descriptive and analytical research design to evaluate the financial performance of NBFCs in India. Secondary data was sourced from reliable public databases, annual reports, Reserve Bank of India bulletins, and financial websites such as Moneycontrol.com. Five prominent NBFCs representing diverse categories — Mahindra & Mahindra Financial Services, Reliance Capital, Industrial Finance Corporation of India (IFCI), Power Finance Corporation, and Muthoot Finance were selected.

The financial analysis in this study is based on data spanning period from 2020 to 2024. To evaluate the performance of the selected NBFCs comprehensively, five key financial ratios were chosen, each representing a critical dimension of financial health. The Current Ratio was used to assess liquidity, reflecting the firm's ability to meet short-term obligations. The Debt-Equity Ratio measures leverage, indicating the extent of financial risk and the capital structure of the companies. Net Profit Margin served as an indicator of profitability, capturing how efficiently each firm converts revenue into net income. The Return

on Capital Employed (ROCE) represented efficiency, focusing on how well the companies utilized their capital to generate profits. Lastly, the Return on Net Worth (RONW) was used to evaluate shareholder value, showing the returns generated on equity capital. Together, these ratios provide a holistic view of the financial standing and strategic direction of the NBFCs over the study period.

Statistical analysis was conducted using Analysis of Variance (ANOVA) to determine whether the financial performance differences across NBFCs are statistically significant. The F-test was employed with a 5% level of significance. This helped assess whether variations in performance were due to random chance or indicative of genuine financial structure differences.

IV. Results and Discussion

The financial performance analysis of selected Non-Banking Financial Companies (NBFCs) in India—namely Power Finance Corporation, Muthoot Finance, Mahindra & Mahindra Financial Services, and IFCI Ltd—has been carried out using key financial ratios and tested for statistical significance through ANOVA. The findings offer insights into the financial health, profitability, and risk management practices across these institutions. The study focuses on five core financial ratios over the period (2020–2024), capturing dimensions such as liquidity, leverage, efficiency, and shareholder returns. By comparing these metrics across firms, the analysis highlights key strengths, weaknesses, and structural differences, helping stakeholders better understand sectoral trends and performance disparities.

Table 1.0 below indicates that the selected financial institutions exhibit statistically significant differences in Current Ratio, Debt-Equity Ratio, Net Profit Ratio, and Return on Net Worth, as the ANOVA F-values for these ratios surpass the critical value at the 5% significance level. This indicates that the liquidity, leverage, profitability, and shareholder return profiles vary meaningfully across the companies. However, the Return on Capital Employed (ROCE) did not show a significant difference among the firms, suggesting relatively consistent capital efficiency across the institutions in the study.

Table 1.0: Summary of Financial Ratio Analysis and ANOVA Results

S. No	Financial Ratio	Key Findings	ANOVA F-Value	Critical Value (5%)	Significance
1	Current Ratio	Power Finance and Muthoot Finance showed strong liquidity. IFCI had poor short-term solvency in recent years.	3.70	2.25	Significant
2	Debt-Equity Ratio	IFCI had high leverage (25.69), and Mahindra & Mahindra had low debt (below 0.21), indicating conservative financial management.	6.30	2.25	Significant
3	Net Profit Ratio	Muthoot Finance had high profitability (>35%), while IFCI reported negative margins (up to -263.07%).	4.90	2.25	Significant
4	Return on Capital Employed	High ROCE in IFCI and Power Finance; Mahindra & Mahindra showed stable, moderate returns.	1.20	2.25	Not Significant
5	Return on Net Worth	Strong shareholder returns in Muthoot and Power Finance. IFCI had a volatile and negative RONW (-447.03%).	3.02	2.25	Significant

Current Ratio (Liquidity Analysis)

The Current Ratio evaluates an NBFC's ability to meet short-term obligations using short-term assets. An optimal ratio is considered to be 2:1. The analysis over the five years showed that Power Finance Corporation and Muthoot Finance had high liquidity ratios, indicating robust asset management and readiness to meet short-term liabilities. In contrast, IFCI demonstrated lower ratios in recent years, potentially indicating financial distress. ANOVA revealed an F-value of 3.7 against a critical value of 2.25, confirming a significant variation in current ratios among the NBFCs at the 5% significance level. This suggests that liquidity strategies differ across NBFC types.

Debt-Equity Ratio (Leverage Analysis)

The Debt-Equity Ratio indicates the degree to which a company finances its operations through debt compared to equity. IFCI showed alarmingly high ratios, peaking at 25.69, reflecting aggressive leverage practices. In contrast, Mahindra & Mahindra maintained conservative financing with ratios below 0.21. The ANOVA test yielded an F-value of 6.3, again surpassing the table value of 2.25. This confirms statistically significant differences in capital structuring strategies among NBFCs, with infrastructure-focused firms more reliant on debt.

Net Profit Ratio (Profitability)

This ratio indicates profitability per unit of revenue. Muthoot Finance consistently recorded high profit margins, peaking at over 35%, highlighting operational efficiency in gold-backed lending. IFCI, however, posted negative ratios due to ongoing losses, with -263.07% in 2022, indicating deep financial instability. The ANOVA test result of 4.9 confirmed significant differences in profitability among the sampled NBFCs. Sector-specific risks and business models explain this variability.

Return on Capital Employed (Efficiency)

ROCE measures how effectively a company uses its capital to generate earnings. The metric was highest for IFCI and Power Finance Corporation, especially during profitable periods, with ROCE values crossing 80% and 56% respectively. Mahindra & Mahindra showed consistent but moderate performance. The calculated F-value (1.2) did not exceed the critical value, indicating no significant difference in ROCE among NBFCs. This suggests capital efficiency practices may be more uniform across firms despite differing capital structures.

Return on Net Worth (Shareholder Perspective)

This metric evaluates returns to shareholders. Power Finance Corporation and Muthoot Finance achieved consistently high RONW values, affirming strong governance and risk-adjusted earnings. IFCI's volatile returns, dipping to -447.03%, underscore instability. The F-test value (3.02) exceeds the critical threshold, confirming significant differences. These findings are essential for investors evaluating the performance of NBFC stocks.

Interpretation

Out of the five financial ratios analysed, four—namely Current Ratio, Debt-Equity Ratio, Net Profit Ratio, and Return on Net Worth—showed statistically significant differences across the five selected NBFCs. This outcome confirms the diversity in financial structures, risk profiles, and operational performance among the companies. These variations highlight differences in liquidity management, capital structure, profitability, and shareholder value generation practices.

In contrast, Return on Capital Employed (ROCE) did not show a statistically significant difference, indicating that despite fluctuations in debt levels and profitability, the firms demonstrated comparable efficiency in utilizing capital to generate returns. This suggests that while firms may adopt different financial strategies, their underlying ability to employ capital effectively remains broadly consistent.

V. Conclusion

This research uncovered notable differences in financial performance among prominent Non-Banking Financial Companies (NBFCs) in India, derived from a thorough examination of five essential financial ratios: Current Ratio, Debt-Equity Ratio, Net Profit Ratio, Return on Capital Employed (ROCE), and Return on Net Worth (RONW). Employing ANOVA for statistical analysis facilitated a comprehensive comparison of the chosen firms, validating that four out of the five ratios displayed statistically significant variations at the 5% significance threshold.

The evaluation of the Current Ratio revealed a significant gap in short-term liquidity management. Firms such as Muthoot Finance and Power Finance Corporation demonstrated robust liquidity, indicative of effective working capital management and reduced refinancing risk. In contrast, IFCI exhibited insufficient liquidity, raising concerns about its short-term solvency and operational stability.

Regarding capital structure, the findings related to the Debt-Equity Ratio illustrated divergent strategies. While Mahindra and Mahindra Financial Services upheld a conservative debt profile, reflecting careful financial planning, IFCI exhibited exceedingly high leverage, indicating increased financial risk and a substantial dependence on borrowed capital. These trends highlight the differing risk appetites and financial strategies employed by various NBFCs.

The metrics for Net Profit Ratio and Return on Net Worth (RONW) further emphasized the differences in profitability and the creation of shareholder value. Muthoot Finance distinguished itself with high profitability and substantial returns for equity investors, whereas IFCI faced ongoing losses and negative returns, signaling financial distress and operational inefficiencies.

The Net Profit Ratio and Return on Net Worth (RONW) metrics further underscored the differences in profitability and the creation of shareholder value. Muthoot Finance distinguished itself with high profitability and robust returns for equity holders, whereas IFCI faced ongoing losses and negative returns, indicating financial distress and operational inefficiencies.

Interestingly, Return on Capital Employed (ROCE) was the sole metric that did not show a significant disparity among the companies. This implies that, despite differences in profitability and capital structure, the efficiency with which these firms manage their capital resources remains largely consistent. It indicates a level of industry-wide convergence in capital allocation practices, potentially due to regulatory oversight or standardized lending frameworks.

Overall, the study reinforces the notion that NBFCs play a vital role in India's financial ecosystem, particularly in providing credit access to underserved segments. However, their financial performance is influenced by various factors, including sectoral

focus (e.g., gold loans, vehicle financing, infrastructure lending), risk management practices, strategic direction, and compliance with regulatory standards.

The findings have significant implications for investors, who need to assess the financial health and risk-return profiles of NBFCs to making investment decisions; for regulators, in pinpointing institutions that may have vulnerabilities; and for management, in enhancing financial strategies to ensure sustainability, boost operational efficiency, and bolster stakeholder confidence.

As the NBFC sector continues to develop, particularly in the post-pandemic landscape with heightened digitalization and regulatory scrutiny, such assessments of financial performance become increasingly essential for upholding transparency, stability, and competitiveness within the broader financial system.

Recommendations

Based on the findings of this study, several strategic recommendations are proposed to enhance the performance and resilience of NBFCs in India. First, there is an urgent need to strengthen digital transformation initiatives across the sector. Embracing advanced technologies can significantly improve credit delivery, enhance operational efficiency, and reduce costs. Second, regulatory authorities should consider implementing sector-specific regulations that are tailored to the unique risk profiles and operational models of different types of NBFCs. This approach would help balance innovation with financial stability. Third, consolidation among financially weaker NBFCs should be encouraged to mitigate systemic risks and promote institutional robustness. Fourth, establishing a centralized digital repository for NBFC credit and risk data would improve transparency and enable more accurate risk assessment across the industry. Lastly, incorporating Environmental, Social, and Governance (ESG) metrics into the regulatory framework would not only align the sector with global sustainability standards but also attract socially conscious investors and enhance long-term value creation.

Policy Implications and Future Outlook

This study highlights critical policy implications that should guide the regulatory architecture for NBFCs. Firstly, there is a need for tiered regulatory mechanisms that differentiate between systemically important and smaller NBFCs. While large NBFCs may pose systemic risks, smaller players often serve the last-mile credit needs and require lighter compliance frameworks. Secondly, digital infrastructure and API-based credit evaluation systems should be encouraged to promote financial inclusion without compromising underwriting standards. Thirdly, regulatory sandbox models must be used to test innovations such as blockchain-based lending and AI-driven risk assessment in NBFCs. From a future outlook perspective, NBFCs are expected to expand into new verticals such as green finance, ESG-linked investments, and embedded finance platforms. With proper governance, they can evolve into sustainable, scalable financial institutions that complement traditional banks and contribute to national economic growth.

Limitations and Scope for Future Research

Although this study provides valuable insights into the financial performance of select NBFCs, several limitations must be acknowledged. The sample size is limited to five NBFCs, which may not fully represent the entire industry. Furthermore, the study is based on secondary data, which may be affected by reporting inconsistencies or time lags. Additionally, while ANOVA offers statistical insights, alternative approaches such as regression or panel data analysis could provide more in-depth causal interpretations. Future research could incorporate primary data from interviews with NBFC managers, explore the impact of digital transformation on credit risk, or conduct comparative studies between NBFCs and traditional banks to identify convergence or divergence in operational efficiencies. Expanding the timeframe and including macroeconomic indicators such as inflation, GDP growth, and monetary policy changes would also enrich the analysis.

References

1. International Monetary Fund. (2019). India: Staff report for the 2019 Article IV consultation. Washington, DC: IMF.
2. International Monetary Fund. (2020). Challenges in India's non-bank financial sector. Washington, DC: IMF.
3. Srinivasan, R. (2022). Financial inclusion and the role of NBFCs in India. [Journal/Conference Paper].
4. Bhandari, A., & Pradeep, S. (2022). Performance and regulatory challenges of NBFCs under scale-based regulation. [Journal/Report].
5. Reserve Bank of India. (2022). Circular on core financial services solutions (CFSS) for NBFCs. Mumbai: RBI.
6. CRISIL. (2023). NBFCs: Stable asset quality among large players; smaller NBFCs face mismatches. Mumbai: CRISIL.
7. Reserve Bank of India. (2023). Report on trends and progress of banking in India. Mumbai: RBI.
8. Jency, M. (2023). Comparative benchmarking of leading NBFCs in India using ratio analysis. [Journal/Research Report].
9. KPMG. (2023). NBFCs: Enabling India's post-COVID recovery. Mumbai: KPMG.
10. Journal of Interdisciplinary Economics and Research. (2023). Analyzing the financial performance of top NBFCs in India (2017–2021). Journal of Interdisciplinary Economics and Research, [Volume(Issue)].
11. Harvard Kennedy School. (2023). The past and future of Indian finance. Cambridge, MA: Harvard University.
12. Reserve Bank of India. (2023). Master direction: Non-banking financial company – Scale based regulation directions. Mumbai: RBI.

13. Rao, M. R. (2024, February 9). No more a shadow (of a) bank. Address at the CII NBFC Summit, New Delhi. Reserve Bank of India.
14. James, P. (2024). FinTech integration and business model transformation in NBFCs. [Journal/Conference Paper].
15. ResearchGate Preprint. (2024). Comparative study on financial performance of selected NBFCs (2019–2023). [Working Paper].
16. International Journal of Research Publication and Reviews. (2024). Financial performance and growth of NBFCs in India. International Journal of Research Publication and Reviews, [Volume(Issue)].
17. ICRA. (2024). NBFC-MFIs: Asset quality trends and risks. New Delhi: ICRA.
18. Reserve Bank of India. (2024). Financial stability report (June 2024). Mumbai: RBI.
19. Reserve Bank of India. (2024). Financial stability report (December 2024). Mumbai: RBI.
20. Reuters. (2024, May 30). RBI tightens scrutiny on select NBFCs for governance and lending practices. Reuters India.
21. International Journal of Research Publication and Reviews. (2025). Financial performance and growth of 10 NBFCs (2020–2024). International Journal of Research Publication and Reviews, [Volume(Issue)].
22. ICRA. (2025). NBFCs' adequate capital position and healthy earnings performance to moderate credit growth in FY25–26. New Delhi: ICRA.
23. CareEdge. (2025). Mutual funds' outstanding debt exposure to NBFCs at an 82-month high. Mumbai: CareEdge Ratings.
24. Business Standard. (2025, July). Microfinance NBFCs under stress despite sectoral growth. Business Standard.
25. Economic Times. (2025, August). Bad loans at multi-year lows; unsecured loan stress rises. Economic Times.
26. Reuters. (2025, June 30). RBI financial stability report flags emerging risks in NBFC retail portfolios. Reuters India.