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“SWOT OF NBFCs IN THE GLOBAL SCENARIO”

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Abstract

In a vast country like India, with diversified economic structure, multi agency approach is adopted in the financial sector. Both commercial banks and Non Banking Financial Companies have come into play in shaping the economy of the country NBFCs have an undeniable role in the Indian economy. Almost every sector of the economy has utilized HP and leasing as its source capital from NBFCs. During the last decade NBFCs have undergone wide volatility and change as an industry and have been witnessing considerable business upheaval over the last decade because of market dynamics, public sentiments and regulatory environment. Under these circumstances, it is essential to take stock of NBFCs by SWOT Analysis. The paper deals with SWOT matrix developed on SWOT profile to develop strategies for NBFCs. The future is not gloomy for those NBFCs who plan their strategy on the lines suggested in this paper.

Introduction

In a vast country like India, with a diversified economic structure, multi-agency approach is adopted in the financial sector under which the savings and credit requirements of various sections of population are met. Thus both commercial banks and NBFCs have come into play in shaping the economy of the country. The Non-Banking Financial Services industry in the private sector in India is represented by a mix of a few large companies with nationwide presence, and a large number of small and medium sized companies with regional focus. These NBFCs provide a variety of services including fund based and fee based financial services to customers in retail and non-retail markets.

Characteristics of NBFCs, which distinguish them from other financial institutions are

- Ø Ability to provide niche financial services in the Indian economy.
- Ø Organisational flexibility leading to a better response mechanism,

- Ø Ability to provide tailor-made services relatively faster than banks and financial institutions.
- Ø Clientele base that ranges from small borrowers to established corporate.
- Ø Financial innovations, having capability to enhance the functional efficiency of the financial system.
- Ø Offering a range of specialized products and services that commercial banks do not or are not capable of offering on a competitive basis.

Present Scenario & Developments in the NBFC Industry

The NBFCs during the last decade have undergone wide volatility and change as an Industry and have been witnessing considerable business upheaval over the last decade because of market dynamics, public sentiments and regulatory environment. Several factors have combined to make the NBFC sector worst hit in their operation. A major problem that the NBFCs are facing today is the growing negative public perception. Investors apart, even banks began shying away from NBFCs. Even

fundamentally sound NBFCs are finding it difficult to raise funds at competitive rates and they are currently passing through a tough time. The sudden and serious breach in public confidence, caused by the collapse of NBFCs resulting in public antipathy, has given an identity crisis to the industry.

NBFCs spreads are getting squeezed due to rising incidence of asset-liability mismatch. Most NBFC liabilities are short-term funds and these funds are largely locked up in assets with a maturity of two years and more. Recovery of receivables is another area that is keeping the NBFCs worried. Judicial process for recovery of advances is also very slow and inefficient. Indifferent attitude of policy makers continues to affect this sector. They continue to discriminate against NBFCs in the matter of providing support for dealing with delinquent customers. The NBFC industry has been representing for a long time for the setting up of a separate Debt Recovery Tribunal and for parity in treatment of income recognition on non-performing assets similar to that of banks.

The rate at which the regulatory bodies are targeting NBFCs, and the role played by rating agencies have harmed the industry by bringing down its number. The number of NBFCs rose from 7,063 in 1981 to 41,000 in 1996 and it has come down to 13671 as on 2004. As against Rs.27,000 crore in 1996, the deposit base of NBFCs is whittled down to less than Rs. 10,000 crore. During the 36-month period from April, 97 to March, 2000, Crisil downgraded 149 NBFCs. The drastic reduction in the number of outstanding ratings for this segment from 178 during '99-00 to 55 during '02-03 is an indication of the decline of this industry. With the NBFCs at the receiving end, it will take a considerable amount of effort to dig itself out of the present mess that it has fallen into. Under these circumstances it is essential to take stock of NBFCs by SWOT ANALYSIS.

SWOT Analysis

The SWOT analysis calls for analysis of

- Ø Industry's resources and capabilities
- Ø Industry's competitive operating environment
- Ø Matching of these factors for developing a strategic plan or planning a solution to a problem

An attempt has been made to plot the SWOT of NBFCs combining internal and external environmental factors.

In order to develop strategies for NBFCs that take into account the SWOT profile, a matrix of these factors can be constructed. The SWOT matrix (also known as a TOWS Matrix) comprises:

1. Strength & Opportunities Strategy (SO) wherein strength is used to take advantage of opportunities.
2. Weakness & Opportunities Strategy (WO) wherein weakness is overcome to take advantage of opportunities.
3. Strength & Threat Strategy (ST) wherein strength is used to take care of the threats.
4. Weakness & Threat Strategy (WT) wherein attempt is made to liquidate weakness and threat.

Four pertinent questions are raised under the TOWS model.

1. Can NBFCs use strength to take advantage of opportunities?

One can confidently say that the strengths of NBFCs can be leveraged to take advantage of the opportunities (as listed in **Table-1**) available to them. For example, the strength of consolidation and focused growth as indicated in the above matrix' (**Table-2**) can be leveraged for orderly growth.

2.How to overcome Weakness in order to take advantage of opportunities?

The opportunities as listed (**Table-1**) offer great vista of avenues to correct some of the weaknesses of the NBFCs as listed in **Table-2**. For example, the weakness of high cost structure can be countered by taking advantage of the opportunity, viz, access to better and cheaper resources available in the market.

3. Can threats be handled using strengths?

The perceived threat of stiff competition within the NBFCs as well as with banking sector as indicated in **Table-1** can be eliminated / minimized by using the strength of being a niche player, consolidation & focus etc.

4. How to liquidate weaknesses & threats?

Based on the strengths and potential of the opportunities listed in **Table-1**, the NBFCs can handle threats and weaknesses optimistically by redrawing the defensive plan. For example, the weakness of loss of public confidence / credibility problems due to the scam and the threat of rigorous regulatory and supervision system as indicated in the table can be overcome by the strategy of Industry Associations and Managements contemplating a new Action Agenda for the sector's survival, growth and development.

Strategies that can be worked out by these NBFCs on TOWS matrix is illustrated below in the four quadrant with illustrative examples. An attempt has been made wherein the opportunities indicated in the **Table-1** is compared with perceived strength and weaknesses. Similarly threats indicated in **Table-1** is compared with strength and weaknesses with an aim to suggest suitable strategies.

Conclusion

SWOT analysis of NBFC industry indicates opportunities available to them to work on to overcome the threats and weaknesses by leveraging its strength. The future is not gloomy for those NBFCs who plan their strategy to exploit opportunities available to them.

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Table 1. The SWOT Matrix

	POSITIVE	NEGATIVE
	Strengths	Weaknesses
INTERNAL TO THE INDUSTRY	<p>Resources and capabilities that can be used as a basis for developing a competitive advantage. Examples include :</p> <ul style="list-style-type: none"> Ø Reduced number of players Ø Access to public deposits and other resources Ø Expertise & experience in financing for transport sector Ø Specialization in the task of recovery Ø Better services to individual customers Ø Reputation of being niche players in the industry Ø Flexible operation & ability to innovate Ø Cost advantages Ø Favorable access to networks 	<p>The absence of certain strengths may be viewed as a weakness. Examples include :</p> <ul style="list-style-type: none"> Ø Non performing assets and consequent pressures on the bottom line. Ø Asset liability mismatch Ø Loss of public confidence / credibility problems due to failure to honor the repayment of deposits. Ø Poor recoveries Ø Accounting norms requiring provisioning against non- performing assets Ø Weak brand name Ø Poor reputation among customers Ø High resource cost structure Ø Absence of clear vision and focus Ø Excessive concentration in one particular type of activity
	Opportunities	Threats
	<p>The external environmental analysis may reveal certain new opportunities for profit and growth. Examples include:</p> <ul style="list-style-type: none"> Ø Fast growth in commercial vehicle, consumer durable, two wheeler and car market Ø Buoyant business environment Ø No entry barriers or low entry barriers Ø Buoyant growth in capital expenditure by companies Ø Tax motivations by government Ø Optimistic capital markets & access to varied resources Ø Economic reforms permitting to change over to banks, merger & acquisitions Ø Expanded role of being in diversified financial intermediation activities in the areas of credit and in channelising the savings 	<p>Changes in the external environmental also may present threats to the industry. Examples include:</p> <ul style="list-style-type: none"> Ø Slow industrial growth Ø Being in the dependent sector Ø Stiff competition within the NBFCs as well as with banking sector Ø Exposure to the abnormal industry risk factors of interest rate volatility, economic cycle, and credit risk. Ø Hesitation on the part of banks to continue to finance HP & leasing ventures Ø Introduction of a rigorous regulatory & supervision system Ø Shifts in consumer tastes moving away from the NBFCs products Ø Major shakeout in the NBFC sector Ø Small size and fragmented operations Ø Entry of many players in the banking and non banking operations creating competition

Table-2 The TOWS Matrix

	Strengths (Internal)	Weakness (Internal)
Opportunities (External)	<p>S-O strategies pursue opportunities that are a good fit to the industry's strengths.</p> <p>Examples include:</p> <ul style="list-style-type: none"> Ø Consolidation and focused growth instead of dispersed activities Ø Asset-based funding which is safe and productive, Ø Fee-based services to augment its revenue streams Ø Focus on financing for income generating automobile sector, financing for house hold assets by taking advantage of growing credit culture amongst consumers and tie up promotion of household articles by manufacturers Ø Specialized and customized products by understanding the needs of customers 	<p>W-O strategies overcome weaknesses to pursue opportunities.</p> <p>Examples include:</p> <ul style="list-style-type: none"> Ø Overcome the loss of public confidence due to scam by complying with regulations and being transparent Ø Replacing high cost resources with varied resources available in the open market Ø Taking advantage of asset liability norms to reduce the non-performing assets and avoiding consequent pressures on the bottom line. Ø Overcome the mismatch between asset and liability with recourse to long term stable resources Ø Adopting the regulations and quicker compliance improves the ability to continuously renew itself to meet new challenges.
	S-T strategies	W-T strategies
Threats (External)	<p>Identifies ways to use its strengths to reduce its vulnerability to external threats.</p> <p>Examples include:</p> <ul style="list-style-type: none"> Ø Price and service based competition to ward off the encroachment by banks Ø Emphasis on niche products. For instance, joint venture that focuses on finance and tie-ups for distribution of financial services to keep the threat at bay Ø Transforming into one-stop financial service shops with umbrella products instead of vanilla products Ø Accessing varied funding sources and newer funding avenues other than deposits -NCDs, CP , private placements, securitisation etc Ø Exploring the option of converting into banks when critical mass is reached. 	<p>Establish a defensive plan to prevent the firm's weaknesses from making it highly susceptible to external threats.</p> <p>Examples include:</p> <ul style="list-style-type: none"> Ø Overcome poor public image by creating SRO & transparency Ø Refocusing the operations-changing tracks & moving out of traditional activities by changing their asset profiles and moving away from wholesale financing. For instance, there are NBFCs which have moved out of CD/TW finance , car financing etc. Acting as retailers in financial services and sharing a mutually beneficial relationship with banks in credit organisation, asset securitisation and recovery of overdues. Ø Creating strong Industry Associations & Managements contemplating a new 'Action Agenda' for the sector's survival, growth & development. Ø Creating group/cluster of NBFCs to form a "consortium" for bail out as practised else where in the world on non-government 'bail-out' model.