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A Study on Financial Performance Analysis with Reference to Real Touch Finance Limited and Selected NBFCs in India

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Abstract

The Indian financial sector boasts diversity and rapid expansion, featuring an array of financial institutions, including commercial banks, insurance companies, NBFCs, co-operatives, pension funds, and mutual funds. Among these, NBFCs play a pivotal role, contributing significantly to economic growth by offering credit and financial services to various sectors. This study undertakes a five-year analysis (2018-2022) of three selected NBFCs based on their Asset under Management (AUM), a key indicator of size and financial strength. The study evaluates short-term solvency, Leverage, profitability and earning capacity. Real Touch Finance Limited (RTFL) and Dharani Finance Limited exhibit consistent current ratios and favourable debt management. RTFL distinguishes itself with a positive trend in Return on Assets (ROA) and Return on Equity (ROE), reflecting its profit-generating ability. RTFL also excels in cost management, profitability, and interest-related earnings. All three NBFCs face challenges in profit generation. RTFL displays improved liquidity, long-term growth focus, a 6% rise in total revenue, but also a notable increase in administrative expenses. In summary, RTFL appears to be in a relatively stronger financial position compared to the others. However, its ability to manage cash effectively, make strategic investments, and address rising administrative expenses is pivotal for long-term financial stability and enhanced profitability. This study offers valuable insights for RTFL and other NBFC to identify opportunities for growth, potential threats, and areas for improvement for long-term success.

Keywords: Ratio analysis, NBFCs, Asset Under Management (AUM), Shareholders wealth, Liquidity management, Profitability, Financial position, Growth opportunities.

Introduction

India's dynamic financial industry is experiencing rapid growth, with a mix of both new players and well-established financial service providers reporting substantial development. This industry encompasses a wide range of financial institutions, including cooperative societies, mutual funds, commercial banks, insurance companies, and various non-banking financial entities. As articulated by Rajeswari Sengupta et al. (2022), Non-Banking Financial Companies (NBFCs), as their name suggests, are firms that offer credit services similar to banks but do not function as traditional banks. It's essential to note that the financing methods employed by banks and NBFCs are notably different. Banks are authorized to accept public deposits, both on-demand and on a fixed-term basis, while NBFCs, in most cases, are restricted from accepting demand deposits and often can't take time deposits. Over the years, NBFCs, Housing Finance Companies (HFCs), Asset Reconstruction Companies (ARCs), Micro Finance Institutions (MFIs), and

Nidhi Companies have been instrumental in mobilizing and disbursing funds. Notably, NBFCs have recently experienced a significant transformation. In their pursuit of expansion and efficient revenue generation, modern NBFCs are increasingly adopting tech-driven business models. The widespread adoption of the internet, smartphones, and other technological advancements has significantly contributed to the fintech sector's growth, making banking services accessible in virtually every corner of the country. As of January 31, 2021, the Reserve Bank of India had a total of 9,507 NBFCs listed in its registry.

The growth outlook for NBFC-HFCs in the fiscal year 2023 is expected to range from 10% to 12%. NBFC-retail is predicted to expand within this industry at a rate of 12% to 14%, while HFCs are expected to see growth within the range of 10% to 12%. The uncertainty in the global macroeconomic environment, which could present downside risks at the conclusion of the fiscal year 2023 or the start of the fiscal year 2024, has an impact on this prediction. A significant finding from the data is that since December 2021, as borrowers gradually recovered from the economic stress imposed on by the epidemic, the quality of non-bank assets has been steadily improving. Although it is anticipated that increased interest rates will put pressure on net interest margins, the effect has been limited because banks have not passed on the cost hikes completely and because NBFCs have only been able to do so partially. Stable operating margins and lower financing costs, this will enhance the profitability criteria for NBFCs, according to R Srinivasan, vice president and sector head of the organization's financial sector ratings. The agency predicts that in the fiscal year 2023, they should report a return on managed assets in the range of 2.6% to 2.9%. As articulated by Sunita Srivastava et al. (2019), the growth trend of NBFCs in India is still gaining momentum, underscoring their significance in the economy. They emphasize the need for RBI to implement regulations that foster the growth of NBFCs while safeguarding investors. The recent RBI Scale-based regulations are considered a positive development for the industry, as they elevate NBFCs to a level equivalent to various other public sector NBFCs. These updated standards are expected to provide greater operational flexibility, allowing the industry to accommodate the rising demand for credit and contribute to India's economic growth. As of October 2022, the Reserve Bank of India (RBI) had registered 9,500 NBFCs with a total asset size of Rs 42.05 lakh crore.

Techniques of Financial Performance Analysis

Ratio Analysis: Some ratios show the firm's trajectory, advancement, or decline. The following categories have been used to categorize ratios: Leverage, profitability, and solvency ratios and EPS (Earnings Per Share).

Correlation Analysis: A statistical method for assessing the degree to which two or more variables are connected is correlation analysis. A scale of weak, moderate, and strong associations is represented by values ranging from 0 to +1/-1. A coefficient of one indicates a complete positive relationship: when one variable grows, so does the other. A coefficient of -1 denotes a completely negative connection, in which when one variable grows, the other drops correspondingly. A coefficient of 0 indicates that there is no link between two variables.

Literature Review

Roshan Raj Prajapati et al. (2022) conducted a study analyzing the financial performance of India's top 5 NBFCs over a five-year period, spanning from 2017 to 2021. The primary purpose of this study is to assess the financial performance of these selected NBFCs and gain insights into their current financial status.

The study revealed that Muthoot Finance and Bajaj Finance exhibited comparable and favorable financial performance trends, which contributed to their company growth and increased shareholder wealth during the specified study period. Joseph Antony P and Maheswari D. K. (2021) anlaysed the comparative performance of non-performing assets (NPAs) across India's major non-banking financial institutions for the years 2011 to 2015. Their research focused on three prominent NBFCs: Bajaj Finance Limited, Muthoot Finance, and Reliance Capital. The study unveiled a significant correlation between NPAs and income generation within the analyzed NBFCs. Furthermore, the study suggested the need for future assessments of NPAs and return on assets (ROA) across other NBFCs to gain a comprehensive understanding of their performance. Notably, Muthoot Finance outperformed Bajaj Finance and Reliance Capital in terms of revenue generation and maintaining lower NPA values. Dhiman Barua and Akber S. M. (2021) conducted a comparative analysis of the financial performance of non-banking financial firms in Bangladesh. Their study emphasized the importance of evaluating the efficiency of NBFIs in Bangladesh during the period from 2019 to 2019. Employing various performance measurement techniques and methodologies, the research highlighted the mixed performance of NBFIs in Bangladesh. It underscored the need for improvement, particularly in the area of credit selection, where they should reduce the number of adverse loan options. Shrijvi Singh (2020) conducted a study on the financial performance and growth of Non-Banking Financial Companies (NBFCs) in India. The research aimed to evaluate the performance of five distinct types of NBFCs in India from 2015 to 2019, using essential indicators like liquidity ratios, profitability ratios, and debt-to-equity ratios. The study revealed significant variations in the liquidity and profitability parameters among the selected NBFC groups. Meharaj Banu A and Malini R (2019) conducted a study investigating the financial performance of the Indian Tobacco Corporation Ltd. This research analyzed the company's liquidity, profitability, and solvency indicators from April 1, 2013, to March 31, 2017. The study's findings indicated an overall improvement in the financial performance of the company over the specified time frame.

Need for the Study

Real Touch Finance Limited (RTFL) has faced persistent challenges in effectively managing its liquid assets, maintaining a static 1.4 Crores for the past two years, indicating resource allocation issues. Additionally, RTFL has struggled to generate shareholder income, with an EPS (Earnings Per Share). Consistently at or below 1.14 for the past five years. The company has also missed opportunities to utilize debt financing, which could provide a competitive advantage. In 2022, expenses surged by 138%. This study aims to delve into RTFL's financial performance, offering insights into operational efficiency, profitability, and potential growth prospects. It also seeks to identify areas for improvement in resource allocation and potential risks, ultimately aiming to enhance RTFL's long-term success as a non-banking financial company (NBFC).

Objectives of the Study

- **Primary Objective:**

1. To analyze and compare the financial position and performance of Selected NBFC's

- **Secondary Objectives:**

1. To analyze the short term solvency of Selected NBFC's
2. To identify the profitability and Leverage Position of Selected NBFC's
3. To evaluate the earning capacity performance of selected NBFCs

Scope of the Study

This study focuses on Real Touch Finance Limited (RTFL) and aims to comprehensively analyze its financial performance, with a specific emphasis on addressing challenges related to operational efficiency and profitability. The study will investigate the company's management of liquid assets and resource allocation, its struggle to generate income for shareholders, reflected in the earnings per share (EPS) trend, its underutilization of debt financing options, and the significant increase in expenses. The objective is to provide valuable insights, identify opportunities for improvement, assess potential growth prospects, and evaluate the risks faced by RTFL. Furthermore, the study will delve into the factors influencing RTFL's financial performance and offer recommendations for enhancing its long-term success as a non-banking financial company (NBFC). By implementing the practical recommendations provided in this study and closely monitoring key financial indicators, RTFL can solidify its position as a prominent player in the NBFC sector while meeting the expectations of its stakeholders. This study also serves as a valuable resource for potential investors and other stakeholders considering investments in RTFL.

Research Design

The research design employed in this study is characterized as an **Analytical Study**. Specifically, this research approach involved a thorough analysis of financial statements, with a focus on cash-related aspects. This methodology entails the examination and critical evaluation of pre-existing information and data. The researcher leveraged existing data to conduct an in-depth analysis of the subject matter.

The Three NBFC's Chosen in this Study: (for a period of five years from 2018 to 2022)

1. Real Touch Finance Limited
2. Kumbhat Financial Services Limited
3. Dharani Finance Limited

Period of the Study: The study's time frame is based on data from the last five years (2018 to 2022).

Selection of NBFC's: In this study, three companies were chosen based on their Asset under Management (AUM). The AUM serves as a vital indicator of an NBFC's size and financial robustness, representing the cumulative value of assets under the company's management on behalf of its clients. It's noteworthy that the AUM for all three selected NBFCs falls within the range of 200 CR to 500 CR.

Data Collection

Secondary Data: For this study, secondary data was employed, which was gathered from the annual report of the relevant company and many financial websites. No primary data was used in this study. Secondary data in social science domains are often taken from commercial records, government agency information, census data, and content initially collected for distinct study aims.

In this project, we have used secondary data which has been collected from following sources:

1. Annual reports
2. Audit Reports
3. Other material and report published by the companies.
4. Internet (Websites)

Analytical Tools for the Study: In this study used the analytical tools has been employed to facilitate the analysis and interpretation of the study. These tools have been utilized effectively to gain insights and draw meaningful conclusions. The following tool have been particularly used in this study in a proficient manner. **M.S. Office Excel** used for analyze the financial performance of selected NBFC's in this study.

Limitations of the Study

1. The study is primarily based on secondary data from the financial statement.
2. This research is limited to only 3 NBFCs and restricted only for 5years (2018 to 2022).
3. The study included a data of particular phase of the pandemic, which might limit the generalizability of the findings to other time periods.
4. Ratios are chosen by considering their analytical significance, data availability for compilation, calculation, and their relevance to the research.

Results and Analysis

In this section, it analyze the financial soundness of the selected NBFCs based on the ratio analysis. Only those indicators are chosen that are relevant for the study, considering their analytical significance, data availability for compilation, calculation, and their relevance to the research. The following table shows the selected indicators for the study.

Table 1. Calculated ratios under ratio analysis framework

Short term Solvency ratios	Leverage ratios	Profitability ratios	Earnings Capacity
Current ratio and Quick ratio	Debt to equity ratio	ROA, ROE, ROCE, Net Profit ratio and Operating cost ratio	EPS (Earnings Per Share).

Current Ratio

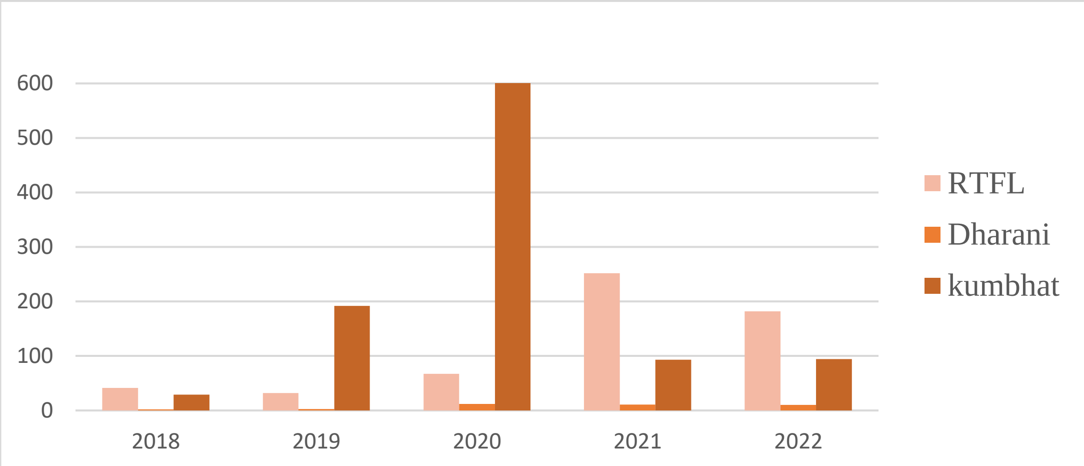
A company's current ratio indicates how well-positioned it is to repay short-term loans or obligations that are due within a year. You can find the answer by comparing current assets and liabilities. A company that has a higher current ratio has a higher probability of being able to settle its short-term debt.

Current Ratio = Current Assets / Current Liabilities

Table 2. Showing the ratio Analysis of Current Ratio

	2018	2019	2020	2021	2022
RTFL	41.3090315	31.827977	67.0807	251.8172	181.701
Dharani Finance Limited	2.12172481	2.7897118	12.2201	10.58912	10.0275
Kumbhat Financial Services Limited	29.3054573	191.98759	603.407	93.38596	94.589

Figure 2. Showing the ratio Analysis of Current Ratio



Inference:

The above table shows the analysis of Current ratio for the 5 financial years of 3 NBFCs. RTFL had a higher Current ratio of 181.701 and 251.817 in 2022 and 2021 followed by Kumbhat Financial Services Limited and Dharani Finance Limited. For the rest of years all 3 NBFCs shown a Consistent increase, whereas in 2020 Kumbhat Financial Services Limited shown an un-normal increase of 603.407 due to decrease in Current Liabilities. All 3 NBFCs shows a significantly above the generally accepted standard of 2:1.

Quick Ratio

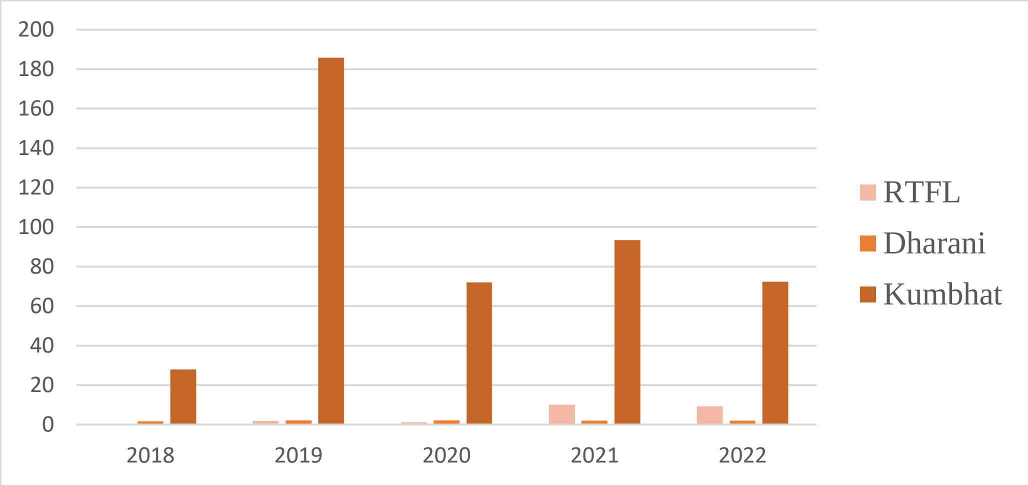
Using its most liquid assets, a company's ability to meet short-term obligations is gauged by the quick ratio. The computation of current assets is more challenging since, unlike the current ratio, inventory is not taken into account. With a larger quick ratio, there is more short-term liquidity.

Quick Ratio = Quick Asset / Current Liabilities

Table 3. Showing the Ratio Analysis of Quick Ratio

	2018	2019	2020	2021	2022
RTFL	0.20755	1.75949	1.2	10.1429	9.25
Dharani Finance Limited	1.65574	2.13684	2.13235	1.95122	2.06593
Kumbhat Financial Services Limited	28	185.808	72.093	93.4211	72.3077

Figure 3. Showing the Ratio Analysis of Quick Ratio



Inference:

The above table shows the analysis of Current ratio for the 5 financial years of 3 NBFCs. In 2019 Kumbhat Financial Services Limited shown an un-normal increase of 185.808 due to decrease in Current Liabilities and its decreased to 72.093 during 2020 and it had a higher Quick ratio of 93.42 and 72.30 in 2021 and 2022 followed by RTFL and Dharani Finance Limited. For the rest of years all 3 NBFCs shown gradual increase. All 3 NBFCs shows a significantly above the generally accepted standard of 1:1.

Debt Equity Ratio

The debt-to-equity ratio illustrates how much capital is provided by debt in relation to equity. It includes information regarding the financial leverage of a company.

Debt Equity Ratio = Total Debt / Total Shareholders' equity

Table 4. Showing the Ratio Analysis of Debt Equity Ratio

	2018	2019	2020	2021	2022
RTFL	0	0	0	0	0
Dharani Finance Limited	0.01115	0.00367	0.029821	0.01681	0.00388
Kumbhat Financial Services Limited	0.02282	0	0	0	0

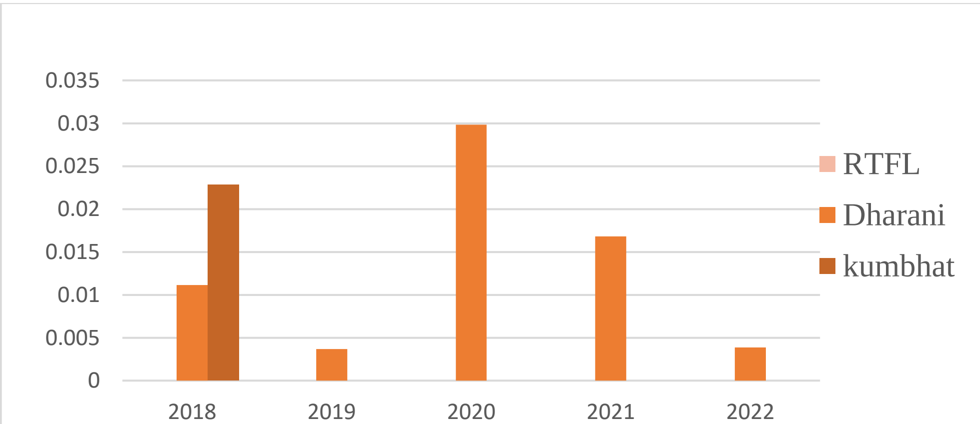


Figure 4. Showing the Ratio Analysis of Debt Equity Ratio

Inference:

The above table shows the analysis of Debt Equity Ratio for the 5 financial years of 3 NBFCs. RTFL and Kumbhat Financial Services Limited didn't have a debt for the above stated years, except Kumbhat Financial Services Limited had a debt during the year of 2018. Dharani Finance Limited gradually decreased is Debt equity ratio for the periods of 2018 to 2021 whereas increased during the period of 2022 due to increase in debt. Dharani Finance Limited is relatively considered desirable because they maintained the debt equity ratio less than the generally accepted standard 2:1.

Return on Total Assets

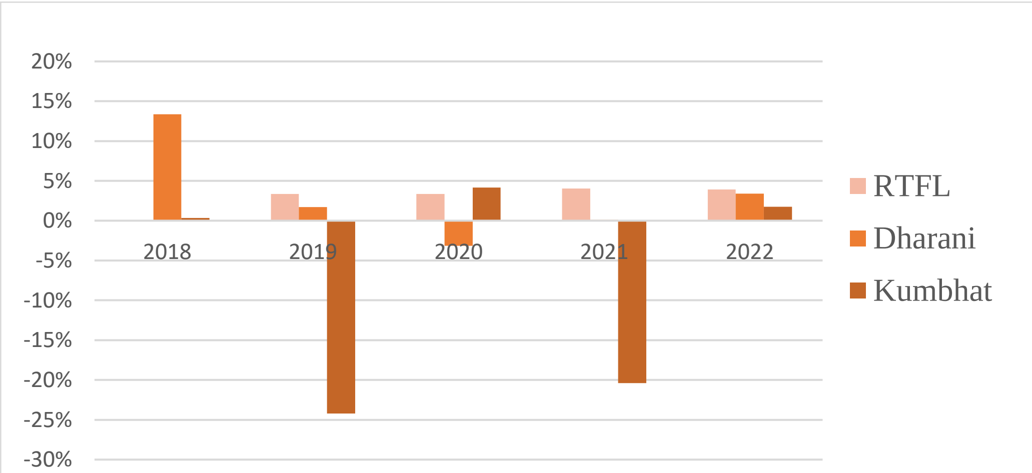
ROTA is a profitability indicator that evaluates how well a company makes use of its resources to generate revenue. It serves as a barometer for an asset's productivity and profitability.

Return on Asset = Net Income / Total Assets

Table 5. Showing the Ratio Analysis of Return on Assets

	2018	2019	2020	2021	2022
RTFL	-0.11%	3.36%	3.37%	4.04%	3.94%
Dharani Finance Limited	13.37%	1.70%	-3.17%	0.11%	3.40%
Kumbhat Financial Services Limited	0.32%	-24.23%	4.15%	-20.41%	1.73%

Figure 5. Showing the Ratio Analysis of Return on Assets



Inference:

The above table shows the analysis of Return on total assets for the 5 financial years of 3 NBFCs. RTFL's ROA increasing gradually from 2019 – 2022. Dharani Finance Limited had a Net Income which has been consistently reduced during the period of 2019 – 2021 which resulted in a lower ROA ratio. Kumbhat Financial Services Limited - ROA is inconsistent for above stated years and had a 1.73% in 2022. Dharani Finance Limited had a ROA of 13.37% during 2018 is satisfactory and followed by 3.40% in 2022. All 3 NBFCs maintained a ROA less than an Ideal range of 5%.

Return on Equity

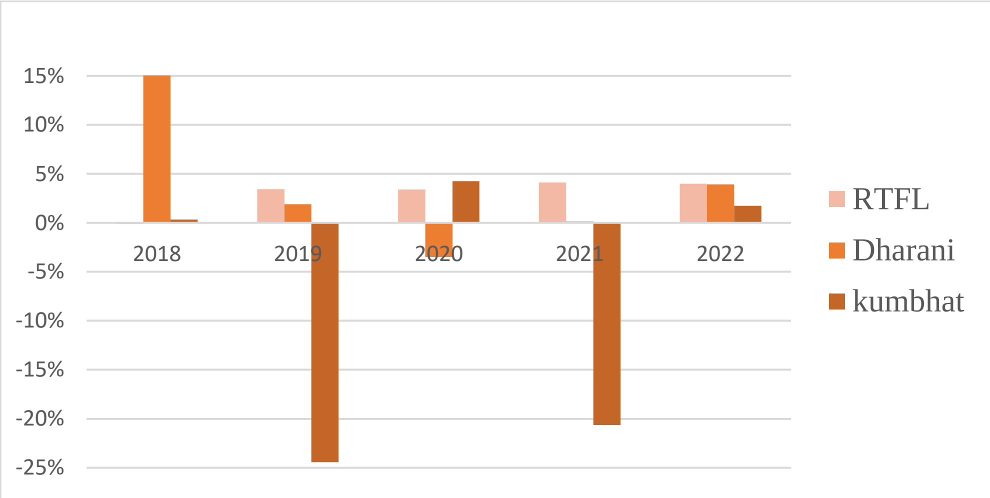
ROE assesses a company's management of investor capital by evaluating how well it uses equity to generate profits. It helps investors gauge the return on their investment in the company.

Return on Equity = Net Income / Total Shareholders' Equity

Table 6. Showing the Ratio Analysis of Return on Equity

	2018	2019	2020	2021	2022
RTFL	-0.11%	3.44%	3.39%	4.12%	3.98%
Dharani Finance Limited	15.57%	1.89%	-3.48%	0.13%	3.91%
Kumbhat Financial Services Limited	0.34%	-24.44%	4.24%	-20.63%	1.75%

Figure 6. Showing the Ratio Analysis of Return on Equity



Inference:

The above table shows the analysis of Return on equity for the 5 financial years of 3 NBFCs. RTFL's ROE increasing gradually from 2019 – 2022. Dharani Finance Limited had a Net Income which has been consistently reduced during the period of 2019 – 2021 which resulted in a lower ROE ratio. Kumbhat Financial Services Limited had a ROE which is inconsistent for above stated years and had a 1.75% in 2022. All 3 NBFCs had a ROE below the generally accepted standard of 15%, except Dharani Finance Limited in 2018 (15.57%) is satisfactory.

Return of Capital Employed Ratio

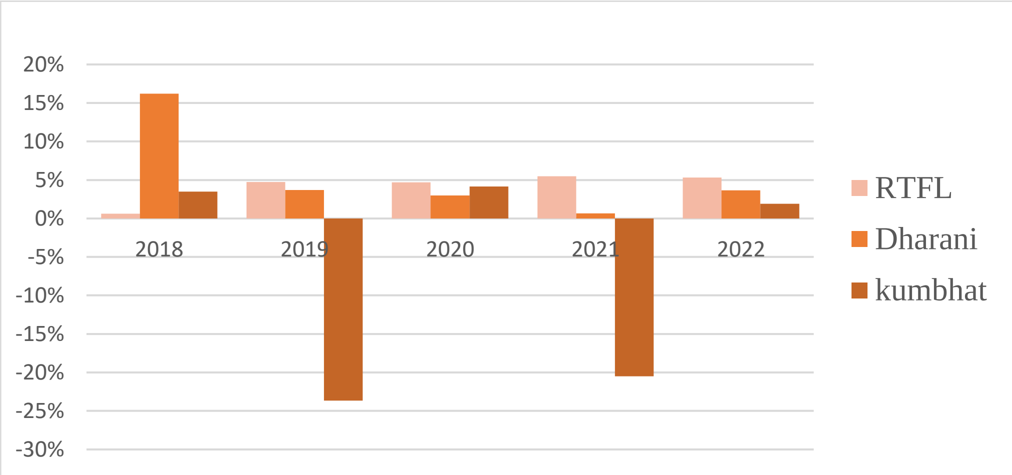
ROCE measures how effectively a company generates profits from the capital it uses. It evaluates a business's profitability by assessing how efficiently it employs capital to produce profits.

ROCE Ratio = EBIT / Capital Employed

Table 7. Showing the Ratio Analysis of ROCE Ratio

	2018	2019	2020	2021	2022
RTFL	0.62%	4.72%	4.69%	5.47%	5.31%
Dharani Finance Limited	16.19%	3.68%	3.00%	0.67%	3.64%
Kumbhat Financial Services Limited	3.48%	-23.67%	4.15%	-20.48%	1.92%

Figure 7. Showing the Ratio Analysis of ROCE Ratio



Inference:

The above table shows the analysis of Return on Capital Employed for the 5 financial years of 3 NBFCs. RTFL's ROCE increasing gradually from 2019 – 2022. Dharani Finance Limited had an EBIT which has been consistently reduced during the period of 2019 – 2021, which resulted in a lower ROCE ratio. Kumbhat Financial Services Limited had a ROCE which is inconsistent for above stated years and had a 1.92% in 2022. All 3 NBFCs had a ROCE below the generally accepted standard of 15% except Dharani Finance Limited in 2018 (16.19%) is satisfactory.

Operating Cost Ratio

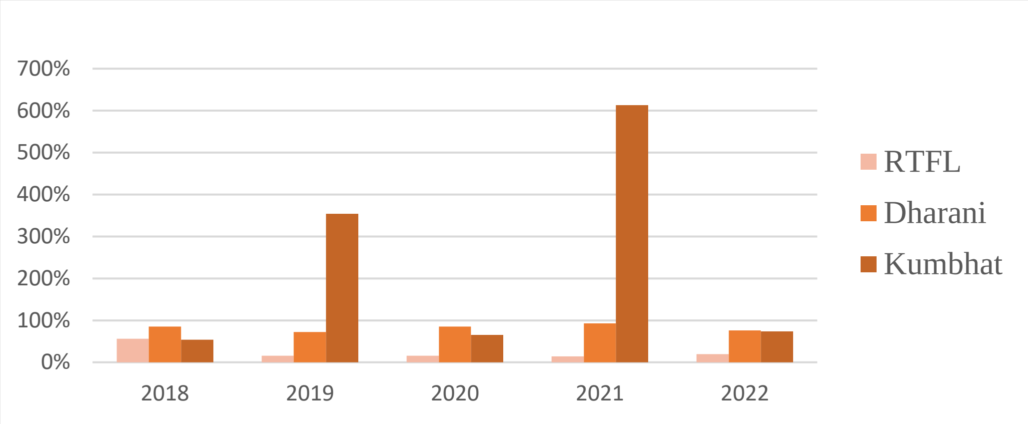
The operating cost ratio assesses management effectiveness by comparing a company's total operating expenses (OPEX) to its net revenues. It indicates how efficiently a company manages its expenses.

Operating Cost Ratio = Operating expenses / Revenue

Table 8. Showing the Ratio Analysis of Operating Cost Ratio

	2018	2019	2020	2021	2022
RTFL	56.48%	16.03%	15.85%	14.45%	19.71%
Dharani Finance Limited	85.30%	72.39%	85.39%	92.46%	76.29%
Kumbhat Financial Services Limited	53.98%	354.41%	64.98%	612.96%	73.80%

Figure 8. Showing the Ratio Analysis of Operating Cost Ratio



Inference:

The above table shows the analysis of Return on Capital Employed for the 5 financial years of 3 NBFCs. RTFL has maintained an OPEX ratio well below the generally accepted standard of 60% to 80% (although the lower it is, the better).Dharani Finance Limited has maintained merely nearer and above to the generally accepted standard. Kumbhat Financial Services Limited has maintained generally accepted standard on year of 2018 (53.98%) and 2020 (64.98%) and It had an un-normal OPEX ratio of 354.41% and 612.96% for the year 2019 and 2021.

Net Profit Margin Ratio

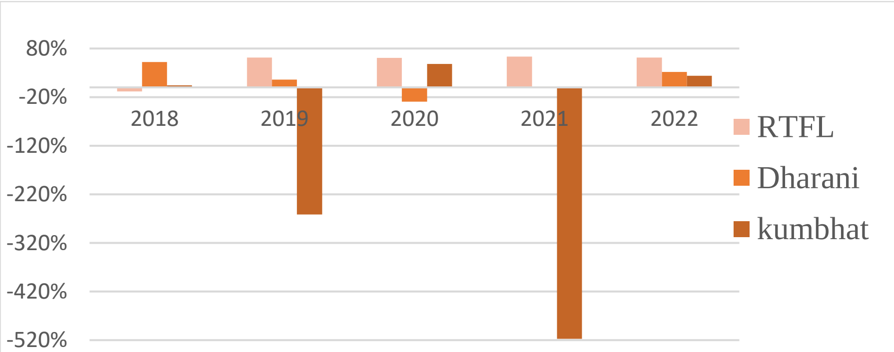
Based on total revenue, a company's net profit margin ratio establishes the percentage of profit it produces. It shows what proportion of sales result in profits.

Net Profit Margin Ratio = Net Income / Revenue

Table 9. Showing the Ratio Analysis of Net Profit Margin Ratio

	2018	2019	2020	2021	2022
RTFL	-8.08%	61.21%	60.64%	63.51%	61.50%
Dharani Finance Limited	52.50%	16.27%	-29.44%	1.87%	31.76%
Kumbhat Financial Services Limited	4.42%	-261.69%	48.34%	-517.15%	23.73%

Figure 9. Showing the Ratio Analysis of Net Profit Margin Ratio



Inference:

The above table shows the analysis of Net Profit Margin Ratio for the 5 financial years of 3 NBFCs. RTFL's N\P Margin Ratio increasing gradually from 2019 – 2022. Dharani Finance Limited had a Net Income which has been consistently reduced during the period of 2019 – 2021 which resulted in a lower N\P Margin Ratio. Kumbhat Financial Services Limited had an un-normal N\P Margin Ratio during the year 2019 and 2021 and it displayed an inconsistent N\P Margin Ratio for above stated years. RTFL has maintained a N\P Margin Significantly above the ideal level of 20% above for the period 2019 – 2022 So it is a healthy condition.

Earnings Per Share (EPS)

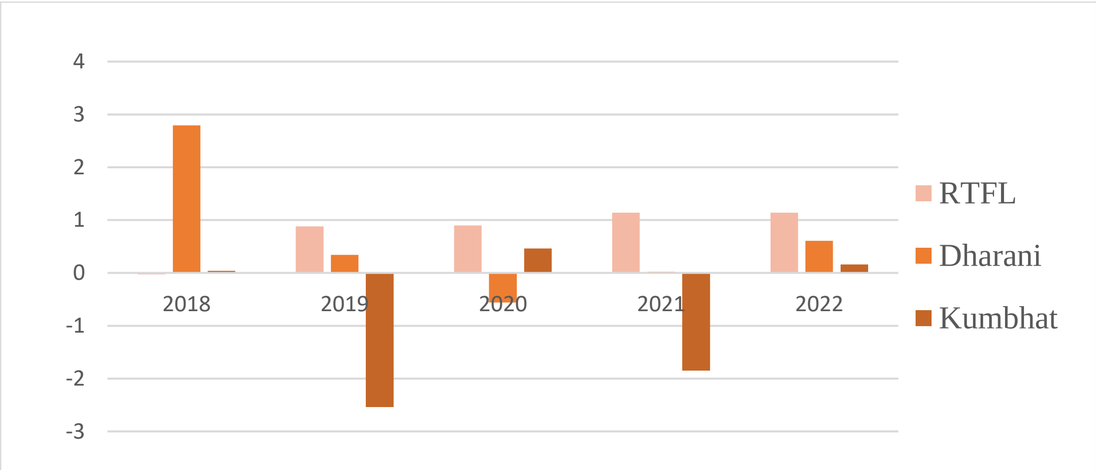
The ability of a business to generate net profits for its owners (shareholders) is measured by EPS. A greater EPS shows that the company's profits are growing faster than its share price, attracting investors to its stock.

Earnings Per Share Ratio = Net Income / Weighted Average Shares Outstanding

Table 10. Showing the Ratio Analysis of Earnings Per Share

	2018	2019	2020	2021	2022
RTFL	-0.03	0.88	0.90	1.14	1.14
Dharani Finance Limited	2.79	0.34	-0.56	0.02	0.61
Kumbhat Financial Services Limited	0.04	-2.54	0.46	-1.85	0.16

Figure 10. Showing the Ratio Analysis of Earnings Per Share



Inference:

The above table shows the analysis of Earnings per Share for the 5 financial years of 3 NBFCs. RTFL's Earnings per Share increasing gradually from 2019 – 2022. Dharani Finance Limited had a Net Income which has been consistently reduced during the period of 2019 – 2021 which resulted in a lower Earnings per Share. Kumbhat Financial Services Limited had an un-normal Earnings per Share during the year 2019 and 2021 and it displayed an inconsistent Earnings per Share for above stated years.

Correlation Analysis

Table 11. Showing Correlation Analysis

	Current Ratio	Return On Assets	Return On Equity	Net Profit Margin Ratio	Operating Cost Ratio	Return On Capital Employed
Current Ratio	1					
Return On Assets	0.5774	1				
Return On Equity	0.5771	0.9999	1			
Net Profit Margin Ratio	0.4487	0.9876	0.9877	1		
Operating Cost Ratio	-0.4193	-0.9739	-0.9744	-0.9951	1	
Return On Capital Employed	0.5691	0.9999	0.9999	0.9894	-0.9767	1

Inference:

The above table shows the correlation analysis, which reveals the relationships between different financial ratios. The current ratio shows a strong positive correlation with return on assets, return on equity, and return on capital employed, indicating that higher current ratios are associated with better returns. Similarly, return on assets and return on equity exhibit a strong positive correlation, suggesting that companies with higher asset returns also tend to have higher equity returns. The net profit margin ratio shows a moderate positive correlation with return on assets, return on equity, and return on capital employed, indicating that companies with higher net profit margins tend to have better returns. The operating cost ratio also has strong negative correlations with the net profit margin ratio, cost to income ratio, return on assets, return on equity, and return on capital employed, implying that companies with higher operating costs tend to have lower profitability and efficiency. Finally, the return on capital employed has strong positive correlations with return on assets, return on equity, and the net profit margin ratio, indicating that higher returns on capital employed are associated with better financial performance. These insights can be valuable in assessing the financial health and efficiency of companies.

Discussion on findings of the study

Discussion on Ratio Analysis

1. RTFL and Dharani Finance Limited has maintained consistent Current Ratio compared to Kumbhat Financial Services, whereas RTFL maintained significantly above the ideal level of 2:1.
2. RTFL showing a significant improvement over the years, Dharani Finance Limited maintaining a relatively stable quick ratio, and Kumbhat Financial Services Limited displaying fluctuations in liquidity. But all 3 NBFCs shows a significantly above the generally accepted standard of 1:1.

3. Dharani Finance Limited is relatively considered desirable because they maintained the debt equity ratio less than the generally accepted standard of 2:1. RTFL and Kumbhat Financial Services Limited doesn't had debt throughout the analyzed financial period.
4. All 3 NBFCs maintained a ROA less than an Ideal range of 5%. RTFL demonstrated a consistent positive trend, while Dharani Finance Limited and Kumbhat Financial Services Limited had a volatile ROA indicating potential challenges in generating profits from its assets.
5. All 3 NBFCs had an ROE below the generally accepted standard of 15% but RTFL has demonstrated a consistent positive trend, while Dharani Finance Limited and Kumbhat Financial Services Limited had a volatile ROE indicating potential challenges in generating profits in relation to its shareholders' investment.
6. Dharani Finance Limited and Kumbhat Financial Services Limited have showed challenges in creating profits in relation to their capital invested, and all three NBFCs had ROCEs that were below the industry benchmark of 15%, RTFL displayed a constant upward trend as a result of rising EBIT.
7. RTFL has maintained an Operating cost ratio well below the generally accepted standard of 60% to 80%, while Dharani Finance Limited and Kumbhat Financial Services Limited had an inconsistent Operating Cost Ratio, with significant fluctuations and potential issues with cost management.
8. RTFL demonstrated a generally positive trend and maintained an ideal level of 20% & above of Net Profit Margin Ratio from 2018 to 2022, indicating an improved profitability as a percentage of revenue. Dharani Finance Limited and Kumbhat Financial Services Limited indicating potential profitability issues and financial instability.
9. RTFL consistently improved its earnings per share from negative in 2018 to positive and stable in subsequent years, while Dharani Finance Limited and Kumbhat Financial Services Limited experienced fluctuations in their earnings per share over the analyzed period.

Discussion on Correlation Analysis

1. The Correlation analysis reveals that higher current ratios, return on assets, return on equity, and net profit margins are correlated with better financial performance, while higher cost to income ratios and operating costs are associated with lower returns and reduced profitability.

Conclusion

It can be concluded from the above analysis RTFL has shown positive trends in various aspects such as liquidity, debt management, profitability, cost management, and efficiency. Dharani Finance Limited and Kumbhat Financial Services Limited on the other hand, have displayed challenges in generating profits, cost management, and maintaining consistent ratios and RTFL's EPS shows a positive trajectory, indicating an improvement in the company's profitability over the years but need to concentrate more on EPS for increasing shareholders wealth. Overall, all three NBFCs have areas for improvement, but RTFL appears to be in a relatively better financial position compared to Dharani Finance Limited and Kumbhat Financial Services Limited. Whereas its ability to effectively manage its cash, make strategic investments and addressed the rise in administrative expenses will be crucial for maintaining its financial stability and further enhancing profitability in long-term which was also proven through Statistical analysis.

Summary of Suggestions

1. RTFL need to optimize its Liquidity position and for effectively generating Revenues from their current assets.
2. RTFL can increase the range of ROA because their ROA is less than ideal range of 5%, so they're not making use of its assets for getting profits, so there can increase the revenue.
3. RTFL have showed challenges in creating profits in relation to their capital invested, so their can do improvement.
4. RTFL can increase the range of ROE because their ROE is lesser than ideal range of 15%, so only their can generate the profits to shareholders.
5. RTFL can raise the debt that is equal to the minimum standard of the 2:1.So that they can decrease their Cost of Capital.
6. RTFL need to analyse and identify the reasons behind the increase in significant rise in administrative expenses and take necessary measures to control or optimize it.

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