

# Are NBFCs a Challenge to Commercial Banks? A Combined CRAMELS Approach

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## Abstract

This study compares NBFCs and Commercial banks operating in India. Secondary data was collected from Annual Reports, CMIE Prowess and Bloomberg database. Financial analysis was performed through banking ratios under CRAMELS rating model. Statistical tools. Overall ranking shows that NBFCs stood at top three positions among all compared Institutions. BAJAJ, MUTHOOT and SHRIRAM Finance secured first, second and third position respectively. Market capitalizations of above three NBFCs were also in the same order of CRAMELS ranking. Capital Adequacy, Risk, Asset Quality, Earnings Quality and Sensitivity were favouring NBFCs, whereas Management Quality and Liquidity were supporting Banks. HDFC and KMB shared fourth position, whereas sixth and seventh Position was for ICICI and AXIS respectively. Overall NBFCs were performing better than private Commercial Banks in India.

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## I. Introduction

STRENGTH OF A financial system depends on adaptability of financial institutions to the modern banking technologies. Any form of banking institution must introduce new and modern amenities for bringing in ease-of-doing branch banking facilities. NBFCs, the Non-banking financial companies are financial institutions primarily setup for the purpose of reaching unorganized sector with financial literacy. Even though these institutions were not allowed to perform as like of commercial banks, their scope as lead for financial inclusion is increasing their customer base. Recent days have seen increase in the total business of NBFCs over the commercial banks due to approachability and ease of branch banking facilities. Nowadays people prefer NBFCs over banks as they find them safe, efficient and quick in assisting with financial requirements.

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in RBI norms for NBFCs is becoming a challenge for Commercial Banks in retaining market or tapping new market. Hence in long run, there exist visible chances of NBFCs creeping into the business arena of Commercial Banks in India.

This study was restricted to four NBFCs due to limitation of data availability under CAMELS parameters. Inclusion of more NBFCs by reduction of number of years may show different result. This study included only private sector banks since majority of NBFCs were privately held in India. Inclusion of diverse financial institutions like Government Owned Banks, Foreign Banks and Regional Rural Banks will give more extended objectives and findings.

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